

The Effect of Legal and Regulatory Framework on the Performance of Financial Markets in Rwanda: A Case Study of Capital Market Authority

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Abstract: *The purpose of this research is to explore the effect of legal and regulatory framework on the performance of financial markets in Rwanda with reference to capital market authority Rwanda as the case study with the following objectives; to assess the effect of CMA license and approval on performance of finance markets, and to identify the contribution of CMA regulations on financial markets performance. The researcher reviewed literature related to legal and regulatory framework and its effect on performance of capital markets. The research design to be used is descriptive while the population is 12 employees of Rwanda Capital authority and since the population is very small all respondents were contacted and census were used. Data collection tools were questionnaires and interviews. The collected data were presented using tables and analysed based on percentages and frequencies as well as SPSS program. The researcher found out that complying with legal requirements lead to improvements in development since companies get an opportunity of establishing and maintain standards for the conduct of marketing, complying with legal requirements lead to improvements in development. The researcher concluded that contribution of CMA regulations on financial markets operations is establishing an environment that encourages local companies to going public, local companies will secure a chance of being listed in foreign stock market, boost its efficiency in operation and Guarding against manipulation of share prices and insider trading. The researcher recommended that the government of the Republic of Rwanda should help companies in Rwanda to understand financial markets through capacity building trainings*

Keywords: Financial market, Regulations, Legal and regulatory framework

1. Background to the Study

The view that the central banks governing the price stability through correct interest rate policies is no longer supported as financial crises are the basic principle of the academic and the policy debate on banking and finance. Together with macroeconomic policy, financial instability is increasingly dependent on immoderate risk-taking by financial intermediaries. (Avadhani, 2012) identifies the regulation of banking and financial markets as the major challenge for public authorities. This is due to increased competition, the borders between financial institutions are fading, financial innovations are increasing off-balance sheet activities, and internationalization is rendering control by national authorities complicated. All of these problems led in the global financial crisis of 2007-2009 (Adrian & Hyun, 2010)

(Avadhani, 2012) emphasized that there is needs for some foundation of legal certainty and regulations that reduce the possibility of systemic or institutional failure, fraud, market manipulation and the unfair treatment of investors, particularly retail investors for financial markets to effectively operates.

(Gorton, 2010) moreover to internal procedures developed by financial markets themselves there are also financial marked legal and regulatory frameworks developed and implemented by policymakers, regulators and supervisors intended to establish that business and consumer money and assets are appropriate protected and also to give confidence to market participants.

(Adrian & Hyun, 2010) identified that the balance between markets and government intervention may shift from one

extreme to the other like a pendulum, depending on the circumstances defining the conventional wisdom in times of prosperity when regulation is considered excessively binding.

2. Problem Statement

The Rwanda Capital markets authority has been reported to be performing well for the last one decade (Mishkin, 2011). However, some institutions have not taken advantage of the legal and regulatory framework to enhance their performance. Thus, while is generally performing, some institutions are underperforming (Lidgren and Saal, 2013). Above all, some institutions are even violating or not complying to rules and regulations governing financial institutions. This is an indication or a sign that some institutions do not understand or have knowledge of the rules and regulations of the (CMA) which would help enhance process and performance of these institutions. (Lidgren and Saal, 2013). It is against that background that the researcher carried out this research with reference to Rwanda capital market as the case study.

2.1 Objectives of the study

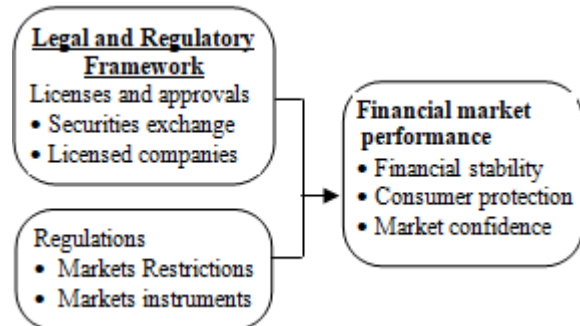
The general objective was to assess the effect of legal and regulatory framework on the performance of financial markets in Rwanda and the specific objectives include; i) to assess the effect of CMA license and approval on companies' performance, ii) to identify the contribution of CMA regulations on financial markets performance.

2.2 Research questions

The research questions were based on the study objectives and will include the following;

- a) What is the effect CMA license and approval on companies' performance?
- b) What is the contribution of CMA regulations on financial markets performance?

3. The Conceptual Framework



Primary Source: Researcher (2018)

According to the above conceptual framework, regulation of financial markets through license and approval of companies and regulations of markets leads to financial stability, consumer protection and market confidence.

4. Research Design and Methodology

4.1 Research design

According to (Kothari ,2008), research design is the conceptual structure within which research is conducted, it constitutes the blueprint for the collection, measurement and analysis of data as such the design includes an outline of what the researcher did from writing the hypothesis and its operational implications to the final analysis of data

The researcher used a descriptive to find out the effect of legal and regulatory framework on the performance of financial markets in Rwanda. This helped the researcher to describe and analyses the views of respondents on subject under study, where qualitative and quantitative approach was used. In quantitative approach the researcher used data in form of numbers collected from CMA stakeholders on legal and regulatory framework of Capital Market Authority. Qualitative was used through interviews in order to describe the activities and its effect on the performance of financial markets in Rwanda.

4.2 Population of the study

All the items under consideration in any field of inquiry constitute a 'universe' or 'population'. It can be presumed that in such an inquiry when all the items are covered no element of chance is left and highest accuracy is obtained (Kothari, 2008). The case study of this research is Rwanda capital market authority. The research target population was 12 staff of Rwanda Capital Market Authority.

4.3 Data analysis

The data collected was processed and analysed using SPSS. This involved data coding, editing and tabulation especially quantitative data. The purpose of all these was to make the information clear and understandable for other people. Qualitative analysis techniques were used. The Qualitative analysis techniques were complemented with some statistics that was mainly be obtained from the primary and secondary data that was obtained through documentary analysis from the case study organization. Regression analysis is a powerful statistical method that allows you to examine the relationship between two or more variables of interest. While there are many types of regression analysis, at their core they all examine the influence of one or more independent variables on a dependent variable. At the heart of a regression model is the relationship between two different variables, called the dependent and independent variables. The formula to calculate the relationship between two variables is called covariance. This calculation shows you the direction of the relationship. If one variable increases and the other variable tends to also increase, the covariance would be positive. If one variable goes up and the other tends to go down, then the covariance would be negative. The mode was expressed as follows; $Y = BoXo + B_1X_1 + B_2X_2 + e$

Where: Y = dependent variable (performance of financial markets)

$BoXo$ = constant

B_1X_1 = CMA license and approval of companies' operations

B_2X_2 = CMA regulations

5. Data Presentation, Analysis and Interpretation

The researcher presented data using tables and figures while for analysis and interpretation frequencies and percentages of respondents' views were used.

5.1 Presentation of the findings

	Level of education	Frequency	Percent
17	Certificate	2	17
	Diploma	3	27
	Bachelors degree	6	46
	Masters degree and above	1	10
	Total	12	100

Source: Primary data, 2018

Results in Table 2, respondents contacted 46% were holders of bachelor's degrees while 27% of respondents were qualified with diplomas of education, 17% of respondents had certificates of education and 10% were qualified with master's degrees. This led the researcher to the realization that most of the respondents contacted had at least certificates of education and considered to be knowledgeable enough to understand issues related to the impact of legal and regulatory framework on operations of capital markets. The views they gave were considered to have paramount significance in making conclusions related to the study.

Table 3: The extent to which respondents agree that knowing rules of security exchange being an effect of CMA license and approval of company operations

Extent		Frequency	Percent
17	Strongly agree	8	68
	Agree	2	22
	Neither agree nor disagree	1	5
	Disagree	1	5
	Strongly disagree	0	0
Total		12	100

Source: Primary data, 2018

According to table 3, respondents contacted strongly agreed that knowing rules of security exchange being is an effect of CMA license and approval of company operations (68%) while 22% of respondents disagreed and 5% of respondents neither agreed no disagreed. 5% of respondent disagreed. When asked to give reasons for their answers, respondents said knowing rules of security exchange being an impact of CMA license and approval of company operations. This led the research to the understanding that capital markets helps manufacturing companies to know rules of security exchange hence giving them a chance to effectively participate.

Table 4: The extent to which respondents agree that having all requirements for participating in security exchange being an effect of CMA license and approval of company operations

Extent		Frequency	Percent
17	Strongly agree	9	90
	Agree	2	8
	Neither agree nor disagree	1	2
	Disagree	0	0
	Strongly disagree	0	0
Total		12	100

Source: Primary data, 2018

According to table 4, respondents contacted strongly agreed that that through CMA license and approval of compnies, manufacturing companies get an opportunity of participating in security exchange (90%) while 8% agreed and 2% of respondents said they disagree. . when asked to give reasons for their answers, respondents said when legal requirments ar kown and adhred to, they faciliate commpanis of being members participating in security exchange leading to improvd development. This led the reseracher to teh uundrstanding that complying with legal requiiremmts lead to improvmnts in developmment since commpanis partiapte in developmnet activities

Table 5: The extent to which respondents agree that having all requirements for security exchange trading is an impact of CMA license and approval of company operations

Extent		Frequency	Percent
17	Strongly agree	6	50
	Agree	5	40
	Neither agree nor disagree	1	10
	Disagree	0	0
	Strongly disagree	0	0
Total		12	100

Source: Primary data, 2018

According to table 5, respondents contacted strongly agreed that through CMA license and approval of companies, manufacturing companies get an opportunity of having all requirements for security exchange trading (50%) while 40% agreed and 10% of respondents said they disagree, when asked to give reasons for their answers, respondents said when legal requirments ar kown and adhred to, they faciliate commpanis Having all requirements for security exchange trading. This led the reseracher to teh uundrstanding that complying with legal requiiremmts lead to improvmnts in developmment since commpanis get an opportunity of having all requirements for security exchange trading

Table 6: The extent to which respondents agree that establishing an environment that encourages local companies to going public is a contribution of CMA regulations on financial markets operations

Extent		Frequency	Percent
17	Strongly agree	6	50
	Agree	3	25
	Neither agree nor disagree	3	25
	Disagree	0	0
	Strongly disagree	0	0
Total		12	100

Source: Primary data, 2018

According to table 6, respondents contacted strongly agreed that establishing an environment that encourages local companies to going public is a contribution of CMA regulations on financial markets operations (50%) while 25% agreed and 25% of respondents said they disagree, when asked to give reasons for their answers, respondents said when CMA ethics and policies in financial market operations, knowing the establishing an environment that encourages local companies to going public is an impact of CMA ethics and practices in financial markets operations. This led the reseracher to the uundrstanding that complying with legal requiiremmts lead to improvmnts in developmment since commpanis get and oppourtunity of knowing theestablishing an environment that encourages local companies to going public

Table 7: The extent to which respondents agree that securing a chance of being listed in foreign stock market is an impact of CMA license and approval of company operations

Extent		Frequency	Percent
17	Strongly agree	8	56
	Agree	2	22
	Neither agree nor disagree	2	22
	Disagree	0	0
	Strongly disagree	0	0
Total		12	100

Source: Primary data, 2018

According to table 7, respondents contacted strongly agreed that securing a chance of being listed in foreign stock market is a contribution of CMA regulations on financial markets operations (56%) while 22% agreed and 22% of respondents said they disagree, when asked to give reasons for their answers, respondents said when CMA ethics and policies in financial market operations, knowing the securing a chance of being listed in foreign stock market. This led the

researcher to the understanding that complying with legal requirements lead to improvements in development since companies get an opportunity of knowing securing a chance of being listed in foreign stock market.

Table 8: The extent to which respondents agree that boosting efficiency in operations is an impact of CMA license and approval of company operations

	Extent	Frequency	Percent
17	Strongly agree	10	90
	Agree	1	5
	Neither agree nor disagree	1	5
	Disagree	0	0
	Strongly disagree	0	0
	Total		12

Source: Primary data, 2018

According to table 8, respondents contacted strongly agreed that boosting efficiency in operations is a contribution of CMA regulations on financial markets operations (56%) while 22% agreed and 22% of respondents said they disagree, when asked to give reasons for their answers, respondents said when CMA ethics and policies in financial market operations, boosting efficiency in operations This led the researcher to the understanding that complying with legal requirements lead to improvements in development since companies get an opportunity of knowing how to boosting efficiency in operations.

Table 9: The extent to which respondents agree that guarding against manipulation of share prices and insider trading is an impact of CMA license and approval of company operations

	Extent	Frequency	Percent
17	Strongly agree	6	54
	Agree	3	23
	Neither agree nor disagree	3	23
	Disagree	0	0
	Strongly disagree	0	0
	Total		12

Source: Primary data, 2018

According to table 9, respondents contacted strongly agreed that guarding against manipulation of share prices and insider trading is a contribution of CMA regulations on financial markets operations (56%) while 22% agreed and 22% of respondents said they disagree, when asked to give reasons for their answers, respondents said when CMA ethics and policies in financial market operations, guarding against manipulation of share prices and insider trading. This led the researcher to the understanding that complying with legal requirements lead to improvements in development since companies get an opportunity of knowing how to guarding against manipulation of share prices and insider trading.

6. Summary of the Findings, Conclusion and Recommendations

6.1 Summary of the findings

This part presents the summary of the research findings in view of the objectives of the research.

6.1.1 The effect of legal and regulatory framework on the performance of financial markets

The researcher found out that complying with legal requirements lead to improvements in development since companies get an opportunity of knowing the establishing an environment that encourages local companies to going public, complying with legal requirements lead to improvements in development since companies get an opportunity of knowing the establishing an environment that encourages local companies to going public and that complying with legal requirements lead to improvements in development since companies get an opportunity of knowing how to boosting efficiency in operations

6.2 Conclusion of the study

The researcher concluded that the contribution of CMA regulations on financial markets operations is helping to know rules of security exchange, being a member of security exchange, having all requirements for participating in security exchange, facilitating self-regulations and having all requirements for security exchange trading. The contribution of CMA regulations on financial markets operations is establishing an environment that encourages local companies to going public, local companies will secure a chance of being listed in foreign stock market, boost its efficiency in operation and Guarding against manipulation of share prices and insider trading

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