CONSTRAINTS TO THE GROWTH OF COMMERCIAL PAPER AS A SOURCE OF SHORT TERM FINANCE FOR LISTED COMPANIES

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION OF KENYATTA UNIVERSITY

OCTOBER 2012
DECLARATION

I declare that this research project is my original work and has not been submitted for examination in any university.

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My heart is full of thanksgiving to God I know during the hard and trying moments you have seen me through during times of plenty and success to reminded me to be humble.

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DEDICATION

This paper is dedicated to my mum Mrs. Juliana Githambo, brothers and sisters who have been a source of inspiration and support both financially and morally and their strong held believe in education.

Regards to my dearest fiancée Aileen Mwari for her continued support and encouragement.
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DEFINITION OF TERMS

**Commercial paper** - short term unsecured promissory note issued by creditworthy issuers.

**Interest rate swap** - an agreement between two parties to exchange interest rate payment over some specified time period on a certain amount of unexchanged principal.

**Swap** - arrangements that provides issuers with flexibility to rapidly restructure their liabilities, to hedge risk arising from short term financing program.
LIST OF ABBREVIATIONS

ABCP - Asset Backed Commercial Paper
CBK - Central Bank of Kenya
CMA - Capital Market Authority
CRB - Credit Reference Bureau
GCR - Global Credit Rating
NSE - Nairobi Securities Exchange
IPA - Issuing and Paying Agent
CRA - Credit Rating Agency
ABSTRACT

The purpose of this study was to investigate constraints to growth of commercial paper market in Kenya with reference to listed companies. Conceptual framework of the study looked at the independent variables which included issuance requirements by CMA, issuance costs and the effects of credit rating agencies while the dependent variable was growth of commercial paper market. Innovations in the commercial paper market that could popularize it as a source of short term finance was also looked at. The study population comprised of forty seven (47) listed companies in Kenya with a minimum authorized and fully paid up share capital of Kshs 50 million and net asset of Kshs 100 million as per the requirement of CMA. The study used a descriptive research design and studied the entire population. Primary data was collected using semi structured questionnaires that were self-administered to the respondents. Secondary data was obtained from past studies on the topic, CMA reports, CBK reports and published financial statements. Data analysis techniques included the use of percentages and tables for easy analysis and interpretation. A multiple regression equation was used to establish the relationship among the dependent variable and independent variables.
CHAPTER ONE
INTRODUCTION

1.0 Introduction
This chapter contains the background of commercial paper market and some of the constraints to its growth among the listed companies in Kenya. It also contains the problem statement, the research objectives and research questions. It concludes with the significance, justification, the scope and limitation of the study.

1.1 Background
Commercial paper is a short term unsecured promissory note issued by creditworthy issuers. It is a low cost alternative to bank loans and overdrafts (Hahn, 2003). It is a short term capital market instrument that provides a debt effective and flexible source of funding. Like commercial bonds, commercial paper is an instrument issued for the purpose of raising funds directly from investors without intermediation of banks.

The commercial paper market first developed in the United States during the nineteenth century when America's industrial revolution was starting and the fractured localized banking industry was ill-equipped to meet the liquidity needs of emerging industrial corporations. In the twentieth century, consumer finance companies turned to commercial paper to finance their lending. They also introduced Asset Backed Commercial paper, which is securitized with loans or other receivables held in a special purpose vehicle. (Nandkumar and Michael, 1994).

The commercial paper market has been very active with commercial paper outstanding totaling to $538 billions at the end of 2000. (Hatton, 2003). At the beginning of 2007, it was the largest U.S short term debt instrument with more than $1.97 trillion outstanding. Most of the commercial paper was issued by the financial sector which accounted for 90 percent of all
commercial paper outstanding. It wasn't until the 1980s that commercial paper was first issued outside the United States, reflecting a global trend towards disintermediation of banks.

The commercial paper market also exists in Europe, although the market is smaller. In January 2007, according to Euroclear a consortium of the main European securities depositories total value of commercial paper outstanding in that market amounted to $691 billion. In many ways, the commercial paper market in Europe is similar to that in the United States; the key difference is that offerings are often denominated in currencies other than the U.S. dollar. Nevertheless, many large issuers are active in both markets and issue simultaneously in Europe and in the United States.

In India, since the beginning of 2002 the volume of commercial paper has significantly increased and has continued to provide a major source of short term financing for working capital through the capital market by eligible corporate issuers, mostly industrial and commercial companies because of the large surplus funds available from the banking sectors. (IM Pandey, 2005).

In Kenya commercial paper can be traced to 1994 when Brookbond made the first issues in the corporate sector. The guidelines for issuance of commercial paper were finalized in 1997 by central bank of Kenya. Commercial paper was explored as an alternative for short-term working capital, initially targeting listed companies. In absence of credit rating agencies in Kenya, the CBK undoubtedly reasoned that the investors could assess the credit worthiness of the issuers themselves, as the listed companies published their financial statement periodically. The CMA issued a revised rule in April 2000 and these allowed a wider range of companies to issue commercial paper irrespective of their listing status subject to meeting rules and regulation laid out in the CMA guideline (The CMA Annual Report 1999/2000).
Companies which do not meet the CMA requirements can however issue commercial paper but with a backing guarantee. Guarantor institutions are often large banks or insurance companies and must meet the CMA guidelines. Some companies, currently issuing Commercial Paper in the Kenyan market, have been credit rated by Global Credit Rating Company. Credit Rating agencies provide independent third-party analysis and review of corporations and their credit risk. (Rose and Roline, 2005). Credit Reference Bureau Africa and Metropol East Africa Limited focuses on credit reporting to banks and institutions licensed under the Banking Act and are licenced by the Central Bank of Kenya.

**Table 1 Turnover of Commercial Paper**

<table>
<thead>
<tr>
<th>period</th>
<th>New issues approved commercial paper</th>
<th>Renewals during the year</th>
<th>Outstanding value at the end of the period (billions)</th>
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<tbody>
<tr>
<td>2005</td>
<td>1</td>
<td>5</td>
<td>1.64</td>
</tr>
<tr>
<td>2006</td>
<td>6</td>
<td>2</td>
<td>2.13</td>
</tr>
<tr>
<td>2007</td>
<td>2</td>
<td>6</td>
<td>2.94</td>
</tr>
<tr>
<td>2008</td>
<td>2</td>
<td>5</td>
<td>2.54</td>
</tr>
<tr>
<td>2009</td>
<td>3</td>
<td>4</td>
<td>2.03</td>
</tr>
<tr>
<td>2010</td>
<td>1</td>
<td>1</td>
<td>1.90</td>
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Source: CMA Annual Reports (2005-2010)

One of the key financial sectors that the Kenya’s vision 2030 for financial services seeks to rely on in order to create a vibrant and globally competitive financial sector promoting high-levels of savings and financing for Kenya’s investment needs will be through deepening financial markets by raising institutional capital through among others, commercial paper markets (Kenya’s vision 2030 publication).
1.2 Statement of the Problem

Commercial paper offers attractive financing option in comparison to bank credit. Usually, interest yield on commercial paper is less than bank rate of interest. Companies in the NSE that substitute short-term bank loan with the commercial paper experience some significant interest saving of an average of 5.85%. (Njogu, 2003).

Commercial paper offers a cheaper source of financing for current expenditures. Many companies have been put into receivership and others wound up due to their inability to service their loans. An opportunity for such companies to source cheaper sources of funds by issuing commercial paper can be explored since they need finance to grow and expand (Fidelity Investment Guidelines, 2000)

Rose and Roline, (2005) found out that commercial Paper interest rates are set below the prevailing bank overdraft rates because the funds are raised directly from investors avoiding the high cost of bank services (or intermediation). Disintermediation, or avoiding expensive bank services, allows corporations to save costs while paying high premiums to investors.

The Kenyan commercial paper market has not grown rapidly despite the advantages that commercial paper has and many companies in Kenya continue to rely on bank overdraft and other short term sources of finance for their working capital. This attracts high costs and high interest rates more so during this period of study. This has become a laborious task for companies wishing to borrow short term finances for their needs more so those with cost minimization strategies on ways of raising sources of finance and hence reduces their profitability and potential for expansion. Therefore this study sought to find out the constraints to the growth of commercial paper market in Kenya.
1.3 Research Objectives

1.1.1 General Objective

The general objective of the study was to identify the constraints to growth of commercial paper market in Kenya with reference to listed companies.

1.1.2 Specific Objectives

i) To find out the effects of issuing requirements by Capital Market Authority on the growth of commercial paper market in Kenya.

ii) To establish the effects of the cost of issuing commercial paper on its growth in Kenya.

iii) To find out the effects of credit rating systems in Kenya on the growth rate of commercial paper market.

1.4 Research Questions

This study attempted to answer the following research questions emerging from the domain of the study problem;

i. What are the effects of issuing requirements by Capital Market Authority on the growth of commercial paper market in Kenya?

ii. What effects does the cost of issuing commercial paper have on its growth rate in Kenya?

iii. What effect does credit rating systems in Kenya have on the growth rate of commercial paper market?

1.5 Significance of the Study

Managers

This study would help managers attain knowledge on financing their working capital expenditure cheaply through the commercial paper issues, which would translate to more profit hence good remuneration packages.
Investors
This study would also offer the investors a variety of alternative investment to bank deposits and government securities like bonds.

Reader
The research would be expected to enlighten the reader on the constraints to growth of commercial paper market in Kenya.

Borrowers
They would be able to use the information to explore cheaper financing option instead of depending on bank loans.

1.6 Justification of the Study
Many researchers had shown that Commercial paper offered attractive financing option in comparison to other short term sources of finance. For example, a study carried out by reserve bank of India (2000). Thomas Hahn, (2003) has shown the advantage of commercial paper over other financial instruments but only a few researches have been done on the constraints that companies face while issuing commercial paper. This necessitated a need to carry out this study to identify the constraints to the growth of commercial paper as a source of short term finance for listed companies.

1.7 Scope and Limitations of the Study
The study focused mainly on analyzing the constraints to the growth of commercial paper market in Kenya. The study sought information from the listed companies in Kenya.

The limitation of this study was scanty empirical research literature since not much has previously been done about commercial paper in Kenya.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This research intended to investigate the constraints to the growth of commercial paper market by listed companies. The chapter consists of literature review which provides proper understanding of commercial paper; empirical studies have also been discussed. The materials were derived from research works by other researchers, reports from CMA and CBK, published financial reports and Journals.

2.2 Empirical Research
Musyoka (2000) carried out an investigation into the factors which affected the demand for commercial paper as a short term source of finance for publicly quoted companies and found out that company’s cash flow, interest on bank overdraft and the treasury bill rate significantly affected the demand for commercial paper. Treasury bill demand had a positive relationship while bank overdraft rate was found to have a negative relationship with the demand of commercial paper. The research also indicated that the cost of borrowing of all companies studied decreased after engaging commercial paper. Treasury bill rate was found to affect the commercial paper interest rate. In light of the research findings, which reveal that commercial paper is a low cost borrowing instruments, it was suggested that companies with a good credit rating or companies with a strong financial base should engage it 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 from crowding out.

Njogu (2003) investigated about the price impact of commercial paper issue announcements and found out that when a company issues commercial paper, it taps into an otherwise
untapped market this consequently increases its operational base and if this is the case revenues of the company goes up which subsequently impacts positively on a company’s financial performance. The incremental interest savings should result in increased cash flows for the firm possibly translating to higher dividends, more investments and many more benefits for the investors.

Mbugua (2003) carried out an investigation of the hindrances to the growth of commercial bond market in Kenya and found out that some of the factors included time taken for approval, regulations by the Capital Market Authority and Nairobi Securities Exchange and low level of awareness on the markets’ operations. It would be of interest to find out whether commercial paper issuers are often faced by similar problems too.

Wanjiku (2006) carried out investigations into the factors hindering the development of the Commercial Paper in Kenya for both listed and non listed companies in Kenya and found out that the major hindrance was the lengthy approval time by Capital Market Authority and Nairobi Securities Exchange. Other factors included lack of awareness about the advantages accruing from the issue of commercial paper, unwillingness from the management to issue commercial paper and that the costs of listing and arranging were far too high to attract new entrants to the commercial paper market.

Baiya (2011) did an investigation on the effects of commercial paper issues on company’s financial performance and found out that all aspects of liquidity, profitability and long term solvency that were analyzed for the companies under study portrayed positive effects using the year immediately before commercial paper issue as the base year hence evidence of improved liquidity, profitability and long term solvency and subsequently financial performance for all companies under investigation.
2.3 Commercial Paper Market Regulation

In the U.S. public capital markets play a vital role in the U.S. economy. From the perspective of a commercial paper issuer, one benefit of commercial paper is that the issuer can avoid registration under the securities Act of 1933, which is the set of rules that requires any firm issuing securities to provide a description of the company's properties and business, of the security itself, and of corporate management, along with financial statements. Registration is generally considered an expensive and lengthy process. Most commercial paper is issued under Section 3(a) (3) of the 1933 Act which exempts from registration requirements short-term securities as long as the maturity of commercial paper is less than 270 days, notes must be of a type not ordinarily purchased by the general public and that the proceeds from commercial paper issues to be used to finance current transactions. The exemption requirements have been a factor shaping the characteristics of the commercial paper market. (Hahn, Cook, and Laroche, 2001).

As an alternative to section 3(a) (3), issuers can also claim an exemption from registration under section 4(2) which restricts the sale of commercial paper to accredited investors and in exchange allows issuers to use proceeds to finance long term assets. Issuers can also claim exemption under section 3(a) (2) which requires commercial paper to be fully supported by a bank guarantee (Fitch Ratings, 2001).

Europe capital market authorities focus in building expertise in regulation of capital market. Some of the rules include; Security to be listed must be freely transferable and not subject to any restriction on marketability or pre-emptive rights, At least 20% of the share must be held by not less than 300 shareholders excluding employees of the company following the public share offering.
It's well appreciated in Asia that an effective regulatory and supervision framework for the bond market, intermediaries, institutional investors and other market participants is required to foster the development of commercial paper market. Such framework should provide for adequate investors protection and business practice or codes of conduct that reduce systematic risk. This requires clearly defined market rules and high prudential standards and governance principle that recognize the importance of fiduciary obligations. To be able to harmonize the regulatory frameworks of the countries that have different regulatory models and are at different stages of market development it will require a high level of political development, a more elaborated and detailed review of securities laws and regulation of the country. This is a major challenge as the process takes a considerable amount of time and resources. (Dalla 2003).

In Kenya capital market regulation 2002 prescribe the eligibility requirements for companies listed under the different market segment at NSE. It also provide the continuous reporting and disclosure requirements of listed companies. For a company to issue commercial paper, it has to have a paid up share capital and reserve of not less than Ksh 50 million. If the minimum paid up share capital is not met, then the issuer should obtain from a bank or any other approved institution a financial guarantee to support the issue. The issuer should have made profit at least two of the last three financial periods preceding the application for the issue. The total indebtedness including the new issue of bond should not exceed 400% of the company net worth (gearing ratio 4:1 at the date of the latest balance sheet). The funds from operations to total debt for three trading periods preceding the issue should be maintained at a weighted average of 40% or more. The minimum size of commercial paper is Ksh 1 million. (Capital market authority annual report 2003).

From the above rules and regulations it's clear that the regulation governing the issuance of commercial paper and the requirements are too rigid. Companies that are upcoming may not
be able to issue commercial paper due to the requirements that are needed by NSE and the CMA. The CMA strategic plan (2002-2005), spell out the various ways of revitalizing the stock market. Among them is the development of new financial products, establishment of a facilitative legal and regulatory framework and establishing an integrated East African Capital market. It’s quite evident that none of these issues have been addressed. In the past there has been conflicting policy statement and the information from the ministry of finance, the central bank and the capital market authority. Market players have interpreted these as lack of government support. In this regards the study recommend that there is need for harmonization of capital market policies and all issue concerning them. (Kibua et al 2001).

2.4 Cost of Issuing Commercial Paper

2.4.1 Cost for hiring an Issuing and Paying Agent

These are fees paid to party responsible for issuing commercial paper, either electronically or in certificate form, and repaying maturing commercial paper. This role is documented in an Issuing and Paying Agency Agreement, sometimes called a Depositary Agreement. This role is more frequently performed by a third-party institution. Commercial Paper is repaid at maturity when presented to the IPA for repayment with the holder of record at maturity based on payment instructions. The IPA typically has working arrangements with one or more of the electronic clearing systems so that it can administer these activities through those systems. The duties of the IPA are similar to those of a trustee. (Everett Rutan 2003).

Commercial paper is issued either via a dealer or directly by a corporation that needs to raise capital. In August 2006, about 80 percent of commercial paper was issued by dealers and the remaining 20 percent by corporations. Dealers charge fees of 5 to 12.5 basis points for issuing commercial paper; the fees vary according to the issuers’ credit history, issuance size,
and market conditions. Dealers typically advise issuers on pricing and they purchase positions that do not sell in the market (Stigum and Crescenzi, 2007).

2.4.2 Cost for making arrangements with Credit Rating Agency

It’s the cost incurred to obtain the credit rating for issuance of Commercial Paper to all eligible participants. The credit rating agency has the discretion to determine the validity period of the rating depending upon its perception about the strength of the issuer. Accordingly, CRA shall at the time of rating, clearly indicate the date when the rating is due for review. While the CRAs can decide the validity period of credit rating, CRAs would have to closely monitor the rating assigned to issuers vis-a-vis their track record at regular intervals and would be required to make its revision in the ratings public through its publications and website. (Stephany Bushweller, 2003).

An issuer should obtain a commercial paper rating from at least two major rating agencies, to enable his notes to enjoy the broadest possible distribution and marketability. This rating must be the highest available in order to assure rollover and continued access to the commercial paper market. There are 4 companies that evaluate the risk of default of issuers and summarize their evaluation in the form of rating: Moody’s investor’s service, Standard and Poor’s corporation, Duff and Phelps credit rating Company and Fitch investors’ service. (Tinsley 2001)

2.4.3 Backups Liquidity

Commercial paper issuers maintain access to funds that can be used to pay off all or some of their maturing commercial paper and short-term debt. These funds are either in the form of their own cash reserves or bank line of credit. Rating agencies requires evidence of short-term liquidity and will not issue a commercial paper rating without it. The highest-rated issuers can maintain liquidity back up of as little as 50per cent of commercial paper
outstanding, but firms with less than a high A1-P1 rating generally have to maintain 100 per cent backup (Hahh 2003)

2.4.4 Credit Enhancement

While backup lines of credit are needed to obtain a commercial paper rating, they will not raise the rating above the underlying creditworthiness of the issuers. Issuers can significantly increase the rating of their paper, however, by using one of a variety of credit enhancements which lower default risk by arranging for an alternative party to retire the commercial paper if the issuer cannot. Some large firms with strong credit rating raise the rating of the smaller and less creditworthy subsidiaries by supporting their commercial paper with outright guarantees or with less secure “keep well” agreement which describe the commitment the parents make to assist the subsidiary to maintain a certain creditworthiness (Moody’s 2005).

Slovin et al (2001) study found out that announcement of a commercial paper program with a credit enhancement to have been associated with a significant increase in the value of the issuer’s equity, but the announcement of a commercial paper program with no credit enhancement had no impact on the firm value. These credit enhancements differ from backup line of credit in that they provided a guarantee of support, which cannot be withdrawn. Some smaller and riskier firms, which normally would find the commercial paper market receptive, access the commercial paper market using these enhancements.

2.4.5 Credit Rating Agency

The ability to make interest payments and ultimately to repay the loan is indicated by commercial paper rating. A highly rated commercial paper, being less risky, commands a lower interest rate than a paper with low rating. A commercial paper rating is an opinion on the relative investment merit of a commercial paper. The rating represent the rating company’s opinion on the quality of most large corporate and municipal paper issuers as well as notes, bonds and some other securities. In evaluating a commercial paper the rating
agencies are most interested in the issuers financial health, as evidenced by its financial statement. Most rating of any company will change according to the company’s financial status and this affect the performance of the company (Zipf, 2003).

Moody’s investors’ service is the oldest commercial paper rating agency in the world. They have been rating commercial paper since 1909, they have been able to establish themselves around the world in 20 countries (Rhodes, 2004). In Moody’s rating Aaa means highest quality (lowest default risk), Aa means high quality, A means upper medium grade, Baa means medium grade, Ba means lower medium grade, B means speculative, Caa means poor (high risk default) Ca means highly speculative and C means highest default risk. (Mishkin, 2004)

The main problem of developing a credit rating agency is that it is almost impossible to establish a credit rating agency that is commercial viable without a critical mass of commercial paper mass issuers. To be able to create this mass there must be a credit rating agency. Therefore it becomes difficult for credit rating agencies to operate because of lack of customers who are the issuing companies. This is known as the chicken and egg problem. For a developing country to establish a credit rating agency is paramount firstly to establish a sense of credibility of the system, both in terms of independence and reliability, it also involves the existence of commercial paper market of sufficient size, there should be also interest rate differentials based on perceived investment risk. The second and third requirement, which is basically beyond the control of the agency, is to indicate the importance of trimming a market entry and creating the importance of credit rating among the investors, borrowers’ regulators and market intermediaries (Shah, 2002 and 2003).

There are many ways of solving the chicken and egg problem that has been mentioned above. To solve this problem first a local credit agency can be encouraged to expand into other lines, allowing them to cross-subsidize credit rating operation, or to cover a group of countries
large enough to constitute a critical mass. Secondly a credit rating agency can be set up as a department of the national stock exchange or part of a government organ. Thirdly, it’s possible to make credit rating mandatory for those companies that would like to issue commercial paper in the market. This would involve the issuing company to seek for a license to show its credit ratings. This would artificially create revenue streams, which may upset the delicate balance for rating agencies that have been operating as private, profit oriented institution in unregulated market. (Pinkes, 2002).

Investors will demand a higher interest rate; commonly know as risk premium to compensate for the higher credit risk implied by a lower rating. This differentiation of interest rate due to the risk involved in turn helps ensure the efficient allocation of resources by investors while encouraging companies to improve on their financial performance. A functioning credit rating system also encourages greater transparency, increased information flows and improved accounting and auditing practices. In addition the limited number of creditworthiness symbols alleviates security fragmentation. This is because the companies that have similar credit rating are grouped together. This creates the ground for interchangeability of commercial paper issues by different issuers and facilitates arbitrage activities, which results to a more liquid market (Endo, 2003).

2.5 Conceptual Framework

CMA prescribe the eligibility requirements for companies listed under the different market segment at NSE. It also prescribes the conditions that are considered protective to the investors in the commercial paper market, by so doing it hampers many issuers from using commercial paper as a way of financing for the companies which cannot meet those conditions. This was measured by the listing requirements of commercial paper in developed countries.
Commercial paper growth has also been hampered by cost of issuing. This cost includes Credit enhancement costs, Backup lines needed to obtain a commercial paper rating, Cost for making arrangements with credit rating agency and Cost for hiring an Issuing and Paying Agent. This was measured as a fraction of total costs incurred in relation to the total savings accrued by issuing commercial paper as opposed to other short term sources of financing.

An issuer should obtain a commercial paper rating from at least two major rating agencies, to enable the notes to enjoy the broadest possible distribution and marketability. This was indicated by the number of agencies approved and licensed by CMA and CBK.

Figure 2.1 Conceptual framework of the study

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuing requirements</td>
<td>Growth of commercial paper market</td>
</tr>
<tr>
<td>Costs of issuing</td>
<td></td>
</tr>
<tr>
<td>Credit rating systems</td>
<td></td>
</tr>
</tbody>
</table>

Source (Author, 2012)
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter aimed at showing how to achieve the intended objectives under study. It contains the research design, target population, methods of data collection and data analysis techniques and ethical considerations of the study.

3.2 Research Design
Research design refers to that part of the research plan that indicates how cases were selected for observation. This study adopted a descriptive research design. A descriptive study tries to discover answers to who, what, when, where and sometimes how questions. (Cooper and Schindler 2003), it also attempts to capture attitude or patterns of past behavior. It was useful in obtaining the current status of the constraints to the growth rate of commercial paper market.

3.3 Population
The population that was of interest for this investigation was the corporations that were listed in the NSE. There are 47 listed companies in Kenya with a minimum authorized and fully paid up share capital of Kshs 50 million and net asset of Kshs 100 million as per the requirement of CMA (CMA bulletin, 2010).

The researcher used the entire population as the sample. Census was attractive for small populations of 200 or less and hence making it appropriate for this study. Census eliminates sampling error and provides data on all the individuals in the population. (Glenn D. 1992)
3.4 Data Collection Methods
The study was conducted through administration of semi structured questionnaire to respondents through drop and pick method. Questionnaires were easy to administer especially to a widely spread out population. The researcher conducted a pilot study to check for validity. The researcher used SPSS to check for reliability.

3.5 Research Procedures
The source of data to use in the analysis and interpretation included the primary source of data that used questionnaires. A questionnaire is an instrument used to gather data which allows measurement for or against a particular point of view (Orodho, 2005). Secondary source of data was obtained from past studies on the topic, CMA reports, CBK reports and published financial statements.

3.6 Data Analysis Methods
The data was analysed using Microsoft excel and SPSS. Quantitative approach in terms of descriptive statistics through measures of central tendency for example mean was used. Data was presented by the use of tables to enhance easy interpretation of information. Inferential statistics like the correlation and regression analysis was also used to establish the relationship among the dependent and the independent variables. The multiple regression equation was:

\[ G = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \]

Where;
\( \beta_0 \) = Contant
\( \beta_1, \beta_2 \) and \( \beta_3 \) = Partial Regression coefficients
\( G \) = Growth Rate
\( X_1 = \text{Listing requirements} \)

\( X_2 = \text{Cost of issuing} \)

\( X_3 = \text{Credit rating agencies} \)

\( e = \text{Error term} \)

### 3.7 Ethical Consideration

An official letter from the program coordinator at Kenyatta University was obtained so as to assist in obtaining data. All the information obtained was kept private and treated with the confidentiality it deserved.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction
This chapter discusses the interpretation and presentation of the findings. The general objective of the study was to identify the constraints to growth of commercial paper market in Kenya with reference to listed companies. The specific objectives of the study were; to find out the effects of issuing requirements by Capital Market Authority on the growth of commercial paper market in Kenya, to establish the effects of the cost of issuing commercial paper on its growth in Kenya and to find out the effects of credit rating systems in Kenya on the growth rate of commercial paper market.

4.2 The Response Rate
The researcher targeted population of 47 respondents from all the listed companies in Kenya of which 38 responses were obtained. This represented 80.85% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis thus 80.85% is even better.

4.3 Background information
4.3.1 Gender of the respondents
The researcher sought to know the gender of the respondents.
57.9% of the respondents were male while 42.1% of the respondents were female. From the study findings the researcher deduced that majority of the respondents were male.
4.3.2 Duration of the firm’s operation

The researcher also sought to establish from the respondents the period which their firms had been in operation. The study findings are shown in table 4.1.

Table 4.1: Duration of the firm’s operation

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Years and below</td>
<td>2</td>
<td>5.3</td>
</tr>
<tr>
<td>6 - 10 Years</td>
<td>19</td>
<td>50.0</td>
</tr>
<tr>
<td>11 - 20 Years</td>
<td>15</td>
<td>39.5</td>
</tr>
<tr>
<td>20 - 40 Years</td>
<td>2</td>
<td>5.3</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data

4.4 External sources of financing

The researcher wanted the respondents to rank certain external sources of financing in form of preference. The external sources of financing considered for ranking included; banking overdraft, shareholders capital injection and commercial paper. The study findings are shown in table 4.2 (a), (b) and (c).

Table 4.2 (a): Banks overdraft

<table>
<thead>
<tr>
<th>Rank</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>19</td>
<td>50.0</td>
</tr>
<tr>
<td>High</td>
<td>5</td>
<td>13.2</td>
</tr>
<tr>
<td>Neutral</td>
<td>14</td>
<td>36.8</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data
Table 4.2 (b): Shareholders capital injection

<table>
<thead>
<tr>
<th>Rank</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>3</td>
<td>7.9</td>
</tr>
<tr>
<td>High</td>
<td>20</td>
<td>52.6</td>
</tr>
<tr>
<td>Neutral</td>
<td>15</td>
<td>39.5</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data

Table 4.2 (c): Commercial paper

<table>
<thead>
<tr>
<th>Rank</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>13</td>
<td>34.2</td>
</tr>
<tr>
<td>High</td>
<td>22</td>
<td>57.9</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
<td>7.9</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data

Tables 4.2 (a), (b) and (c) shows the rankings of external sources of financing in the form of preference by the respondents. A majority of 50.0% of the respondents ranked banks overdrafts as a very high source of external sources of financing while a majority of 52.6% of the respondents ranked shareholders capital injection high, as an external source of financing. A majority of 57.9% of the respondents rated commercial paper as a high source of financing. From the study, the researcher deduced that bank overdrafts were the leading external source of financing, followed by commercial paper and then shareholders capital as indicated by majority of the respondents.
4.5 Financing the company expenditure through issuing commercial paper

The researcher was also interested in finding out if the respondents considered issuing commercial paper as a way of financing their company expenditures. 78.9% of the respondents agreed that they considered issuing commercial paper as a way of financing their company expenditures while 21.1% of the respondents said they did not consider issuing commercial paper as a way of financing their company expenditure. From the study, the researcher deduced that commercial paper was issued as a way of financing the company expenditure as indicated by majority of the respondents.

4.6 Constraints on the growth of commercial paper market in Kenya

The researcher sought to establish from the respondents the constraints on the growth of commercial paper market in Kenya. The researcher therefore considered a number of statements for rating by the respondents as to whether the respondents agreed they were being constraints on the growth of commercial paper market in Kenya.

The study findings are tabulated in table 4.3

Table 4.3: Constraints on the growth of commercial paper market in Kenya

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Registration is an expensive process</td>
<td>71.1</td>
<td>23.7</td>
<td>0</td>
<td>5.3</td>
<td>0</td>
</tr>
<tr>
<td>b) Lengthy approval time for new issuance</td>
<td>71.1</td>
<td>13.2</td>
<td>10.5</td>
<td>5.3</td>
<td>0</td>
</tr>
<tr>
<td>c) Buying back or rolling over takes a considerable time for approval</td>
<td>15.8</td>
<td>47.4</td>
<td>18.4</td>
<td>13.2</td>
<td>5.3</td>
</tr>
<tr>
<td>d) Unelaborated and detailed review of securities laws and regulations</td>
<td>0</td>
<td>15.8</td>
<td>57.9</td>
<td>15.8</td>
<td>5.3</td>
</tr>
<tr>
<td>e) Lack of effective regulatory and supervision framework</td>
<td>18.4</td>
<td>71.1</td>
<td>5.3</td>
<td>5.3</td>
<td>23</td>
</tr>
</tbody>
</table>
for the commercial paper market, intermediaries, institutional investors and other market participants.

<table>
<thead>
<tr>
<th>Constraint</th>
<th>0</th>
<th>15.8</th>
<th>28.9</th>
<th>47.4</th>
<th>5.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>f) Undefined market rules and high prudential standards and governance principle</td>
<td>2.6</td>
<td>15.8</td>
<td>28.9</td>
<td>47.4</td>
<td>5.3</td>
</tr>
<tr>
<td>g) Lack of government support</td>
<td>21.1</td>
<td>57.9</td>
<td>10.5</td>
<td>10.5</td>
<td>0</td>
</tr>
</tbody>
</table>

Source; Research data

The table above shows the ratings of the various constraints that affect the growth of commercial paper market in Kenya by the respondents. A five point Likert scale was used to interpret the respondent’s responses. According to the scale, those constraints which were rated to a very great extent were awarded 1 while those which were rated not at all were awarded 5. Within the continuum are 2 for great extent, 3 for moderate extent and 4 for little extent. The percentages were used to analyze the data.

The constraint “registration is an expensive process” was rated to a very great extent by a majority of 71.1% of the respondents. Similarly, the constraint “lengthy approval time for new issuance” was rated to a very great extent by a majority of 71.1% of the respondents. A majority of 47.4% of the respondents rated the constraint, “Buying back or rolling over takes a considerable time for approval” to a great extent and 57.9% of the respondents rated the constraint, “Unelaborated and detailed review of securities laws and regulations” to a moderate extent. The constraints; “Lack of effective regulatory and supervision framework for the commercial paper market, intermediaries, institutional investors and other market participants”, “Undefined market rules and high prudential standards and governance principle”, and “Lack of government support” were rated to a moderate extent, little extent and great extent by 71.1%, 47.4 and 57.9% of the respondents respectively. From the study the researcher deduced that the constraints; Registration is an expensive process, Lengthy approval time for new issuance, Buying back or rolling over takes a considerable time for
approval and Lack of government support were the main constraints on the growth of commercial paper market in Kenya.

4.7 Need for harmonization of capital market policies and all issue concerning them
The researcher sought to establish the respondents’ opinion on the need for harmonization of capital market policies and all issue concerning them.

84.2% of the respondents indicated that there was the need for harmonization of capital market policies and all issue concerning them while 15.8% of the respondents indicated that there was no need for harmonization of capital market policies and all issue concerning them. From the study the researcher deduced that there was need for harmonization of capital market policies and all issue concerning them as indicated by majority of the respondents.

4.8 Extent to which costs affect the issuance of commercial paper in Kenya
The study further sought to establish the extent to which certain costs affect the issuance of commercial paper in Kenya. Table 4.4 shows the study findings.

Table 4.4: Extent to which costs affect the issuance of commercial paper in Kenya

<table>
<thead>
<tr>
<th>Costs</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost for hiring an Issuing and Paying Agent</td>
<td>0</td>
<td>31.6</td>
<td>10.5</td>
<td>57.9</td>
<td>0</td>
</tr>
<tr>
<td>Cost for making arrangements with credit rating agency</td>
<td>47.4</td>
<td>28.9</td>
<td>18.4</td>
<td>5.3</td>
<td>0</td>
</tr>
<tr>
<td>Backup lines needed to obtain a commercial paper rating</td>
<td>52.6</td>
<td>15.8</td>
<td>18.4</td>
<td>13.2</td>
<td>0</td>
</tr>
<tr>
<td>Credit enhancement costs</td>
<td>52.6</td>
<td>23.7</td>
<td>13.2</td>
<td>5.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source; Research data

The table above shows the rating of the various costs that affect the issuance of commercial paper in Kenya according to the respondents. A five point Likert scale was used to interpret
the respondent’s responses. According to the scale, those costs which were rated to a very
great extent were awarded 1 while those which were rated not at all were awarded 5. Within
the continuum are 2 for great extent, 3 for moderate extent and 4 for little extent. The
percentages were used to analyze the data.
A majority of 57.9% of the respondents rated the cost of hiring an issuing and paying agent to
a little extent while the cost of making arrangements with credit rating agency was rated to a
very great extent by a majority of 47.4% of the respondents. Also, a majority of 52.6% of the
respondents rated the cost of backup lines needed to obtain a commercial paper rating to a
very great extent and further the credit enhancement costs were rated to a very great extent by
majority of 52.6% of the respondents. From the study the researcher deduced that the main
costs that affected the issuance of commercial paper in Kenya were; Cost for making
arrangements with credit rating agency, Backup lines needed to obtain a commercial paper
rating, and Credit enhancement costs.

4.9 Extent to which announcement of a commercial paper with credit enhancement
have on the issuers’ equity
The researcher sought to establish the extent to which the announcement of commercial paper
with credit enhancement had on the issuers’ equity according to the respondents.
71.1% of the respondents said that the announcement of a commercial paper with credit
enhancement had an effect on the issuers’ equity to a very great extent while 10.5% of the
respondents indicated that the announcement of a commercial paper with credit enhancement
had an effect on the issuers’ equity to a great extent. 13.2% of the respondents said that the
announcement of a commercial paper with credit enhancement had an effect on the issuers’
equity to a moderate extent and 5.3% of the respondents said that the announcement of a
commercial paper with credit enhancement had an effect on the issuers’ equity to a little
extent. None of the respondents said that the announcement of a commercial paper with
credit enhancement had no effect on the issuers’ equity. From the study the researcher deduced that the announcement of a commercial paper with credit enhancement had an effect on the issuers’ equity to a very great extent as indicated by majority of the respondents.

4.10 Effect of the number of credit rating agencies on a commercial paper increase its distribution and marketability

The researcher further sought to establish from the respondents the effect of the number of credit rating agencies on commercial paper increase, its distribution and marketability. 10.5% of the respondents indicated that the number of credit rating agencies had an effect to a very great extent on commercial paper increase; its distribution and marketability while 65.8% of the respondents indicated that the number of credit rating agencies had an effect to a great extent on commercial paper increase; its distribution and marketability. 18.4% of the respondents indicated that the number of credit rating agencies had an effect to a moderate extent on commercial paper increase; its distribution and marketability and 5.3% of the respondents said that the number of credit rating agencies had an effect to a moderate extent on commercial paper increase; its distribution and marketability. None of the respondents indicated that the number of credit rating agencies had no effect to on commercial paper increase; its distribution and marketability. From the study the researcher deduced that the number of credit rating agencies had an effect to a great extent on commercial paper increase; its distribution and marketability as indicated by majority of the respondents.

4.11 Factors affecting the ratings of commercial paper in Kenya

The researcher sought to establish the extent to which certain factors affected the rating of commercial paper in Kenya according to the respondents. These factors include; Company’s
current and future short term cash flows and liquidity, company’s sanctioned working capital limits, and the liquidity plan submitted by the management team. The research findings are shown in table 4.5.

Table 4.5: Factors affecting the ratings of commercial paper in Kenya

<table>
<thead>
<tr>
<th>Factors</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company’s current and future short term cash flows and liquidity</td>
<td>65.8</td>
<td>13.2</td>
<td>15.8</td>
<td>5.3</td>
<td>0</td>
</tr>
<tr>
<td>Company’s sanctioned working capital limits</td>
<td>5.3</td>
<td>50.0</td>
<td>28.9</td>
<td>15.8</td>
<td>0</td>
</tr>
<tr>
<td>The liquidity plan submitted by the management team</td>
<td>0</td>
<td>36.8</td>
<td>55.3</td>
<td>2.6</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source; Research data

The table above shows the rating of the various factors that affect the ratings of commercial paper in Kenya according to the respondents. A five point Likert scale was used to interpret the respondent’s responses. According to the scale, those costs which were rated to a very great extent were awarded 1 while those which were rated not at all were awarded 5. Within the continuum are 2 for great extent, 3 for moderate extent and 4 for little extent. The percentages were used to analyze the data.

The factor, “company’s current and future short term cash flows and liquidity” was rated to a very great extent by a majority of 65.8% of the respondents while the factor, “company’s sanctioned working capital limits” was rated to a great extent by 50.0% of the respondents. A majority of 55.3% of the respondents rated the factor, “the liquidity plan submitted by the management team” to a moderate extent. From the study, the researcher found that the factors; company’s current and future short term cash flows and liquidity and company’s sanctioned working capital limits were the main factors that affected the ratings of commercial paper in Kenya.
4.12 Effect of increasing the number of credit agencies on popularization

The researcher further sought to establish the extent to which increasing the number of credit rating agencies helped in its popularization. The study findings are shown in table 4.6

Table 4.6: Effect of increasing the number of credit agencies on popularization

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>10</td>
<td>26.3</td>
</tr>
<tr>
<td>Great extent</td>
<td>14</td>
<td>36.8</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>12</td>
<td>31.6</td>
</tr>
<tr>
<td>Little extent</td>
<td>2</td>
<td>5.3</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data

Table 4.6 shows the effect of increasing the number of credit agencies on popularization according to the respondents. 26.3% of the respondents said that increasing the number of credit agencies would help in popularizing it to a very great extent while 36.8% of the respondents said that increasing the number of credit agencies would help in popularizing it to a great extent. 31.6% of the respondents said that increasing the number of credit agencies would help in popularizing it to a moderate extent while 5.3% of the respondents said that increasing the number of credit agencies would help in popularizing it to a little extent. None of the respondents said that increasing the number of credit agencies would not help in popularizing it at all. From the study the researcher deduced that increasing the number of credit agencies would help in popularizing it to a great extent as indicated by majority of the respondents.
4.13 Issuing of Commercial paper

The researcher was also interested in establishing the likely of the respondents in issuing commercial papers for the next five years.

From the findings, 21.1% of the respondents indicated that they were very likely to issue commercial paper for the next 5 years while 52.6% of the respondents indicated that they were fairly likely to issue commercial paper for the next 5 years. 21.1% of the respondents said that they were neutral about issuing of commercial paper for the next 5 years while 5.3% of the respondents said that they were not very likely to issue commercial paper for the next 5 years. From the study the researcher deduced that the respondents were very likely to issue commercial paper for the next 5 years as indicated by majority of the respondents.

4.14 Recommendation of a company to issue commercial paper

The researcher sought to establish how likely it was for the respondents to recommend a company to issue commercial paper. The study findings are shown in table 4.7

Table 4.7: Recommendation of a company to issue commercial paper

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Likely</td>
<td>8</td>
<td>21.1</td>
</tr>
<tr>
<td>Fairly likely</td>
<td>18</td>
<td>47.4</td>
</tr>
<tr>
<td>Neutral</td>
<td>12</td>
<td>31.6</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data

The table above shows the likelihood of the respondents to recommend a company to issue commercial paper. 21.1% of the respondents said that they were very likely to recommend a company to issue commercial paper while 47.4% of the respondents indicated that they were
fairly likely to recommend a company to issue commercial paper. 31.6% of the respondents said they were neutral about recommending a company to issue commercial paper. From the study the researcher deduced they were fairly likely to recommend a company to issue commercial paper as indicated by majority of the respondents.

4.15 Additional funding through issuing commercial paper
The researcher also sought to establish whether the respondents would consider seeking additional funding through issuing commercial paper. 73.7% of the respondents said they would seek additional funding through issuing commercial paper while 26.3% of the respondents said they would not seek additional funding through issuing commercial paper. From the study the researcher deduced that most respondents would seek additional funding through issuing commercial paper.

4.16 Correlation and Regression analysis
The researcher wanted to find out the relationship between the growth of commercial paper market which was the dependent variable and the independent variables which were; listing requirements, costs of issuing and credit rating agencies. The researcher also sought to know the effect of the independent variables namely; listing requirements, costs of issuing and credit rating agencies on the dependent variable; the growth of commercial paper market by using the multiple regression model.
4.16.1 Correlation analysis

The correlation coefficients were obtained and are as follows;

Table 4.8 Correlation coefficients

<table>
<thead>
<tr>
<th></th>
<th>Growth of commercial paper</th>
<th>Listing requirements</th>
<th>Cost of issuing</th>
<th>Credit rating agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>Growth of commercial paper</td>
<td>1.000</td>
<td>.571</td>
<td>.359</td>
</tr>
<tr>
<td></td>
<td>Listing requirements</td>
<td>.571</td>
<td>1.000</td>
<td>.224</td>
</tr>
<tr>
<td></td>
<td>Cost of issuing</td>
<td>.359</td>
<td>.224</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Credit rating agencies</td>
<td>.452</td>
<td>.523</td>
<td>.540</td>
</tr>
</tbody>
</table>

Source: Research data

Table 4.8 shows the pearson correlations showing the relationships between the independent variables and the dependent variable (growth of commercial paper). From the table, there is a high positive relationship between the growth of commercial paper and issuing requirements and credit rating systems with correlation coefficients of 0.571 and 0.452 respectively. The relationship between growth of commercial paper and cost of issuing is also positive, though low with a correlation coefficient of 0.359.
4.16.2 Regression analysis

The multiple regression equation was:

\[ G = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

Where;

\( \beta_0 = \) Constant

\( \beta_1, \beta_2 \) and \( \beta_3 = \) Partial Regression coefficients

\( G = \) Growth Rate

\( X_1 = \) Listing requirements

\( X_2 = \) Cost of issuing

\( X_3 = \) Credit rating agencies

\( \epsilon = \) Error term

Table 4.9: Partial regression coefficients

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Listing requirements</td>
<td>.490</td>
<td>.411</td>
</tr>
<tr>
<td>Cost of issuing</td>
<td>.503</td>
<td>.174</td>
</tr>
<tr>
<td>Credit rating agencies</td>
<td>.072</td>
<td>.197</td>
</tr>
<tr>
<td></td>
<td>.114</td>
<td>.120</td>
</tr>
</tbody>
</table>

Source: Research data

From table 4.9, the beta coefficients tell gives the number of standard deviations change on the dependent variable that was produced by a change on the independent variables.
concerned. On this account, listing requirements makes by far the greatest contribution, because a change of one standard deviation on that variable produces a change of 0.466 standard deviations on the growth rate. Next are credit ratings agencies with a change of 0.176, and then followed cost of issuing with 0.060. Also from the table 4.9, it is clear that all the independent variables are significant since they are all less than 0.5. From the estimated multiple regression equation the researcher deduced that the variables Listing requirements and Credit rating agencies had a main effect on the growth rate of commercial paper market.

4.16.3 The coefficient of determination

The researcher wanted to determine the coefficient of determination in order to know the value of $R^2$ which is the proportion of variation associated to independent variables. The value obtained is shown in table 4.10

Table 4.10: The coefficient of determination

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.854(a)</td>
<td>.74</td>
<td>.54</td>
<td>.360</td>
</tr>
</tbody>
</table>

Source; Research data

Table 4.12 shows the coefficient of determination obtained was 0.74 (74%) which is commonly referred to as the value of $R^2$. This value of $R^2$ is the proportion of variation associated to the independent variables. Thus from the value obtained from this research the researcher deduced that the proportion of variation associated to the independent variables had a large effect since the value is greater than 50%.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter focuses on providing a summary of the findings and an analysis of the previous chapter four focusing on the research questions, a conclusion of the research outcome, provide possible solutions through recommendations and the various areas where further research could be done.

5.2 Summary of Findings

The study was carried out to investigate the constraints to the growth of commercial paper as a source of short term finance for listed companies. From the study, the expensive registration process and the lengthy approval time for new issuance were the main constraints to the growth of commercial paper. The study also revealed that there was need for harmonization of capital market policies and all issue concerning them. The study further revealed that the main costs that affected the issuance of commercial paper in Kenya were; Cost for making arrangements with credit rating agency, Backup lines needed to obtain a commercial paper rating, and Credit enhancement costs.

The research further revealed that the number of credit rating agencies had an effect to a great extent on commercial paper increase; its distribution and marketability and also that the factors; company's current and future short term cash flows and liquidity and company's sanctioned working capital limits were the main factors that affected the ratings of commercial paper in Kenya. From the correlation analysis the study revealed that there was a high positive relationship between the growth of commercial paper and issuing requirements and credit rating systems with correlation coefficients of 0.571 and 0.452 respectively and
further that the relationship between growth of commercial paper and cost of issuing was also positive, though low with a correlation coefficient of 0.359. From the estimated multiple regression equation the research revealed that the variables Listing requirements and Credit rating agencies had a main effect on the growth rate of commercial paper market and finally from the coefficient of determination, the value obtained from this research revealed that the proportion of variation associated to the independent variables had a large effect since the value is greater than 50%.

5.3 Conclusions

From the study, the researcher concludes that the variables listing requirements and credit rating agencies were the main factors that affected the growth rate of commercial paper market as revealed by their correlation coefficient values and the partial correlation coefficients. However, we can also further conclude that all the three factors had a large effect as revealed by the value of the coefficient of determination obtained i.e. 74%.

In essence previous research findings have correlated with this study research findings and therefore in a nutshell when a company issues commercial paper, it taps into an otherwise untapped market this consequently increases its operational base and if this is the case revenues of the company goes up which subsequently impacts positively on a company’s financial performance.

5.4 Recommendations

This study recommends that;

The registration process of the commercial paper should be reviewed to make it an easy process and also to ensure that the process is less expensive for example in U.S.A most commercial paper is issued under section 3(a) (3) of the 1933 Act, which exempts it from registration requirement for short-term securities as long as they have certain characteristics.
The length of approval time for new issuance and buying back or rolling over should be reviewed to shorten the duration which the whole process will take like in the case of India. This will accelerate the growth of commercial paper market in Kenya.

The study also recommends that there should be more credit rating agencies since an issuer should obtain a commercial paper rating from at least two major rating agencies to enable the notes to enjoy the broadest possible distribution and marketability. This rating must be the highest available in order to assure rollover and continued access to the commercial paper market.

As noted by Kibua et al 2010, there is need for a high level of political development and review of securities laws and regulations. Harmonization of capital market policies and all issues concerning them would also be necessary.

Finally, the market rules for the commercial paper should be defined and clear and also there should be high prudential standards and governance principle. This will help the business community in the market and those with intentions of joining to clearly understand the boundaries under which they work hence enhancing growth.

5.5 Recommendations for further research

From the study and related conclusions, the researcher recommends a further research on the impact of commercial paper on share prices of listed companies in Kenya.

The factors which affect the demand of commercial bond as a long term source of finance for companies in Kenya would also be a further area of research.
REFERENCES


Eingzing, Robert and Bruce Lange (2003). *Swap at Trans American Analysis and Application*.


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APPENDIX 1

QUESTIONNAIRE

The research is primarily focused on "constraints to the growth of commercial paper as a source of short term finance for listed companies in Kenya". The information obtained will strictly be used for academic purposes. The respondents are guaranteed that the information will be treated as private and confidential.

Section A: Background information

1. Name of the company (optional)

2. Gender of the respondent
   Male [ ] Female [ ]

3. For how long has your firm been in operation?
   
   1 to 5 years [ ]
   6 to 10 years [ ]
   11 to 20 years [ ]
   20 to 40 years [ ]
   Over 40 years [ ]

Section B: Sources of Financing the Company's Activities

4. Please rank the following external sources of financing in form of preference.

   1- Very high. 2- High. 3- Neutral. 4- Low. 5- Very low

   Banks Overdraft [ ]
   Shareholders Capital Injection [ ]
   Commercial Paper [ ]

5. Have you ever considered issuing commercial paper as a way of financing your company expenditure?
   Yes [ ] No [ ]
Section C: Listings

6. To what extent do you agree with the following statements as being constraints on the growth of Commercial Paper Market in Kenya? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent at all.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Registration is an expensive process</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Lengthy approval time for new issuance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Buying back or rolling over takes a considerable time for approval</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Unelaborated and detailed review of securities laws and regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Lack of effective regulatory and supervision framework for the commercial paper market, intermediaries, institutional investors and other market participants.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Undefined market rules and high prudential standards and governance principle</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Lack of government support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. From your experience, do you think that there is need for harmonization of capital market policies and all issue concerning them?

Yes [ ] No [ ]

Section D: Cost of Financing

8. To what extent do you agree that the following costs affect the issuance of commercial paper in Kenya? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent at all.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost for hiring an Issuing and Paying Agent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost for making arrangements with credit rating agency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Backup lines needed to obtain a commercial paper rating</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit enhancement costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9. To what extent does the announcement of a commercial paper with credit enhancement have on the issuers' equity?

- To a very great extent [ ]
- To a great extent [ ]
- To a moderate extent [ ]
- To a little extent [ ]
- To no extent [ ]

Section E: Ratings

10. To what extent does the number of credit rating agencies on a commercial paper increase its distribution and marketability?

- To a very great extent [ ]
- To a great extent [ ]
- To a moderate extent [ ]
- To a little extent [ ]
- To no extent [ ]

11. To what extent do you agree that the following factors affect the ratings of commercial paper in Kenya? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent at all.

<table>
<thead>
<tr>
<th>Factor</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company’s current and future short term cash flows and liquidity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company’s sanctioned working capital limits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The liquidity plan submitted by the management team</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. To what extent does increasing the number of credit rating agencies help in popularizing it?

- To a very great extent [ ]
- To a great extent [ ]
- To a moderate extent [ ]
- To a little extent [ ]
- To no extent [ ]
Section F: Growth of the Commercial Paper

13. The turnover on the commercial paper in this company has been increasing for the past five (5) years.
   - Strongly agree [ ]
   - Agree [ ]
   - Fairly Agree [ ]
   - Disagree [ ]
   - Strongly Disagree [ ]

14. Indicate average turnover for your company for the past five (5) years
    _____________ (KSHs)

15. How likely are you to issue commercial paper 5 years from now?
   - Very likely [ ]
   - Fairly likely [ ]
   - Neither likely nor unlikely [ ]
   - Not very likely [ ]
   - Not at all [ ]
   - Don't known [ ]

16. How likely are you to recommend a company to issue commercial paper?
   - Very likely [ ]
   - Fairly likely [ ]
   - Neither likely nor unlikely [ ]
   - Not very likely [ ]
   - Not at all [ ]
   - Don't know [ ]

17. Would you consider seeking additional funding through issuing commercial paper?
   - Yes [ ]
   - No [ ]

If not, please give reasons why.
..................................................................................................................
..................................................................................................................
......................

Thank you for your participation