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**MERGERS AND ACQUISITIONS: Case Study of Rwanda**

**Introduction**

***Mergers and acquisitions (M&A)*** is a general term used to describe the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. The term M&A also refers to the desks at [financial institutions](https://www.investopedia.com/terms/f/financialinstitution.asp) that deal in such activity.

Mergers and Acquisitions in Rwanda is becoming a trending aspect in Rwanda’s corporate financing and different companies are under going into mergers or acquisitions. Take for instance; merger of BRD Advisory Services (BAS Ltd) and BRD Development Fund (BDF Ltd), acquisition of Banque de L’Habitat du Rwanda (BHR) by BRD. Most of the companies undergo mergers and acquisitions to avoid company collapse, liquidation and cessation of business.

The shock brought by the COVID-19 pandemic is leaving or left some businesses/ companies winding up, some with financial deficits and distress. MK Associated Advocates is glad to inform you that you don’t need to suffer this kind of winding up without utilizing all other possible mechanisms available for surviving your business and remain in business play. The rate at which companies are closing during this COVID-19 pandemic, implies that most of the companies did not include any pandemic as a foreseeable company risk on their risk management budget and hence it was not catered for. This has left most of the companies collapsing, under go into liquidation and cessation of business. This call for a remedy to address this issue and with all that MK Associated Advocates proposes adoption of company mergers and acquisitions (M&A) to address the ongoing company distress.

**Why Adoption of mergers and acquisitions?**

Merger and Acquisition is an element of corporate financing and one of the major sources of capital investment. Reversed to the concept of corporate financing, corporate finance deals with sources of funding, capital structure of corporations and this is one of the moves that company managers take to increase the value of any business to the shareholders, and tools and analysis used to allocate financial resources. This move aims at maximizing the value of the business by optimizing capital structure, merger and acquisition is a tool of corporate financing that is used to maximize capital resources of the business by consolidation of companies or assets.

**Company or Business Merger**

A merger is an agreement that unites two existing companies into one new company; it’s totally a voluntary fusion of two companies on broadly equal terms into a new legal entity, a company buy/sell or combine businesses. This therefore implies that merger does not result into creation of a new company but rather a combining of two companies for mutual benefit and understanding and so different from acquisitions where the company buys and takes over another company, leaving only the buyer in operation. Note that in a number of ways, the direction of the merger has a lot to do with the rationale for a merger.[[1]](#footnote-1)

In Rwanda a merger is considered to have taken place in case where two or more enterprises join together to form a new enterprise and or, one or more enterprises join together and directly or indirectly merge their assets through the purchase of equity shares or part of assets of another company.[[2]](#footnote-2)

During distressful periods on companies and businesses in general, the financial business checking has driven most of the businesses to their winding up and MK Associated Advocates suggests to you that there is no need to leave your business collapse, enter into liquidation or cessation of business, rather adopt merging of your business with other company in the same business for effective performance of your goals and objectives. This leaves both of the merging companies into business with increased financial capital and resources available to sustain the business. Below are the categories of mergers that one needs to consider while he is entering into merging process;

1. **Horizontal merger**

Companies in the same business and equal competitors’ merger for a reason to reduce on the cost of production and subsequently low on the administrative costs by use of one staff and maximize production in the end.

1. **Vertical merger**

Customer or supplier for example an agro business company Inyange may merger with an agricultural farm producing fruits in the need to maximize supply of raw material and reduce on the would be existing scarcity in the supply of raw material.

There are many motives for mergers, however during this COVID-19 pandemic, motives have increased to include the following;

* Value creation. Two companies may undertake a merger to increase the wealth of their shareholders
* Diversification
* Acquisition of assets
* Increase in financial capacity
* Tax purposes
* Incentives for managers
* Increase in capacity production
* Avoidance of winding up

**What's an Acquisition?**

Acquisition may also be called a takeover; acquisition is where one company takes over the other company. In line with the Banking and Financing environment in Rwanda, ***acquisition*** is defined to mean a process of getting a bank by another, following purchase, an exchange of shares, combination of both, donation or succession.[[3]](#footnote-3)

In other words, acquisition manifests itself under a corporate transaction process where one company takes over another entity, and establishes itself as the new owner and hence the new owning company swallows up the old company or small company. In Rwanda, most of the foreign companies adopt acquisition of local companies as method of penetrating the local market. From a legal point of view, the [targeted company](https://www.investopedia.com/terms/t/targetfirm.asp) ceases to exist, the buyer absorbs the business, and the buyer's stock continues to be traded, while the targeted company’s stock ceases to trade.

*The content of this Insight is intended to provide a general guide on the subject matter. Specialized legal advice should be sought about your specific circumstances and legal issues.*



1. Further reading should be made on Law Nº 36/2012 of 21/09/2012 relating to competition and consumer protection that defines merger as a direct or indirect acquisition or establishment of a controlling interest by two or more persons in the whole or part of the business of a competitor, supplier or any other person in case there is such an interest to be controlled [↑](#footnote-ref-1)
2. Article 15 of Law Nº 36/2012 of 21/09/2012 relating to competition and consumer protection [↑](#footnote-ref-2)
3. Regulation N° 2310 /2019 – 00023 [614] Of 19/3/2019 of the National Bank of Rwanda Governing the Shareholding, Acquisition And Amalgamation Of Banks [↑](#footnote-ref-3)