



The Shadow Banking System and Financial Stability Risks in Africa

Towards Sustainable Development Goals

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ABSTRACT

This article examines The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals with a focused emphasis on Rwanda within the field of Business. It is structured as a policy analysis article that organises the problem, the strongest verified scholarship, and the main analytical implications in a concise publication-ready format.

The paper foregrounds the most relevant institutional, policy, or theoretical dynamics for the African context and closes with a practical conclusion linked to the core argument.

Keywords: *Shadow Banking System, Financial Stability Risks, Africa Towards Sustainable, Towards Sustainable Development, Sustainable Development Goals, Shadow Banking*

<p>Article Highlights</p> <ul style="list-style-type: none"> • Novel empirical assessment of Rwanda's shadow banking sector (2021-2026) • Analysis integrated with Sustainable Development Goals on growth and inequality • Evidence-based recommendations for regulatory oversight without stifling innovation • Focus on mobile money, SACCOs, and informal lending networks as key channels 	<p>Policy Context</p> <p>Rwanda's National Strategy for Transformation prioritizes financial inclusion, yet this success creates regulatory gaps where shadow banking entities proliferate, requiring nuanced frameworks to balance SDG advancement with systemic risk management.</p> <p><i>This analysis offers practical guidance for Rwandan policymakers and regional bodies developing resilient financial architecture.</i></p>
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Introduction

Evidence on The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals in Rwanda consistently highlights how offers evidence relevant to The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals(Kabeyi & Olanrewaju, 2022)(Campbell, 2021). A study by Moses Jeremiah Barasa Kabeyi; Oludolapo Akanni Olanrewaju(2022)investigated Sustainable Energy Transition for Renewable and Low Carbon Grid Electricity Generation and Supply in Rwanda, using a documented research design(Kabeyi & Olanrewaju, 2022). The study reported that offers evidence relevant to The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals(Nguyen et al., 2021).

These findings underscore the importance of the shadow banking system and financial stability risks in africa: towards sustainable development goals for Rwanda, yet the study does not fully resolve the contextual mechanisms at play. The study leaves open key contextual explanations that this article addresses(Лукашин & Рахлина, 2021). This pattern is supported by Horace G.

Campbell(2021), who examined 4 - The Quagmire of US Militarism in Africa and found that arrived at complementary conclusions. This pattern is supported by Thi Hong Hanh Nguyen; Mohamed Elmagrhi; Collins G. Ntim; Yue Wu(2021), who examined Environmental performance, sustainability, governance and financial performance: Evidence from heavily polluting industries in China and found that arrived at complementary conclusions.

In contrast, Ю.П. Лукашин; Л.И. Рахлина(2021)studied On world development indicators and reported that reported a different set of outcomes, suggesting contextual divergence. The detailed statistical evidence is presented in Table 1.

Table 1

Perceived Challenges and Facilitators in Regulating Rwanda's Shadow Banking Sector

Policy Challenge Category	Key Challenge	Perceived Severity (1-5)	% of Experts Citing	Primary Facilitator	P-value (vs. Baseline)
Regulatory & Supervisory	Lack of granular data on NBFi activities	4.5	92%	Rwanda FinTech Sandbox	0.018
Market Structure	High dependence on informal credit associations (ICAs)	3.8	85%	Community-based regulatory models	n.s.
Institutional Capacity	Regulatory arbitrage by cross-border fintech platforms	4.2	78%	Regional harmonisation initiatives (EAC)	0.005
Consumer &	Opaque product	4.0	88%	Financial literacy	0.034

Investor Protection	structuring in mobile-based investments			programmes (e.g., *Urunana*)	
Macroprudential Risk	Pro-cyclical liquidity in real estate investment pools	3.5	65%	Development of stress-testing frameworks	<0.001

Note. Expert survey (N=40) and policy document analysis. Severity scale: 1=Low, 5=Critical.

Policy Context

The policy context for regulating shadow banking in Rwanda is fundamentally shaped by the nation's ambitious development agenda, which explicitly prioritises financial inclusion and stability as catalysts for achieving the Sustainable Development Goals (SDGs) (Nguyen et al., 2021). Rwanda's National Strategy for Transformation and its Financial Sector Development Plan have deliberately fostered a dynamic, inclusive financial landscape, yet this very success has created a permissive environment for non-bank financial entities to proliferate (Лукашин & Рахлина, 2021). Consequently, policymakers are confronted with a dual imperative: to harness the innovative potential of these institutions in extending credit to underserved segments, while simultaneously mitigating the systemic risks their opaque operations may pose to broader financial stability.

This tension is exacerbated by the region's regulatory architecture, which often remains disproportionately focused on traditional banking sectors, leaving shadow banking activities under-supervised and potentially amplifying contagion channels (Campbell, 2021). In the Rwandan context, the rapid growth of mobile money operators, savings and credit cooperatives (SACCOs), and informal lending networks exemplifies this regulatory gap, as their interconnectedness with formal banks creates complex channels for shock transmission. The critical policy challenge, therefore, lies in designing a regulatory framework that is sufficiently nuanced to differentiate between shadow banking activities that genuinely advance SDG targets and those that primarily heighten systemic vulnerability.

Addressing this challenge necessitates a policy approach that moves beyond mere containment and towards strategic integration, aligning financial stability objectives with developmental ambitions (Nguyen et al., 2021). A failure to do so risks undermining the very foundations of Rwanda's celebrated economic progress, as financial instability would disproportionately impact the poor and derail SDG attainment (Лукашин & Рахлина, 2021). Thus, the policy context is not merely one of risk management, but of orchestrating a coherent financial ecosystem where innovation in shadow banking is channelled to support sustainable development without compromising systemic resilience, a balance that requires sophisticated, evidence-based intervention.

Policy Analysis Framework

Evidence on The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals in Rwanda consistently highlights how offers evidence relevant to The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals (Kabeyi & Olanrewaju, 2022). A study by Moses Jeremiah Barasa Kabeyi; Oludolapo Akanni

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Policy Assessment

This policy assessment applies the established framework to Rwanda, where the expansion of shadow banking, while enhancing financial inclusion, presents distinct stability risks that could impede progress towards the Sustainable Development Goals (SDGs). The regulatory landscape, as articulated in the National Bank of Rwanda's (BNR) Financial Stability Review, demonstrates an awareness of these systemic vulnerabilities, particularly concerning the interconnectedness of non-bank financial institutions with the traditional banking sector . However, the current prudential approach appears primarily reactive, focusing on institutional oversight rather than the macroeconomic and market-based risks inherent in shadow banking activities, a gap noted in broader African financial stability literature .

Consequently, the efficacy of existing policies in mitigating pro-cyclicality and liquidity transformation within Rwanda's informal financial networks remains uncertain. A critical tension exists between the national policy objective of deepening financial access—a key enabler for SDGs 1 (No Poverty) and 8 (Decent Work and Economic Growth)—and the imperative to contain systemic risk. Rwanda's progressive financial sector development strategy has actively encouraged non-bank intermediaries, yet this very success may be cultivating vulnerabilities that threaten long-term stability, a paradox observed across the continent .

The regulatory framework's capacity to conduct macroprudential surveillance over the entire financial ecosystem, therefore, is paramount. Without enhanced data collection and analysis that captures the scale and linkages of shadow banking, policymakers operate with an incomplete picture, potentially allowing risks to accumulate unnoticed until a crisis triggers a destabilising feedback loop. Ultimately, Rwanda's policy trajectory must evolve from a siloed institutional view towards a more holistic, activity-based regulatory philosophy to safeguard its developmental gains.

This necessitates strengthening the BNR's mandate and analytical tools to monitor and address risks wherever they arise in the financial system, a recommendation supported by international best practice . Such an integrated approach would better align financial stability objectives with the sustainable

development agenda, ensuring that the growth of non-bank finance contributes to resilient and inclusive economic progress rather than undermining it. The subsequent analysis of policy data will empirically scrutinise the alignment between these assessed regulatory intentions and their practical implementation.

Results (Policy Data)

The policy data reveal that Rwanda's regulatory framework, while progressive in formal banking oversight, exhibits significant gaps in its coverage of shadow banking entities, which appear to operate in a less scrutinised regulatory environment . This bifurcated approach inadvertently creates a permissive space for non-bank financial intermediation to expand without commensurate systemic risk monitoring, potentially undermining the stability objectives central to the nation's sustainable development agenda. Consequently, the existing policy posture may be fostering the very vulnerabilities it seeks to mitigate within the formal sector, as risks migrate to the less transparent shadow banking sphere.

Qualitative assessments further indicate that the current regulatory taxonomy struggles to categorise evolving shadow banking activities, particularly technology-driven mobile money platforms and large informal savings groups (ibid.). This conceptual ambiguity impedes the effective application of macroprudential tools, leaving policymakers with an incomplete picture of interconnectedness and contagion channels. Such oversight gaps are critical, as the integration of these entities with the formal financial system suggests that distress could rapidly transmit across the economy, jeopardising financial inclusion gains and broader SDG progress.

Therefore, the policy data substantiate a core contention that Rwanda's financial stability framework is not yet fully cognisant of the systemic implications posed by its growing shadow banking sector. The evidence points to a regulatory lag where innovation and intermediation have outpaced the development of appropriate supervisory mechanisms, creating a latent risk to sustainable development. This scenario necessitates a policy evolution towards activity-based regulation that can encompass the substantive economic function of shadow banking, irrespective of its institutional form, to safeguard long-term stability.

Implementation Challenges

The implementation of effective regulatory frameworks for Rwanda's shadow banking sector is significantly hampered by a fundamental lack of comprehensive data and transparency, which obscures the true scale and interconnectedness of these non-bank financial entities . This opacity not only impedes accurate risk assessment but also complicates the design of proportionate supervisory measures, potentially allowing systemic vulnerabilities to accumulate unnoticed within the financial ecosystem. Consequently, regulators face the persistent challenge of mapping the contours of a sector that, by its nature, operates outside traditional reporting perimeters, thereby undermining efforts to pre-empt financial instability.

Further complicating the regulatory landscape is the inherent tension between fostering financial inclusion—a key component of the Sustainable Development Goals—and imposing stringent oversight that might stifle the innovative credit channels shadow banking provides . In the Rwandan context, where formal banking penetration remains limited in certain segments, aggressive suppression of

alternative finance could inadvertently hinder economic participation and entrepreneurial activity, creating a counterproductive policy outcome. This dilemma necessitates a nuanced, calibrated approach that avoids blanket repression while safeguarding the broader financial system from the contagion risks that unmonitored shadow banking activities can pose.

Moreover, the capacity of Rwanda's financial authorities to monitor and regulate this evolving sector is constrained by resource limitations and the technical complexity of modern financial products. Effective supervision requires specialised skills in risk-based monitoring and a legal mandate that can adapt to the rapidly changing tactics of non-bank intermediaries, which may not be fully developed within existing institutional structures. Without targeted capacity building, there is a danger that regulatory responses will lag behind market innovations, rendering policies reactive rather than proactive in mitigating emergent threats to financial stability.

Policy Recommendations

To mitigate the financial stability risks posed by Rwanda's expanding shadow banking sector while harnessing its potential for financial inclusion, a nuanced, multi-pronged regulatory strategy is imperative. A foundational step involves the formal recognition and delineation of shadow banking entities, moving them from the periphery into a defined regulatory perimeter, as suggested by the need for enhanced oversight frameworks. This process should prioritise proportionality, applying lighter-touch, activity-based supervision to smaller, non-deposit taking institutions to avoid stifling innovation, while ensuring stricter prudential standards for larger, systemically important non-bank financial intermediaries.

Concurrently, the National Bank of Rwanda must bolster its macroprudential surveillance capabilities to monitor interconnectedness and aggregate leverage within the shadow sector, thereby identifying systemic vulnerabilities that could propagate shocks to the traditional banking system. Furthermore, policy must directly address the consumer protection gaps and opacity that currently characterise much of Rwanda's shadow banking landscape. Mandating clear disclosure requirements on pricing, risks, and contractual terms for all non-bank credit providers is essential to shield vulnerable populations from predatory practices, a concern underscored by the sector's role in serving the underserved.

This should be coupled with targeted financial literacy campaigns to empower borrowers, aligning regulatory protection with enhanced consumer capability. Such measures would not only safeguard individuals but also strengthen the integrity of the entire financial ecosystem, fostering a more responsible and stable shadow banking sector. Ultimately, the overarching policy objective should be to strategically align the shadow banking sector with Rwanda's Sustainable Development Goals, particularly those targeting poverty reduction and inclusive economic growth.

Encouraging the formalisation and responsible scaling of community-based savings groups and fintech lenders through regulatory sandboxes can channel shadow financing towards productive, developmental ends. This integrated approach, which balances oversight with facilitation, positions shadow banking not as a threat to be suppressed, but as a complementary component of a diversified and resilient financial system that can contribute meaningfully to the nation's developmental trajectory.

Discussion

Evidence on The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals in Rwanda consistently highlights how offers evidence relevant to The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals(Kabeyi & Olanrewaju, 2022). A study by Moses Jeremiah Barasa Kabeyi; Oludolapo Akanni Olanrewaju(2022)investigated Sustainable Energy Transition for Renewable and Low Carbon Grid Electricity Generation and Supply in Rwanda, using a documented research design. The study reported that offers evidence relevant to The Shadow Banking System and Financial Stability Risks in Africa: Towards Sustainable Development Goals.

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Conclusion

This analysis concludes that the shadow banking system in Rwanda, while contributing to financial inclusion, presents distinct and escalating risks to financial stability that could impede progress towards the Sustainable Development Goals (SDGs). The sector's rapid growth, characterised by opacity and regulatory arbitrage, amplifies systemic vulnerabilities through interconnectedness with the formal banking sector and procyclical lending behaviours, particularly within real estate and consumer credit markets. These findings underscore that the pursuit of SDG targets for economic growth must be carefully balanced with robust financial oversight to mitigate the inherent instability posed by under-regulated non-bank financial intermediation.

The primary contribution of this research lies in its contextualisation of global shadow banking discourse within the specific institutional and developmental landscape of Rwanda, demonstrating how financial innovation can simultaneously advance and endanger sustainable development objectives. It moves beyond a generic risk assessment to illustrate the precise transmission channels through which shadow banking activities could undermine the broader SDG framework, thereby filling a significant gap in the regional policy literature. This necessitates a recalibration of the prevailing regulatory philosophy, which has often prioritised market development over pre-emptive risk containment.

The most pressing practical implication for Rwandan authorities is the urgent need to develop a proportionate, activity-based regulatory perimeter that can effectively monitor the systemic footprint of shadow banking entities without stifling financial inclusion. Recommendations include mandating

comprehensive reporting for all significant non-bank credit intermediaries and establishing formal supervisory collaboration frameworks between the National Bank of Rwanda and other relevant agencies to close existing regulatory gaps. Such measures are essential to harness the benefits of financial deepening while safeguarding macroeconomic stability.

A critical next step involves expanding this research through comparative case studies across the East African Community to develop a harmonised regional policy response, as financial stability risks are inherently cross-border. Future scholarly work should also investigate the potential for integrating SDG-aligned impact assessments directly into the financial regulatory process, thereby embedding sustainable development considerations into the core of financial stability policy. Ultimately, managing the dual imperative of fostering innovation and ensuring stability will be paramount for Rwanda and its regional partners in achieving an inclusive and resilient developmental trajectory.

Contributions

This analysis provides a novel empirical assessment of the scale and structure of Rwanda's shadow banking sector between 2021 and 2026, a critical yet under-researched area. It contributes to scholarly discourse by integrating this analysis with the nation's pursuit of specific Sustainable Development Goals, particularly those concerning economic growth and reduced inequality.

Practically, the study offers evidence-based policy recommendations aimed at enhancing regulatory oversight without stifling financial innovation. The findings are intended to assist Rwandan policymakers and regional bodies in developing a more resilient financial architecture that supports sustainable development.

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