THE FACTORS AFFECTING DEMAND FOR COMMERCIAL PAPER AS A SHORT TERM SOURCE OF FINANCE FOR PUBLICLY QUOTED COMPANIES

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF MASTER OF BUSINESS ADMINISTRATION (M.B.A.) OF THE FACULTY OF COMMERCE,

BY:

MUNYWOKI JOHN MUSYOKA

DEPARTMENT OF ACCOUNTING, FACULTY OF COMMERCE, KENYATTA UNIVERSITY

JULY, 2000
DECLARATION:

This Research project is my original work and has not been presented for a degree or any other award in any University.

Signed ........................................................................................................

JOHN MUSYOKA MUNYWOKI

Date: 2nd August 2000

This research project has been submitted for examination with my approval as university supervisor.

Signed ........................................................................................................

OBERE E.
LECTURER, SUPERVISOR
DEPARTMENT OF BUSINESS ADMINISTRATION.
KENYATTA UNIVERSITY

Date: 03/08/2000

Signed ........................................................................................................

MRS. C.G NYAGA.
CHAIRMAN,
ACCOUNTING DEPARTMENT
KENYATTA UNIVERSITY.

Date: 3rd Aug, 2000
DEDICATION:

This Project is dedicated to:

My family members especially my Dad and Mum for their ever present love, support and their patience during the time of my academic life and for the great faith they showed in me for which I can never thank them enough.
ACKNOWLEDGMENT.

I wish to express my deeply felt gratitude to my supervisor Mr. Obere and Mr. Ochola (Chairman-business administration department) for their insightful comments, academic guidance and support throughout this research project. Mr. K. Atheru (The M.B.A. Co-ordinator) for his guidance and fatherly advises during the whole of the M.B.A program and all members of the Faculty of Commerce for their support.

My thanks also extends to my classmates for being open and supportive through their contributions during our numerous discussions. I am also indebted to Mr. Luke Ombaka of the Capital Markets Authority for his help in provision of the data I needed for this project to be a success.

My thanks also go the Vekaria Construction Company for partly financing the program and especially the M.D Mr. Raju for his moral and material support during the period of my program, for Mr. Stephen Nthei of C.B.K. for his support. Sincere thanks go to my family members my Dad Morgan, Mum Veronica, my brothers Charles, Ngovi my sister Margaret and my brother in law Peter, my cousin Lucy for their emotional and material support they accorded me in the whole of my program. To one lady, Ruth Mutua who showed her undying love, emotional and material support to me during the trying times of the project work.

Finally to Mary who accorded and facilitated the computer and printing services. Lastly to all those who I have not mentioned and whose contribution to this project and program as a whole was very valuable, I say Asante Sana, your assistance was greatly appreciated.

May God bless you all.
ABSTRACT

Critical to an optimal financing decision is the identification of the sources of financing both long and short term. Sources of finance may include; share capital whose cost is the dividends to be paid out to shareholders. Long term bank loans whose cost is the interest charged on the long per years long term debentures whose cost is the coupon rate of interest. Short term sources may include bank overdrafts with the overdraft rate of interest at its associated cost, short term bank loans and Commercial Paper whose cost is the interest rate charged.

Cost on the mostly available source of finance for both long and short term needs have been on the higher side during the period under the study. Commercial Paper (C.P) came in as a remedy to the high cost of credit especially short term. This study was aimed at the identification of the factors critical to the development of the C.P market and whether the cost minimization strategy was achieved by the companies issuing C.P.

Study results indicate that company’s cashflow, interest on Bank Overdraft (O.D) and the treasury bill rate (T.P) significantly affect the demand for C.P on the other hand, T.B rate was found to effect positively on C.P demand while Bank O.D rate was found to have a negative Relationship with the Demand of C.P.

The research also indicate that the cost of borrowing of all companies studied decreased after engaging C.P T.B rate was found to affect the C.P interest rate.

In light of the research findings, which Reveal that C.P is a low cost borrowing instruments, it is suggested that companies with a good credit rating or companies with a strong financial base should engage it to reduce their short term cost of borrowing. The government is also advised to reduce the level of its domestic borrowing (which indirectly makes credit expensive) in order to allow companies access to cheap credit from banks and stop the private sector crowding out.
<table>
<thead>
<tr>
<th>No.</th>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>C.P</td>
<td>Commercial paper</td>
</tr>
<tr>
<td>2</td>
<td>C.D</td>
<td>Certificate of deposits</td>
</tr>
<tr>
<td>3</td>
<td>O.D</td>
<td>Bank overdraft</td>
</tr>
<tr>
<td>4</td>
<td>C.M.A</td>
<td>Capital Markets Authority</td>
</tr>
<tr>
<td>5</td>
<td>C.B.K</td>
<td>Central Bank of Kenya</td>
</tr>
<tr>
<td>6</td>
<td>K.B.S</td>
<td>Kenya Bureau of Standards</td>
</tr>
<tr>
<td>7</td>
<td>T.B</td>
<td>Treasury Bills</td>
</tr>
<tr>
<td>8</td>
<td>T.C</td>
<td>Trade Credit</td>
</tr>
<tr>
<td>9</td>
<td>A.C</td>
<td>Accumulated Cash</td>
</tr>
<tr>
<td>10</td>
<td>L.C</td>
<td>Lines of Credit</td>
</tr>
<tr>
<td>11</td>
<td>B.A</td>
<td>Bank Acceptances</td>
</tr>
<tr>
<td>TABLE NO</td>
<td>TITLE</td>
<td>PAGE</td>
</tr>
<tr>
<td>---------</td>
<td>-------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>1</td>
<td>Treasury Bill Rate in % age</td>
<td>9</td>
</tr>
<tr>
<td>2</td>
<td>Bank Overdraft Rates in % age</td>
<td>17</td>
</tr>
<tr>
<td>3</td>
<td>Type of Business</td>
<td>27</td>
</tr>
<tr>
<td>4</td>
<td>Story term Financing Difficulties</td>
<td>28</td>
</tr>
<tr>
<td>5</td>
<td>Short term Borrowing instruments usage</td>
<td>29</td>
</tr>
<tr>
<td>6</td>
<td>Constraints of Financing</td>
<td>30</td>
</tr>
<tr>
<td>7</td>
<td>Time of Issuance of first C.P.</td>
<td>31</td>
</tr>
<tr>
<td>8</td>
<td>Reasons of Issuing C.P.</td>
<td>32</td>
</tr>
<tr>
<td>9</td>
<td>Guarantees by Bank</td>
<td>33</td>
</tr>
<tr>
<td>10</td>
<td>Investors Response</td>
<td>33</td>
</tr>
<tr>
<td>11</td>
<td>Determinants of C.P Interest Rate</td>
<td>34</td>
</tr>
<tr>
<td>12</td>
<td>Multiple Regression Results</td>
<td>35</td>
</tr>
<tr>
<td>13</td>
<td>Correlation Among Variables</td>
<td>37</td>
</tr>
</tbody>
</table>
TABLE OF CONTENTS:

Title ........................................................................................................................................... i
Declaration .................................................................................................................................. ii
Dedication ................................................................................................................................. iii
Acknowledgements .................................................................................................................... iv
Abstract ....................................................................................................................................... v
Abbreviations Used .................................................................................................................... vi
List of Tables ............................................................................................................................. vii

CHAPTER 1 – INTRODUCTION AND BACKGROUND

1.0 INTRODUCTION AND BACKGROUND

1.1 Introduction .......................................................................................................................... 1
1.2 Historical Background ....................................................................................................... 1
1.3 Research Problem .............................................................................................................. 5
1.4.1 Research Objectives ..................................................................................................... 6
1.4.2 Research Questions ........................................................................................................ 6

CHAPTER TWO

2.0 LITERATURE REVIEW ....................................................................................................... 7

2.1.1 Treasure Bills .................................................................................................................. 7
2.1.2 Treasure Bill Rate .......................................................................................................... 7
2.2.1 Credit and Interest Rates .............................................................................................. 10
2.2.2 Interest rates in Kenya ................................................................................................. 11
2.3.1 sources of Finance ........................................................................................................ 14
2.3.2 Short term sources of finance ..................................................................................... 15
2.2.3.0 Short term borrowing instruments ........................................................................ 16
2.3.3.1 Bank Overdraft ....................................................................................................... 16
2.3.3.2 Bank Acceptance .................................................................................................... 17
2.3.3.3 Bank Revolving Credit Lines ................................................................................ 18
2.3.3.4 Trade Credit ........................................................................................................... 18
2.3.3.5 Commercial Paper ................................................................................................. 19
2.3.3.6 Cost saving of Commercial Paper Vis-à-vis Bank O.B. .......................................... 22

CHAPTER THREE

METHODOLOGY

3.1.1 Theoretical Framework ............................................................................................... 23
3.1.2 Research Design ......................................................................................................... 24
3.1.2.1 Population of Study ............................................................................................... 24
3.1.2.2 Sampling Strategy ................................................................................................. 24
3.1.3 Data Collection Procedure ........................................ 25
3.2.4 Data Analysis ....................................................... 25
3.1.4 Hypothesis .......................................................... 25

4.0 CHAPTER FOUR – DATA ANALYSIS AND RESULTS

4.1 Frequency analysis ..................................................... 27
4.1.1 Type of Business .................................................... 27
4.1.2 Ranking of Short term financing Difficulties .................. 28
4.1.3 Usage of short term Borrowing instruments ................ 29
4.1.4 Constraints of financing ........................................... 30
4.1.5 Time of Issuance of 1st Commercial Paper ................... 31
4.1.6 Reasons for Issuing Commercial Paper ....................... 32
4.1.7 Guarantees by Banks ............................................... 32
4.1.8 Response of investors .............................................. 33
4.1.9 Default .............................................................. 34
4.1.10 Requirement of C.M.A ............................................ 34
4.2.1 Results of Analysis using Linear Regression Model ....... 35
4.2.2 Multiple Regression Results for variables studied .......... 35
4.2.3 Firms Cashflow and commercial paper Demand ........... 35
4.2.4 Treasury Bill Rate and C.P Demand ............................ 36
4.2.5 Overdraft rate and C.P Demand ................................ 36
4.3 Correlation Among variables .......................................... 37

5.0 CHAPTER 5 – DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS.

5.1 Summary of findings .................................................. 38
5.2.1 Recommendations .................................................. 40
5.2.2 For further Research ............................................... 41
5.3 Limitations of the study ............................................... 41

Bibliography ..................................................................... 42
Appendix 1 A list of companies which have issued C.P .......... 46
Appendix 2 Questionnaire .................................................. 47
Appendix 3 Secondary Data ................................................ 51
1.0 INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

There is a cumbersome word which frightens Bankers all over the world – disintermediation. It reflects the fact that one of the main ways bankers make profit by acting as intermediaries between resource abundant sectors of the economy and the resource deficient sectors of the economy is blocked, removing the middle-man from the equation. The issuing of commercial paper is a major source of disintermediation.

Commercial bankers cannot like anything which produces the above scenario but the process which brings about it to some extent is inevitable as financial markets increase in sophistication – why allow a middle man a share of profit when the capacity exists to split all the value of the transaction between the principal parties by going direct (Rouse 1999).

The development of the Kenyan C.P market has forced the Kenyan banks to face up the reality of disintermediation. This is because a mature CP market has a large spread of potential investors which makes disintermediation process effective. (Spiro 1982).

1.2 HISTORICAL BACKGROUND

C.P has a long and distinguished history as a short term source of finance. It has played its part in the financing of development in Europe and in the United States for the past 150 years (Dry 1998). Historically, next to bankers acceptances, C.P is the oldest money
market instrument. Its use in the United States has been traced back in 1790. This is long before the treasury bill has made its first appearance in 1929 (Hamberg 1981). The instrument arose as a low cost alternative to bank borrowing for corporations with strong credit rating. Though it started a long time ago, its importance was not stressed until the years 1966 to 1969 when there was crisis in the banking sector in the US (Hamberg 1981).

During these years corporations seeking financing were encouraged by their banks to use the commercial paper market as a substitute for bank facilities which were being restricted by the monetary authorities. The result was that between 1965 and 1970, C.P outstanding, in the US grew by 400%. (Felix 1987). Although there is less C.P outstanding than bank loans, it continues to grow rapidly. By early 1990’s CP in the US totalled some US$300 billion versus US$500 billion in bank loans. By the end of 1998, C.P outstanding totalled over 1.1 trillion having grown more than 260% from early 1990’s.

Commercial paper issues are of two types:

a) Dealer paper – These are C.P issued through dealers ie dealers buy issues outright and then sell them to investors.

b) Directly Placed Paper – Paper that is issued directly to investors hence bypassing the dealers completely. The large scale appearance of the industrial utility companies as borrowers was a response to difficulties in obtaining loans at a commercial bank during years of tight monetary policies notably in 1966 and 1969. These non financial corporations looked for alternative sources of
shortterm funds hence the commercial paper market was a reliable source/substitute for Bank credit. By 1974, borrowing of the Non-financial corporation in this market leaped by more than 50% to $12.7 billion by 1979, this figure was approached $30 billion (Felix, 1986).

Banks also started issuing C.P in 1969 when the monetary authorities placed an interest ceiling to all certificates of deposits (C.Ds) and yields on other money market instruments rose well above these ceilings inducing investors to switch (Hamberg 1981). As a result banks were confronted with a dramatic runoff in CDs to the tune of US$13 billion (A-50% drop at that time). Badly strapped for funds, the banks looked for a comparable way to borrow in the sense-like CDs, commercial paper was an obvious answer(Hamberg 1986).

On the Kenyan scene, upward pressure on interest rates started in 1993, (C.B.K, 1996). This upward pressure/trend in the interest rates partly coincided with the central bank’s intervention in the money market thorough enhanced sales of treasury bills. The process was aimed at mopping excess liquidity injected as a result of central bank intervention in the money market and the need to finance the budget deficit from domestic sources (Central Bureau of Statistics, 1997). In order to achieve all these C.B.K. had to maintain high interest rates on treasury bills inorder to attract deposits. In addition, there was a generally high demand for domestic credit as reflected in the high demand for domestic credit supported by the high advanced/deposits ratio, all these created an upward pressure on interest rates (C.B.k. 1997).
During this period credit was becoming expensive for business and since they had to cut down on costs to face the competition, cost of credit had to be looked into as a potential candidate. This made companies start looking for alternative sources of finance either offshore facilities or otherwise. Thus commercial paper was an alternative. So by 1996, the first C.P was issued by Rhone Poulenc, followed by BAT Kenya Limited, Lonrho Motors. All these issues were authorized and controlled by the C.B.K. This was due to the absence of an independent credit rating agency in Kenya at that time and it was being restricted to only companies listed in the Nairobi stock exchange C.B.K.

undoubtedly reasoned that investors could assess the credit worthiness of the companies issuing CP as they published their financial statements periodically, (C.M.A, 1997).

However in 1997, the regulation of the issuance of CP was placed under capital markets authority (C.M.A) and they effectively published a draft titled “Guidelines for the Issuance of Corporate Bonds and Commercial Paper”.

The publishing of these guidelines allowed companies which met criterion listed in the draft to issue commercial paper to the investors and finance their operations. This was done so because of the absence of an independent credit rating agency. “In view or the risk and credit worthiness assessment of the issues of these financial instruments, C.B.K and CMA agreed to initially restrict the issuance of commercial paper to listed companies which are subject to continuous disclosure and reporting obligations” (C.M.A, 1997) some of the conditions include:

a) Having share capital and reserves which are not less than 50 million Kenya shillings.
b) Must have made profits at least two of the last three years proceeding the application of the issue.

c) Should have a debt ratio/gearing ratio of 4:1 (MCA, 1997).

Since this time, many companies have issued C.P to finance their operations and by the end of 1999 more than 18 companies had issued and the by the same time, the C.P outstanding had grown to over Ksh. 9 billion (CMA 1999). This shows that the C.P have established itself firmly in Kenya as an alternative to Bank borrowing (Dry 1998).

1.3 RESEARCH PROBLEM

C.P has produced market driven pricing for large corporates but it is unlikely that C.P will prove to be the product of choice for sophisticated borrowers in Kenya in the immediate future (Rouse, 1999). On the other hand Dry (1998) has asserted that C.P has established itself formally in Kenya as an alternative to bank borrowing probably the reason why Dry thinks this is because of the current economic situation in the country which has seen the government borrowing too much from domestic sources to finance its budget deficit or external debt (C.B.K. 1997).

This trend of Demand Pressure on private borrowing has forced the banks to increase their lending rates in line with The T.B rates. Effectively increasing the cost of credit, thus making loans almost unreachable by most business men. As Central Bank of Kenya (1999) says, it encourages borrowers especially the business community to make use of offshore facilities and other facilities which may be cheaper to them than Bank Borrowing.
The growth of C.P has come at a time when the economic situation in Kenya is not impressive. The factors which help boost the development of the C.P market may be different at different economic situations. Given that the Kenyan economy is volatile. What are the factors which really boost the C.P Market Development in Kenya?

1.4.1 RESEARCH OBJECTIVES:

1) To determine the factors which affect the Demand for Commercial Paper in Kenya's Money Market.

2) To determine the success or failure of C.P for the companies which have already issued.

3) To observe the implications of the governments monetary policy especially on treasury bill rate on the financing behaviour of the companies.

1.4.2 RESEARCH QUESTIONS:

1. What has been the success or failure of the C.P in the local market?

2. What factors Determine the Demand for C.P in Kenya?

3. What is the relationship between the Demand for C.P market and the other money market instruments rates of return?
2.0 LITERATURE REVIEW

2.1.1 TREASURY BILLS.
These are short dated government securities which exist in various tenors eg 28 days, 60 days, 91 days and 182 days. The government borrows from the public through weekly action of treasury bills.

2.1.2 TREASURY BILL RATE
This is the rate of return earned by the investor of the T.B. it is a nominal rate of return and hence it includes the real rate of return and inflation rate.

The most common T.B. is the 91 day T.B which has proved to be very popular with various institutional investors. Scwarz et.al (1986) reported that the 90 day T.B. is the major instrument traded in the U.S money market. He argued that the T.P volatility increased as a result of federal reserve tolerating fluctuations in interest while forecasting on money supply to control monetary policy.

Kenya launched a comprehensive financial sector reforms in 1989. T.B rates were fully liberalized in November, 1990. This made it possible for the C.B.K. to use the T.B rate to influence the level of other short term rates like bank overdraft rate. This trend has been noted especially from the year 1993 when T.B rates soured to the level between 80-90%. This necessitated the upshoot of the Bank Overdraft rate making overdraft a very expensive source of short term finance.
The prime rule of investment is that the greater the risk, the greater the return. Investors consider money borrowed by companies from them in form of ordinary shares and corporate bonds most risky investment and borrowing by the government through government bonds and T.Bs least risky. The case in Kenya has been different. The returns on common stock has been on average less than T.B rates. This has made T.B very attractive and popular in the eyes of the investors. The popularity of the T.B is harmful to the Kenyan economy as it deprives the private sector of the funds it needs, all in all it is the high demand for the T.Bs that is killing private initiatives or private sector. (Otieno, 1998).

Although the C.B.K. uses T.B to control money supply in the economy this beats the very purpose it is made to achieve, when they offer very attractive rates of return which they will repay the various investors as interest payments, releasing more money to the population (Mbaru, 1997). The T.B rates have shown a declining trend in the last quarter of 1999 but both investors and other businessmen are sceptic whether the C.B.K. can retain the low T.B rate.

The high T.B. rate has caused the government to carry in its books substantial Amount of Domestic debt. Between 1991 – 1995 government paid 223 billion Ksh. of interest on domestic borrowing. Compared to 301 billion it spend on everything else. Eg. Health Education Defense etc. this means that 43% of the total expenditure went to pay local lenders. The same period foreign Debt servicing constituted only 1/3 of the total debt servicing while it constitutes 80% of the total debt.

A wrong signal of investing in government paper ie. T.B is that it is profitable to invest in
them rather than in productive commercial and industrial activity. For example banks have had a substantial holding of government paper, in 1996 Barclays Bank had invested Ksh. 14.3 billion in government paper an compared to it 42.9 billion in Total Assets. This makes it 31% of the total. The East African Building society had in 1995 invested Kshs. 2.4 billion in Government Paper compared to Kshs 884 million in its core business (Mortgages) – about 48% of its total Assets.

TREASURY BILL RATES: in % p.a

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>21.2</td>
<td>21.6</td>
<td>26.3</td>
<td>10.7</td>
</tr>
<tr>
<td>February</td>
<td>26.0</td>
<td>21.4</td>
<td>26.3</td>
<td>8.9</td>
</tr>
<tr>
<td>March</td>
<td>26.7</td>
<td>21.4</td>
<td>26.7</td>
<td>8.8</td>
</tr>
<tr>
<td>April</td>
<td>24.2</td>
<td>21.0</td>
<td>27.0</td>
<td>9.0</td>
</tr>
<tr>
<td>May</td>
<td>22.0</td>
<td>-20.4</td>
<td>26.4</td>
<td>9.6</td>
</tr>
<tr>
<td>June</td>
<td>21.9</td>
<td>19.4</td>
<td>25.5</td>
<td>11.3</td>
</tr>
<tr>
<td>July</td>
<td>21.8</td>
<td>18.5</td>
<td>24.7</td>
<td>14.5</td>
</tr>
<tr>
<td>August</td>
<td>21.6</td>
<td>19.7</td>
<td>23.7</td>
<td>14.8</td>
</tr>
<tr>
<td>September</td>
<td>22.5</td>
<td>26.2</td>
<td>22.5</td>
<td>15.8</td>
</tr>
<tr>
<td>October</td>
<td>24.1</td>
<td>23.1</td>
<td>20.6</td>
<td>17.6</td>
</tr>
<tr>
<td>November</td>
<td>22.1</td>
<td>26.8</td>
<td>17.7</td>
<td>18.1</td>
</tr>
<tr>
<td>December</td>
<td>21.6</td>
<td>26.4</td>
<td>12.5</td>
<td>20.0</td>
</tr>
</tbody>
</table>

(source-C.B.K)

Langat (1998) in his study on the effect of the T.B volatility on corporate investment found out that there is a positive and a significant influence on the T.B rate on commercial investments in T.Bs. this he said was true because the other portfolio returns were low and even had higher risk comparatively. While the effect of the same rate on other investments was negative and quite significant. He also added that the effect were pronounced during the period of his study mainly because the economy was undergoing major changes.
2.2.1. CREDIT AND INTEREST RATES.

"Italians know that money makes money and that the money money makes, makes more money" (Krefetz 1986). The idea that money at interest creates more money is now so fundamental to economics that virtually no one questions the giving and taking of interest. It has achieved the status of Natural law.

Along with the idea of interest arose the concept of the interest rate – the terms on which money is rented out. Over the years interest rates have risen and fallen because of a wide variety of circumstances eg war or its probability, good economic times, bad economic times, political instability, the growth of the money supply and so on.

Until recently, interest rates were such a dull subject that only bankers gave them any thought. That has changed, inflation made everyone aware of how quickly value depreciated as interest rates doubles, before long, lenders requires an inflation premium – a little something extra, so that their purchasing power would not be eroded.

If inflation made the public conscious of interest rates, it was the governments manipulation and control that made for a two third market for funds, regulated and unregulated. Before long, the drive to deregulate financial institutions and banks grew, enabling them to pay free – market rates commencing in 1982. (Krefetz 1986)

Another aspect of interest rate consciousness raising was the use of interest rates by the governments to control the economy. This made everybody aware that interest rates were central to controlling credit. High levels of debt and interest rates have had profound effects on corporations and economy as a whole. (Krefetz 1986)
The role of interest rates in the economic policies of developing countries in a hotly debated issue from a theoretical and empirical point of view (Langat 1998). Among the controversial issues is the fact that government controls interest rates in the formal market. Several economists argue that official rate is unimportant because it is the informal market that determines the relevant rate of interest. Azam (1996) observed that many researchers only take into account the rate of return to bank deposit and ignore the rate of return on some other investment portfolios. He tested the hypothesis that savings depend on a representative rate of return on household assets. He concluded that there is a positive and significant relationship between the real interest rate and savings in Kenya.

Though little have been done in Kenya, the existing studies done concern to an extend that structure of interest rates, their determination, across institutions and also examination of factors that have influenced the determination of interest rate in the post liberalization period.

Mbaru (1997) asserts that interest rates are about money and its impact on the society, properly channeled and utilized, it can lead to great improvements in the welfare for the people of Kenya. If misused, will led to terrible social disparities in the country and this will cause subsequent problems to those who think they are the principal beneficiaries at the present time.
Since the atrocities associated with excess money introduced into the Kenya economy around 1992, interest rates and yields on Treasury bills soared to unpresented levels reaching 80-90% annual equivalents. Since then, largely due to prudence in financial management the yields have come down and are stuck in the region of 20-30% with interest on borrowed funds being in excess of 36% in some cases.

High interest rates on loanable funds have negative impact on investment and since they are not accompanied by high rates on savings deposits(which sometimes are in the range of 6-8%) cannot do much to encourage higher domestic savings.

Warutere (1996) in his article entitled “Time for interest rates to fall” analyzed the forecasting of commercial bank interest rates on T.Bs. further he demonstrated that government has created substantial debt through T.bills which was likely to cause drastic and pervasive effects on exchange rate once retired. He recommended that ideal interest rates should be around 15%.

Kimura (1997) says that interest rates in Kenya have failed to come down because of what he says constitutes the visible interest rates. He further argues that interest rates are determined by the real interest rate, the inflation factor, the general economic situation: the premium associated with a given undertaking and a premium to cover the general economic uncertainty. He says that the high interest rates in Kenya currently are consistent with the current Kenya’s economic situation. (all indicators like infrastructure, insecurity to tourists drought, famine) are all negative making banks to add a premium for their uncertainty. Finally he also attributes it to the catastrophe theory which states
that high interest rates will generate higher interest rates in subsequent periods as prices of commodities adjust upwards to reflect the high cost of borrowing.

The objective of the fiscal Policy Plan 1997 – 2001 was to reduce further the budget deficit as a proportion of gross domestic product (GDP) with an aim of eventually eliminating it. This was very necessary to mitigate the undesirable effects that high budget deficits have had on domestic interest rates. Lower deficits will mean less government borrowing from the C.B.K. and from the public. This will reduce the crowding out effect this borrowing has on private sector borrowers. Further this reduction in deficit borrowing will ease pressure on other interest rates.

Mwega et. Al (1990) carried out a study to test the Mc Kinnon-Shaw hypothesis in Kenya. They used a thee equation model with data covering the period 1966-85. The results revealed that the cost of borrowing had a significant influence on the demand for credit to the private sector.

Interest rates in developed countries rarely go beyond 10%. Our rates have been between 20-35%, In the last several years. With a liberalized foreign Exchange Market, foreign investors would not mind looking for T.Bs for a period of 91 days only. Speculators could also come in with the so-called “hot money” which can take flight at the drop of a hat.
2.3.1 SOURCES OF FINANCE.

Sources of finance are varied depending on the activity or project to be financed. Working capital requirements require short term sources as opposed to fixed assets which require long term sources of capital. This topic has received some attention in literature though not exhaustive. Muturia (1996) examined factors influencing credit delivery systems to small scale enterprises. Otieno (1988) studied the sources of finance for Nairobi based Jua Kali enterprises. Kimutai (1998) studied the sources of finance for Eldoret based pharmaceutical firms and found out that most companies sourced their finances mainly from commercial banks especially for their initial capital. Edward (1976) observed that most businesses seek short term loans to be used in the financing of seasonal increases in working capital and in the temporary financing of capital expenditures and other long term commitments pending the negotiation of a long term loan.

Bwire (1981) studied on the capital structure of manufacturing companies and categorized them in their respective sectors ie industrial, agricultural commercial etc and found that across the sectors a debt equity ratio of between 30-40% was maintained. Omondi (1996) did a similar study on the capital structure in Kenya but he went further to encompass all firms as opposed to the Bwire study which dwelled only on manufacturing firms. His results were also similar to Bwire's

Companies can get their finance from various sources. Equity finance being the shareholders capital and retained earnings can be a source of finance especially long term. Long term loans from banks, non banking financial institutions, development
banks eg IDB, ADB, PTA bank etc. this study is specifically on short term source of finance so not much will be said on long term sources of finance.

2.3.2 SHORT TERM SOURCES OF FINANCE. 

Short term sources of finance are interpreted as loans that have a maturity of one year and below. These are funds typically used to finance inventory, receivables, or other working capital needs. In addition, they provide or play a very valuable role in providing a reserve of borrowing capacity to be drawn down because of unanticipated demands.

One of the most critical tasks of corporate treasury is the management of short-term borrowing. It is the most important source of liquidity for all firms and an essential element of the debt policy. In managing corporate liquidity, firms need to be aware of the diverse and rapidly evolving sources of short-term credit and explicit and implicit costs of those sources. (Kallbery et.al (1993). Perhaps most importantly corporations need to recognize how these credit mechanisms interact with firms characteristics in formulating, implementing and monitoring of firms debt management and capital structure.

Research done by Krefetz (1986) showed that companies were shifting from lower term to shorter term debts. This was due to great uncertainties of distant maturities and inflation factors. Similarly Diamond (1991, 1993) and Rasan 1992 in their research argue that shorter term debt is more likely to be employed than longer term debt because it makes it more difficult for borrowers to defraud creditors. They further say that shorter maturities limit the period which an opportunistic firm can exploit its creditors without
being in default. The creditors can review the firms more frequently before losses are accumulated.

2.3.3.0 SHORT TERM BORROWING INSTRUMENTS

2.3.3.1 Bank Overdraft

This is a widely used facility for businesses to draw cheques up to an agreed credit limit and its largely arranged to cover seasonal cash shortages and as a bridging finance for the purchase of property and machinery subject to the credit standing of customers. Overdrafts are usually renewable and are used as permanent finance by some businesses although they can be called at short notice.

Interest is charged on the outstanding balance each month at the bank base rate plus additional lending premium related to the credit standing of the customer. Essentially O.D is structured like an informal lines of credit. The bank merely establishes a cost for allowing the firms available balance to fall below zero. This is a very convenient way of borrowing although it can be more expensive than more structured ways of borrowing.

A survey of bank lending to businesses in the U.S showed that approximately one half of all short term business loans of commercial banks are made on an unsecured basis mainly through bank overdrafts.

Bank overdraft rates in Kenya have been very high for the second half of the 1990s earning on average 28.90 in 1996, 30.40 in 1997, 30.74 in June, 1998, 26.63 in December
1999. (C.B.K) This has made overdraft in Kenya for these years to be very expensive making firms to look for other alternative short term forms of financing.

Although research has not been done on the extend of usage of O.D as a source of finance, the feeling in the business world is that it has been a very common source of finance for short term purposes.

**BANK OVERDRAFT RATES IN: % p.a.**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>27.9</td>
<td>26.7</td>
<td>30.4</td>
<td>23.9</td>
</tr>
<tr>
<td>February</td>
<td>28.0</td>
<td>28.4</td>
<td>30.4</td>
<td>22.9</td>
</tr>
<tr>
<td>March</td>
<td>28.4</td>
<td>28.5</td>
<td>30.8</td>
<td>21.1</td>
</tr>
<tr>
<td>April</td>
<td>28.5</td>
<td>28.1</td>
<td>29.3</td>
<td>29.9</td>
</tr>
<tr>
<td>May</td>
<td>28.4</td>
<td>28.9</td>
<td>30.7</td>
<td>20.5</td>
</tr>
<tr>
<td>June</td>
<td>28.6</td>
<td>28.5</td>
<td>29.6</td>
<td>20.9</td>
</tr>
<tr>
<td>July</td>
<td>27.9</td>
<td>27.4</td>
<td>30.2</td>
<td>21.0</td>
</tr>
<tr>
<td>August</td>
<td>28.0</td>
<td>27.4</td>
<td>30.6</td>
<td>22.0</td>
</tr>
<tr>
<td>September</td>
<td>28.1</td>
<td>29.0</td>
<td>29.7</td>
<td>22.5</td>
</tr>
<tr>
<td>October</td>
<td>28.4</td>
<td>29.7</td>
<td>29.6</td>
<td>23.1</td>
</tr>
<tr>
<td>November</td>
<td>28.9</td>
<td>30.3</td>
<td>28.8</td>
<td>24.8</td>
</tr>
<tr>
<td>December</td>
<td>28.9</td>
<td>30.4</td>
<td>26.6</td>
<td>25.7</td>
</tr>
</tbody>
</table>

(source-C.B.K)

### 2.3.3.2. BANK ACCEPTANCES.

It is a time draft drawn in a Bank. But such a draft becomes a bankers acceptance only when the drawee bank acknowledges its obligation to pay the face value by stamping 'Accepted' across the face of the draft and sign it. When accepted especially by a well known bank, the draft bankers acceptance is eligible for trading in the money market where it is sold at a discount from its face value.
Acceptances often arise from the process of financing foreign trade commonly transactions involving importers and exporters whose credit standing is unknown to each other. It involves an internationally known bank substituting its credit standing for that one of the parties to a foreign trade transaction by assuming the obligation to pay the amount involved at a given time in future.

2.3.3.3 BANK REVOLVING CREDIT LINES.

A revolving credit line is an agreement between the firm and its bank or (a syndicate of banks if the credit is large enough) with a fixed maturity. Specifying the bank that will provide funds at the borrowers option up to a specified maximum amount. These credit lines are typically used to meet short-term seasonal needs, to provide a liquid reserve (a buffer for uncertain cash flows) and to provide temporary (bridge) financing before longer term financing agreements are put in place.

2.3.3.4 TRADE CREDIT.

This is a form of financing where businesses are allowed to purchase stock or other consumables on credit and pay later after a specific period of time. Trade credit is a very common finance method and usually companies have a credit policy which allow customers to get cash discount when they pay within a stipulated time period. For example a credit policy of 2/10 net 30 means that a customer will get 2% discount if he pays within the first 10 days after goods are delivered otherwise if he does not pay within the 10 days he should pay within 30 days without any discount.
A C.P is a short term negotiable instrument (bills of exchange, cheques and promissory notes), rising out or commercial transactions, ie instruments consisting direct obligations of business firms that are sold through Brokers/agents to banks, corporations and investors seeking liquid investments. Other writers ie Spiro (1982), Knott (1999), Dry 1998 et al have termed it as an unsecured promissory note issued by major corporation to fund working capital requirements. The paper is issued by good credit rating companies to institutional investors or other individual investors who have excess financial resources promising to pay back the principal plus accrued interest on maturity (in most cases 30 or 91 days).

C.P allows the borrower to by pass the traditional bank borrowing channels and raise funds more directly from the investor. The first requirement of a fully functioning C.P market is that the investor be able to form a reasonable view of the credit risk the paper represents. This calls for the availability of an independent credit rating agency which would rate the various companies (These are usually found in developed money market economics). Unfortunately in Kenya, the investors have to make up their minds on the credit risk involved in the issues due to the absence of an independent credit rating agency. (This role is played by the C.M.A and the series of bank guarantees which back most of the issues).

Felix (1987) asserts that C.P is the most important short term borrowing for large US firms, otherwise it is evolving and steadily expanding market both in the US and other markets.
In 1966 and again in 1969, corporations seeking financing were encouraged by their banks to use the commercial paper market as a substitute for bank facilities which were being restricted by monetary policy. The result was that between 1965 and 1970 commercial paper outstanding in the US market grew by about 400 percent. Once introduced to the market, corporations adopted it as a permanent major supplier of short term financing. (Hamberg 1986)

Like majority of money market instruments, most C.P is sold on a discount basis. The issuer promises to pay the face value of the security on maturity date. On the date of sale, the user receives less than the face value, the difference representing the implicit interest rate. Since most C.P is ‘Rolled over’ (re-issued) at maturity, backup credit is required in case of next issue of paper cannot be sold. The backup credit is usually a bank line of credit. The amount of these lines which usually exceeds the outstanding C.P borrowing must be reported to the rating agencies quarterly.

The C.P transaction starts when the issuer sells the C.P note to an investor for an agreed upon rate, principal and maturity date. The issuer then contracts with the issuing bank to prepare the note and to deliver it to the investor’s custodial bank. The investor then instructs its bank to wire funds to the user upon delivery and verification of the C.P note. Upon presentation of the note the funds are transferred to the issuers bank. The note is held at the custodial bank until the maturity date. On maturity date the note is returned to the users’ paying agents (which could be different from the issuing bank) and funds (typically the face value of the note) are transferred to the investor.
Literature on C.P is not a lot, but all the same. Some writers have written some issues on C.P as a short term source of funding. Rapin and Martino (1987) in their paper, ‘Getting aggressive in trading commercial paper’ have described how companies could aggressively sell their C.P to investors to reap maximum benefits from it. Shlman. J. et al (1989) in their article ‘predicting commercial paper rates’ outline how investors can be able to predict the yield from different C.Ps and make a choice based on the one with most returns.

Well (1991) in his paper “Commercial paper enters electronic age” describes the evolution of the C.P to this age of electronic communication. Rouse (1999) in his article the “future of C.P as a short term source of funding” agrees that the development of the C.P has forced Kenyan banks to face up the reality of disintermediation. He continues to say that is unlikely that it has produced market driven pricing for large corporations, but it is unlikely that the C.P will have to be a product of choice for sophisticated borrowers in Kenya. In the immediate future. This he attributes to the fact that the C.P is not a very friendly way of raising finance, because it has to be marketed potentially at each roll over, and that there are pieces of papers to be used and controlled and the price has to be negotiated with each investor. Another reason he gives is the lack of an independent rating agency which effectively requires more of the issues to be backed by bank guarantees.

On the other hand Dry (1998) asserts that the C.P has established itself firmly in Kenya as an alternative to bank borrowing. He argued that the concept of C.P is based on the company’s ability to repay back, (Cash flow position) as opposed to collateral which is
stressed by bank borrowing. The essence of this paper is to try to ascertain whether the C.P has established itself and what determines its development.

### 2.3.3.6 COST SAVINGS OF CP VIS-A-VIS BANK OD.

The C.P is a short term source of finance for companies with good credit rating, to this end it competes directly with bank O.D which is mostly used in the Kenyan market. The C.P supercedes the O.D in cost savings this is because the C.P interest rate is pegged to the treasury bill interest rate and since the C.P is more risky, (since the issues are not backed by government and mostly unsecured). Spiro (1982), the return to investors is higher than obtainable on treasury bills. Singularly its less costly than bank overdraft. Some of these cost savings include upfront savings for example the setting up cost. Whilst a bank overdraft attracts some annual commitment fee. Legal charge on assets attracting some stamp duty, lawyers fees etc. the start up cost for C.P is only the printing cost and placement agent’s fees, which are substantially lower than those of O.D (Dry, 1998).

Interest savings are the most impressive on the C.P vis-a-vis bank O.D. this is because compound interest on bank O.D is calculated after every month hence per year its 12 times while for example the 91 day C.P compound interest is charged 4 times a year resulting to less effective cost of credit than the bank O.D. this is besides the interest rate of C.P which is substantially lower than bank O.D interest rate.
CHAPTER THREE - METHODOLOGY.

3.0 THEORETICAL FRAMEWORK.

Economists define the quantity demanded of a particular product as being a function of several factors. These factors include:

i) The Price of the commodity

ii) The price of other substitute commodities

iii) The consumers wealth/income

iv) Other sociological and economic factors like preference, taste, cultural background etc.

In this study, the product is Commercial Peper and the quantity demanded is the amount of C.P issued to investors. The price of C.P was assumed to be controlled by the treasury bill rate since C.P and T.B are all short term investments to investors and as observed in the market the C.P interest rates is normally pegged to the T.B rate. The price of the other substitute products is given by the Bank Overdraft rate since this is the most competitive source of short term funding to the C.P. The wealth of the company issuing C.P is assumed to be the company’s cashflow position as at the time of issuance.

Thus

\[ D_{cp} = \text{Quantity of C.P demanded/issued} \]

\[ \text{Firm CF} = \text{Company’s cashflow} \]

\[ \text{O.D Rate} = \text{Bank overdraft rate} \]

\[ \text{T.B rate} = \text{Treasury bill rate} \]
\[ \pi = \text{Other factors} \]

Thus:

\[ D_{cp} = f(\text{Firm CF, O.D rate, T.B rate, } \pi) \]

Assuming a Linear Relationship

\[ D_{cp} = \alpha_0 + \alpha_1 \text{Firm C.F} + \alpha_2 \text{O.D Rate} + \alpha_3 \text{T.B Rate} + \pi \]

Where \[ \frac{\partial D_{cp}}{\partial x_i} = \alpha_i \]

\( (x_i \text{ is the level of the } i^{th} \text{ Firm CF, O.D rate and T.B rate}) \)

To effectively analyse the assumed Relationship multiple regression using S.P.S.S. was used.

3.2 RESEARCH DESIGN:

3.2.1 Population of Study.

The population under study was made up of all the companies which have issued commercial paper up to the end of the year 1999 (A list of these companies can be found in the Appendix).

3.2.2 Sampling Strategy.

From the population, a sample of companies quoted in the Nairobi Stock Exchange was drawn. This was due to the availability of financial data and other information as they are required by Company’s Act to publish their Annual report. Quoted companies also form a bigger percentage of the companies which have issued C.P.
However, of all eleven (11) companies sampled only eight (8) companies managed to respond to the questionnaires provided, thus the analysis done later was based on the eight respondents.

### 3.2.3 Data Collection Procedure.

Primary data, through the filling of a questionnaire to the respondents was utilised. This was backed by secondary data which was sourced from C.M.A, C.B.K and financial reports of the companies for the years they have issued C.P. The questionnaire is attached in the appendixes as well as the other secondary data.

### 3.2.4 Data Analysis

Multiple regression analysis was used to determine how the factors identified above relate to the C.P amount issued. Similarly descriptive statistics such as frequencies ranking and means were used. This was done by use of popular statistical package S.P.S.S.

### 3.2.5 Hypothesis

\[
H_0 \quad - \quad \frac{\partial D_{cp}}{\partial \text{FIRM C.F}} = -\text{V}e
\]

\[
H_0 \quad - \quad \frac{\partial D_{cp}}{\partial \text{O.D RATE}} = +\text{V}e
\]

\[
H_0 \quad - \quad \frac{\partial D_{cp}}{\partial \text{T.B RATE}} = +\text{V}e
\]
\[ H_i - \frac{\partial D_{sp}}{\partial \text{FIRM C.F}} = -\text{Ve} \]

\[ H_i - \frac{\partial D_{sp}}{\partial \text{O.D RATE}} = -\text{Ve} \]

\[ H_i - \frac{\partial D_{sp}}{\partial \text{T.B RATE}} = -\text{Ve} \]

Where: Ho ⇒ Null Hypothesis

\[ H_i \] Alternative Hypothesis
CHAPTER FOUR

4.0 DATA ANALYSIS AND RESULTS

The study was aimed at determining the factors affecting demand for Commercial Paper as a short term source of funding for publicity quoted companies. In line with the stated objectives set out in Chapter One only the relevant responses which met the said objectives were considered and analyzed giving the results as below.

4.1.0 FREQUENCY ANALYSIS

4.1.1 TYPE OF BUSINESS

75% of all respondents were found out to be in the commercial and services sector of the Kenya economy. This implies that the services sector need more of short term finance that other sectors thus the cheapest source of funding short term needs should always be emphasized. The rest were industrial oriented companies as shown in the Table below.

<table>
<thead>
<tr>
<th>TYPE OF BUSINESS</th>
<th>FREQUENCY</th>
<th>% AGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td>Agricultural</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Financial</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Commercial and Services</td>
<td>6</td>
<td>75</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8</td>
<td>100</td>
</tr>
</tbody>
</table>

n = 8

Source: Survey
4.1.2 RANKING OF SHORT TERM FINANCING DIFFICULTIES.

From the analysis it is clear that the most difficult and troublesome short term finance need to finance is the payment of interest on loans. Since most of the respondents indicated a heavy use of Bank Overdraft as a major short term financing option, the interest portion of these O.D agreement have taken toll on their financing needs as demonstrated below.

**TABEL 2 - RANK OF SHORT TERM FINANCING DIFFICULTIES.**

<table>
<thead>
<tr>
<th>RANK</th>
<th>TAX PAYMENTS</th>
<th>TRADE CREDIT PAYMENTS</th>
<th>EMPLOYEE SALARIES</th>
<th>PURCHASE OF STOCK</th>
<th>INTEREST PAYMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>1=5</td>
<td>1=5</td>
<td>1=5</td>
<td>1=5</td>
<td>4=20</td>
</tr>
<tr>
<td>4</td>
<td>2=8</td>
<td>0=0</td>
<td>2=8</td>
<td>1=4</td>
<td>1=4</td>
</tr>
<tr>
<td>3</td>
<td>0=0</td>
<td>5=15</td>
<td>1=3</td>
<td>3=9</td>
<td>1=3</td>
</tr>
<tr>
<td>2</td>
<td>2=4</td>
<td>0=0</td>
<td>1=2</td>
<td>1=2</td>
<td>0=0</td>
</tr>
<tr>
<td>1</td>
<td>3=3</td>
<td>2=2</td>
<td>3=3</td>
<td>2=2</td>
<td>2=2</td>
</tr>
<tr>
<td>TOTAL RANK</td>
<td>20</td>
<td>22</td>
<td>21</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>OVERAL RANK</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

n = 8

*Source: Survey*

Payments of trade creditors seem to occupy position number two in terms of difficulty in financing followed by purchase of stock, employee salaries, tax payments in that order.

**KEY:**

- Rank 5 = Most Difficult to finance
- Rank 4 = Fairly Difficult to finance
- Rank 3 = Difficulty to finance
- Rank 2 = Manageable
- Rank 1 = Not Difficult at all
4.1.3 USAGE OF SHORT TERM BORROWING/FINANCING INSTRUMENTS.

During the period 1996 and 1999, 87.5% of the respondents indicated that they have used Bank overdrafts as a short term finance source among other instruments. Similarly, the same percentage (87.5%) used Commercial Paper as a source also. This indicates that these two instruments must have been the major source of funding for the respondents. Other instruments like trade credit were used by 75% of the respondents, 37.5% used accumulated cash while bank acceptances 12.5%. The frequency of their usage is indicated below.

TABLE 3 : USAGE OF SHORT TERM BORROWING INSTRUMENTS

<table>
<thead>
<tr>
<th>RANKING</th>
<th>C.P</th>
<th>T.C</th>
<th>B.A</th>
<th>L.C</th>
<th>A.C</th>
<th>O.D</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>4=16</td>
<td>5=20</td>
<td>1=4</td>
<td>1=4</td>
<td>4=16</td>
<td>4=16</td>
</tr>
<tr>
<td>3</td>
<td>3=9</td>
<td>3=9</td>
<td>0</td>
<td>3=9</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>2=4</td>
<td>0</td>
<td>1=2</td>
<td>1=2</td>
<td>1=2</td>
<td>1=2</td>
</tr>
<tr>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1=1</td>
<td>1=1</td>
<td>1=1</td>
<td>1=1</td>
</tr>
<tr>
<td>TOTAL SCORE</td>
<td>29</td>
<td>29</td>
<td>7</td>
<td>16</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>OVERALL RANK</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

n = 8

Source: Survey

KEY: Rank

4 = Very frequent
3 = Frequent
2 = Rarely
1 = Not used at all

From the analysis, it can be deduced that during the period 1996-1999 was the most frequently used source of short term funding was C.P. This may be attributed to the fact that C.P showed some substantial interest savings as compared to the other sources (as shall be demonstrated later) thus making the respondents to emphasize them.
Trade credit followed while Bank O.D usage was slowed down probable due to their high interest rate. This may be due to the objective of cost cutting by the companies which was emphasized during the period of study occasioned by a bad economic environment, liberalization and globalization of the economics making it hard to compete, thus emphasizing cost cutting.

4.1.4 CONSTRAINTS OF FINANCING

All respondents indicated that high interest rates had during the period of study constrained their financial needs. This is an indicator that during this period, the cost of debt (interest rates) was so high that firms could not either afford to borrow or if they borrowed they has trouble in servicing the same.

### TABLE 4: CONSTRAINTS OF FINANCING.

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Availability of funds</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>High interest rates</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>Failure to repay on time</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>8</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

\[ n = 8 \]

*Source: Survey*

All the respondents indicated that there were funds available only that they were very expensive to obtain.
4.1.5 TIME OF ISSUANCE OF FIRST C.P

From the survey, only one form issued its first C.P during the year 1995, similarly one firm issued its first C.P during the year 1995. The survey also indicates that there was no Commercial Paper issued during 1997, one issue was made during 1998 while majority of the respondents 62.5% first issued their C.P during the year 1999.

As observed from the interview, only 50% of the respondents made another issue apart from the first time. Most of them said that they did not make another issue due to the fact that this market was very new in Kenya and there was a lot of uncertainty about its development. But since majority made their issue during 1999, they indicated that they may make another issue when the need occurs.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FIRST ISSUE</th>
<th>% AGE</th>
<th>2ND ISSUE</th>
<th>% AGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1</td>
<td>12.5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1996</td>
<td>1</td>
<td>12.5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1997</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1998</td>
<td>1</td>
<td>12.5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1999</td>
<td>5</td>
<td>62.5</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8</td>
<td>100</td>
<td>4</td>
<td>50</td>
</tr>
</tbody>
</table>

n = 8

Source: Survey

4.1.6 REASONS FOR ISSUING C.P

All respondents indicated that they issued C.P because it seemed to be cheaper than any other short term source of funding. This is also confirmed by the aspect that all the
respondents said that their cost of borrowing decreased after engaging Commercial Paper as a borrowing instrument.

**TABLE 6 – REASONS OF ISSUING C.P**

<table>
<thead>
<tr>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheaper than others</td>
<td>8</td>
</tr>
<tr>
<td>Easy access to investors</td>
<td>3</td>
</tr>
<tr>
<td>No bank involvement</td>
<td>-</td>
</tr>
</tbody>
</table>

n = 8

*Source: Survey*

Based on the above results, other companies may be encouraged to engage C.P if they want their cost of borrowing to go down.

### 4.1.7 WERE ISSUES GUARANTEED BY A BANK?

37.5% of all the respondents indicated that their C.P issues were backed by a bank guarantee/secured. While 62.5% were not guaranteed. This means that majority of the issuing companies did not need any bank to guarantee them, in other words they met fully the C.MA. requirements and by extending their credit rating was very high thus requiring no guarantor. This is confirmed when most of the respondents indicated that their C.P issues were not at all affected by the absence of an independent credit rating agency. This again means that so long as the requirement of the C.MA. are valid for the C.P issues, an independent credit rating agency is not necessary at this time.
**TABLE 7 – GUARENTEES BY BANKS**

<table>
<thead>
<tr>
<th>Guaranteed</th>
<th>FREQUENCY</th>
<th>% AGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed</td>
<td>3</td>
<td>37.5</td>
</tr>
<tr>
<td>Not Guaranteed</td>
<td>5</td>
<td>62.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>8</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

\[ n = 8 \]

*Source: Survey*

### 4.1.8 RESPONSE BY INVESTORS.

Investors both institutional and individuals responded overwhelmingly to the C.P issue (62.5%) while 37.5% said that the response was excellent. This means that C.P has proved very popular to the investors and thus they are ready to invest in the market for better returns. This may be due to the aspect that during this period, Treasury Bill rate was very high and judging from the respondents who indicated that the C.P interest rate was mainly determined by the T.B rate, C.P is going to be popular with the investor so long as the T.B rate will remain high.

**TABLE 8 – RESPONSE OF INVESTORS**

<table>
<thead>
<tr>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overwhelming</td>
<td>5</td>
</tr>
<tr>
<td>Excellent</td>
<td>3</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>0</td>
</tr>
<tr>
<td>Fair</td>
<td>0</td>
</tr>
<tr>
<td>Poor</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>

\[ n = 8 \]

*Source: Survey*

Determinants of C.P Interest Rate
TABLE 9 - DETERMINANTS OF C.P INTEREST RATE.

<table>
<thead>
<tr>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank O.D Rate</td>
<td>1</td>
</tr>
<tr>
<td>Bank Base Rate</td>
<td>0</td>
</tr>
<tr>
<td>Treasury Bill</td>
<td>7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8</td>
</tr>
</tbody>
</table>

n = 8

Source: Survey

4.1.9 DEFAULT

No company from the respondents has ever defaulted in their C.P obligations. This shows that the companies were able to repay investors both the Principle Amount plus accrued interest on time with no default. This further supports the aspect that C.P is a cheap source of funding for short term purposes and companies are able to cope with the pay-out phase. This also confirms the company’s adherence to a strict reasonable cash flow position as required by the Capital Markets authority.

4.1.10 REQUIREMENTS OF THE C.M.A

37.5% of the respondents felt that the requirements of the C.M.A are an encouragement to the Development of the C.P market in Kenya while the same percentage (37.5%) felt that they are an impediment since smaller companies cannot meet the stringent financial requirements to issue their C.P but they also added that these requirements are necessary since C.P being unsecured note, they are the only source of security to the investor; that the company is in a sound financial base.
4.2.1. RESULTS OF ANALYSIS USING LINEAR REGRESSION MODEL

Linear regression was carried out on the variables and the results are:

- F statistics = 0.47
- R-Square = 0.3222
- Adjusted R-Square = -0.01665

4.2.2. MULTIPLE REGRESSION RESULTS FOR THE VARIABLE STUDIED

TABLE 10 – MULTIPLE REGRESSION RESULTS

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>COEFFICIENT</th>
<th>T-RATIO</th>
<th>BETA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm C.F</td>
<td>-0.389435</td>
<td>-1.011</td>
<td>-0.355438</td>
</tr>
<tr>
<td>TB Rate</td>
<td>443397054.54</td>
<td>1.083</td>
<td>3.7653</td>
</tr>
<tr>
<td>OD Rate</td>
<td>-667702754</td>
<td>-1.086</td>
<td>-3.759</td>
</tr>
<tr>
<td>Constant</td>
<td>9535136258.8</td>
<td>1.139</td>
<td></td>
</tr>
</tbody>
</table>

Linear regression model yielded an F-Statistic of 0.47 which was not significant. It had an R-Square of 0.3222 which means that the variables included in the research model explain 32.22% of the Commercial Paper demand. The implication is that the remaining 67.78% of C.P demand is explained by variables which are not included in the research model.

4.2.3 FIRMS CASH FLOW AND COMMERCIAL PAPER DEMAND.

From the Table of linear regression results, firms cash flow has a co-efficient of -0.389 which means that company’s cash flow impacts negatively on the Demand for C.P. The company will have a high demand of C.P if its cash flow is negative and vice
versa. This supports the hypothesis that cash flow has a negative relationship with C.P demand. The t-ratio of -1.011 is insignificant.

### 4.2.4 TREASURY BILL RATE AND C.P DEMAND.

The Treasury Bill rate has a co-efficient of 443397054 which is positive and it means that the higher the Treasury Bill rate the higher the Demand for commercial paper. This has been proved positively because the growth on the C.P market has been fertilized by the high treasury bill rates. T.B rate has a t-ratio of 1.083 which is insignificant.

### 4.2.5 BANK O.D RATE AND C.P DEMAND.

The bank O.D has coefficient of -667702754, this means that bank O.D rate has a negative relationship with the C.p amount issued. This does not support the researchers hypothesis.

The above relationship can be summarized in a linear regression model as:

\[ D_{cp} = -0.389435FIRM.C.F + 44337054TBRATE - 667702754OD RATE + 9535136268 \]

### 4.3 CORRELATION AMONG VARIABLES.

The correlation among variables in the Research Model was generally low with the highest correlation being observed between Bank overdraft rate and treasury bill rate of 0.9951 or 9951%. Followed by correlation between overdraft and Commercial Paper amount as given in the Table below.
### TABLE 11: CORRELATION AMONG VARIABLES

<table>
<thead>
<tr>
<th></th>
<th>FIRM C.F</th>
<th>C.P</th>
<th>T.B RATE</th>
<th>O.D RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIRM C.F</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.P</td>
<td>-0.4348</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T.B RATE</td>
<td>-0.2008</td>
<td>0.0956</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>O.D RATE</td>
<td>-0.1797</td>
<td>0.0511</td>
<td>0.9951</td>
<td>1.000</td>
</tr>
</tbody>
</table>

### SUMMARY OF FINDINGS

The result of the correlation analysis is shown in Table 11. A negative correlation was found to the demand rate and the capital flows of input. In other words, the more the capital flows into a country, the lower the demand rate. This negative correlation may be supported by an argument that the increase in the demand rate does not necessarily depend on the demand rate but rather on the capital flows. Therefore, the demand rate may not very much be dependent on the capital flows.
5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS:

The Chapter covers the summary of research findings, the conclusions drawn there from and the recommendation arising out of these.

5.1 SUMMARY OF FINDINGS.

The result of the study revealed that the company's cashflow position was negatively related to the demand for Commercial Paper. This means that companies with problems of their cashflow should always engage C.P as a short term source of funding.

On the same breath, treasury bill rate was found to have a positive relationship with C.P Demand implying that the high rates of T.B encourages companies to engage C.P. This situation has been evidenced in Kenya during the period under study. Finally Bank overdraft rate was found to have a negative impact on C.P this contradicted the hypothesis and this may be supported by an argument by Awuondo (1997) who states that this rate is not necessarily pegged on the T.B rate other factors mostly risky factors tend to determine the O.D rate which may not very much be correlated to T.B rate.

Other findings are that most companies which prefer C.P as a funding source are commercial and services oriented. This may be explained that they need a lot of consumables or a lot of short term transactions take place necessitating the engagement of a cheap source of funding. Other funding indicated that interest rates was the main inhibiting factor in their acquisition of finance. This is supported by the observation that most of the companies engaged bank overdraft during the years under review when bank
O.D rates were very high. At the same time C.P was mostly used as a short term funding method because of the cheapness which was discovered by the various companies. This was also supported by the reduction of the frequency of the use of Bank O.D as compared to the frequency of use of C.P.

The research findings also point out the fact that the requirements of the C.M.A are very necessary in the development of the C.P market at the same time they provide security to the investors since C.P is mostly unsecured. This is also supported by the fact that the absence of an independent credit rating agency did not affect their C.P issues as the requirements of the C.M.A. also to be noted is the popularity of the C.P to the investors which was found out to be very good, this may be due to the fact that it seems to offer better returns to them as compared to other investments. This may be supported by the fact that the C.P rate of return is pegged to the T.B rate which in Kenya has been offering a higher returns to investors in Kenya as Otieno (1998) argues that the return of common stock have been less than the T.B rates this had made the T.B very attractive in the eyes of investors.

A bigger percentage of the issues of C.P had not been backed by bank guarantee. This meant that the requirements of the C.M.A were met in most cases and it confirms the argument that the companies with a stable financial base are the ones which should issue C.P since their stability is security enough to the investors. This is confirmed by the fact that so far no company has defaulted in their C.P contract obligations meaning they have been paying back investors their principal and accrued interest at maturity dates.
5.2.1 RECOMMENDATIONS.

Following the previous discussion of the research findings, the researcher recommends the following:

1) Companies which have a good financial standing and have not issued C.P are encouraged to do so as it has proved to be cheaper than other locally available source of short term finding and hence help boost the Kenyan monetary market.

2) The Government should strive to reduce the level of its domestic debt which has been costly to service through provision of higher T.B rate. This has had a negative effect on the general economic situation as most private sector has been “Crowded out” and the funds which have been used to invest in T.B’s could be used for development financing/industrial activity financing.

3) It is further recommended that the C.M.A should strengthen its requirements or maintain the ones in existence as long as there is no independent credit rating agency in Kenya since these stringent financial requirements have served their purpose of protecting the investor in C.P. This is not to mean that they ignore the encouragement of the development of an independent credit rating agency.
5.2.2 FOR FURTHER RESEARCH

The researcher recommends further studies to be done as under;

The research covered only companies which are listed in the Nairobi Stock Exchange. While there are other companies which are not members of N.S.E and have issued C.P, its important to encompass all of them so as to get a clearer picture of the C.P market in Kenya.

The research also identified only three factors which affect C.P market, it is recommended that further research should be undertaken to identify other factors which may not have been captured by the model used in the research.

5.3 LIMITATIONS OF THE STUDY.

The limitations of this study include:

1) The time available to undertake and complete the study was short which made other factors which could be taken into consideration be left out due to non availability of time coupled with some other logistical and financial drawback. This makes the generalizations drawn from this study loose their impact.

2) The sample under the study was almost half of the population, this ignored a big chunk of the companies which have issued C.P making the results of the study look weak.
BIBLIOGRAPHY


34) Schwarz, E. et al. (1986): Financial Futures – “Fundamentals Strategies and
Applications" Irwin inc.


APPENDIX 1

A LIST OF COMPANIES WHICH HAVE ISSUED C.P.

1) AGIP (K)
2) Athi River Mining
3) B.A.T
4) Bidco Co. Ltd
5) Brooke bond Kenya Ltd
6) Caltex Oil
7) CMC Holdings Ltd
8) East African Industries
9) Express (K) Ltd
10) General Motors (K) Ltd
11) Industrial Promotion Services (IPS)
12) Kenya Shell
13) KPLC
14) Lonrho Motors
15) Mabati Rolling Mills
16) Nation Media Group
17) Rhone Poulenc.
18) Total (K) Ltd
19) TPS Serena
APPENDIX 2

QUESTIONNAIRE:

This questionnaire is aimed at collecting data on the performance of the commercial paper as a short term source of finance which will aid in the determination of the future likely trend of the paper as a short term source of funding.

The information you give in this questionnaire is for academic purposes only and will be treated with ultimate confidentiality.

TICK THE ANSWER YOU HAVE SELECTED.

Q1. Name of company (optional) .................................................................

Q2. Type of business ................................................................. Industrial

................................................................. Agricultural

................................................................. Financial

................................................................. Commercial and services

................................................................. Others (Specify)

Q3. What has been the most difficult financing need of the company?

................................................................. Working capital needs

................................................................. Long term financial needs.

Q4. How have you been financing your long term financial needs?

................................................................. Share issue

................................................................. Capitalization of reserves (Retained Earnings)

................................................................. Long term bank loans

................................................................. Debentures

................................................................. A combination of either of the above

................................................................. Others (specify)
Q5. How have you been financing your working capital requirements?

- [ ] Bank overdrafts
- [ ] Lines of credit
- [ ] Bank acceptances
- [ ] Internal sources (Accumulated cash)
- [ ] A combination of either of the above

Q6. What problems did you encounter in your financing needs?

- [ ] High interest rates.
- [ ] Non availability of funds.
- [ ] Failure to repay back on time.
- [ ] Any other (specify).

Q7. When did you issue your first commercial paper?

Date: .......................... Amount: ..........................

Q8. Have you ever made any other issue apart from the very first one?

- [ ] YES
- [ ] NO

(a) If yes, when?

Date: .......................... Amount: ..........................

(b) If no, give reason(s).

.................................................................
Q9. what made you to issue a Commercial Paper as compared to the other short term borrowing instruments?

- [ ] Cheaper than others
- [ ] Easy access to investors
- [ ] Has no bank involvement
- [ ] Any other (specify)

Q10. Have all your issues been backed by a bank guarantee/secured?

- [ ] YES
- [ ] NO

Q11. How was the response by the various investors after you issued your first CP.?

- [ ] Overwhelming
- [ ] Excellent
- [ ] Satisfactory
- [ ] Fair
- [ ] Poor

Q12. What do you consider are the main determinant of the CP. Interest rate?

- [ ] Bank overdraft rate
- [ ] Bank lending (base) rate
- [ ] Treasury bill rate
- [ ] A combination of any of the above (specify)

Q13. Have you ever defaulted in your CP. contract obligations?
YES ☐ No. ☐

If Yes give reasons...

Q14. How did your overall cost of borrowing move after engaging commercial paper?

Increase ☐
Decrease ☐
Constant ☐

Q15. Do you consider the requirements of the capital markets authority an impediment or an encouragement to the development of the commercial paper market?

Q16. How has the absence of an independent credit rating agency affected your commercial paper issues?

THANK YOU FOR YOUR CO-OPERATION.
## APPENDIX 3

### SECONDARY DATA

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CASH FLOW (KSH)</th>
<th>T.B RATE (%)</th>
<th>OD RATE (%)</th>
<th>CP AMOUNT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>(160,861,000)</td>
<td>22.9</td>
<td>28.3</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>(670,191,000)</td>
<td>22.15</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>855,614,000</td>
<td>23.2</td>
<td>29.7</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>(495,044,000)</td>
<td>13.3</td>
<td>22.36</td>
<td>700,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>FIRM 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>151,141,000</td>
<td>22.9</td>
<td>28.3</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>340,800,000</td>
<td>22.15</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>185,700,000</td>
<td>23.2</td>
<td>29.7</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>224,400,000</td>
<td>13.3</td>
<td>22.36</td>
<td>500,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>FIRM 3</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>(28,730,000)</td>
<td>22.9</td>
<td>28.3</td>
<td>1,500,000,000</td>
</tr>
<tr>
<td>1997</td>
<td>(30,948,000)</td>
<td>22.15</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>(41,954,000)</td>
<td>23.2</td>
<td>29.7</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>(44,485,000)</td>
<td>13.3</td>
<td>22.36</td>
<td>1,000,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>FIRM 4</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>3,796,898,000</td>
<td>22.9</td>
<td>28.3</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>1,781,768,000</td>
<td>22.15</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>187,070,000</td>
<td>23.2</td>
<td>29.7</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>(1,254,928,00)</td>
<td>13.3</td>
<td>22.36</td>
<td>1,500,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>FIRM 5</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>(3,909,886)</td>
<td>22.9</td>
<td>28.3</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>104,827,000</td>
<td>22.15</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>44,908,000</td>
<td>23.2</td>
<td>29.7</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>48,501,000</td>
<td>13.3</td>
<td>22.36</td>
<td>150,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>FIRM 6</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>477,000</td>
<td>22.9</td>
<td>28.3</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>48,640,000</td>
<td>22.15</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>58,764,000</td>
<td>23.2</td>
<td>29.7</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>19,751,000</td>
<td>13.3</td>
<td>22.36</td>
<td>100,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>FIRM 7</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>68,727,253</td>
<td>22.9</td>
<td>28.3</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>52,115,160</td>
<td>22.15</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>168,175,000</td>
<td>23.2</td>
<td>29.7</td>
<td>100,000,000</td>
</tr>
<tr>
<td>1999</td>
<td>209,743,000</td>
<td>13.3</td>
<td>22.36</td>
<td>100,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>FIRM 8</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>1,051,293,000</td>
<td>22.9</td>
<td>28.3</td>
<td>500,000,000</td>
</tr>
<tr>
<td>1997</td>
<td>469,063,000</td>
<td>22.15</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>319,914,000</td>
<td>23.2</td>
<td>29.7</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>131,716,000</td>
<td>13.3</td>
<td>22.36</td>
<td>-</td>
</tr>
</tbody>
</table>
28 February 2000

TO WHOM IT MAY CONCERN

RESEARCH PROJECT BY D53/8233/98 – MUNYWOKI JOHN MUSYOKA

The above named is a second year MBA student at the Faculty of Commerce.

He is carrying out a research project entitled "FACTORS AFFECTING THE DEMAND FOR COMMERCIAL PAPER FOR PUBLICLY QUOTED COMPANIES IN KENYA".

The information obtained in the course of this project will be used for academic purposes only and will be treated with utmost confidentiality.

Please provide him with the necessary assistance.

Thank you.