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FINANCING CAPITAL INVESTMENTS BY QUOTED COMPANIES IN KENYA //

UNIVERSITY OF NAIROBI
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By

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requirements of the Degree of Masters of Business and Administration,
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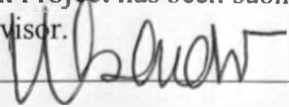
DECLARATION

This Management Project is my original work and has not been presented for a Degree in any other University.

Signed  Date 7/10/02

Nyoiike Charles Mwangi

This Management Project has been submitted for the examination with my approval as University Supervisor.

Signed  Date 9th October, 2002

Winnie Nyamute

DEDICATION

To my loving wife Mary Wairimu for her support and encouragement, my son Eddie Nyoike, Mum and Dad, Mr. & Mrs. Nyoike who have always been on my side in any endeavour I have chosen to undertake.

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ABSTRACT

The Management of corporate firms is confronted with many decisions affecting the growth, profitability and survival of their organizations. Inevitably financing capital investments decisions constitute such important decisions corporate managers have to make on behalf of their companies. Managers have to decide on how to finance capital investments and usually consider various factors in making their financing decisions.

The principal objective of this study was to identify how capital investments are financed by quoted companies in Kenya. The study also sought to identify the factors that the management of quoted companies consider in making their financing capital investments decisions. In order to meet these objectives, secondary data was collected from annual published results from 52 firms listed at the Nairobi Stock exchange and the relationship between capital investments and financing variables namely, internally generated funds, New Equity capital, Long-term debt and Short term debt were examined over the 1997 to 2001 period. Primary data was also collected through the use of questionnaires from the financial managers seeking information on how they finance capital investments and the factors that influence their financing capital investment decisions.

Correlation analysis was used for the secondary data collected and the results revealed that capital investments were significantly positively collerated with internally generated funds among all the industry sectors of quoted companies. The correlation between capital investments and New equity, Long-term debt and Short-term revealed varied correlation's among the industry sectors in the study.

The study found that many factors influence managers in their financing capital investment decisions. Among the most important factors were stability of future cash flows, profitability of the business, level of competition in the industry, stability of future sales, and the level of interest rates in the economy.

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1. INTRODUCTION

1.1. Background

The perfect capital markets paradigm founded by the Modigliani and Miller Theorem (1958) views where the firm gets its finance and its financial position as irrelevant for its investment decisions. In perfect capital markets, investment decisions are independent of financing decisions and, investment policy only depends upon availability of investment opportunities with a positive net present value. Modigliani and Miller (popularly referred to as MM) idealised that perfect financial markets have the following conditions: -

- Firms have unlimited access to sources of finance and invest as long as the marginal dollar of the capital expenditure generates at least one dollar of a present value of cash flows. The type and source of financing company uses for an investment do not matter.
- Information is freely available and individuals and firms can costlessly enforce all contractual obligations. This assumption that it is costless to obtain information about borrower creditworthiness and to enforce contracts renders financial intermediation irrelevant.

MM financing investment theories (1958) showed that if frictionless complete markets prevail, firm's decisions concerning investment expenditures are independent of its financial structure and capital structure. Weston et al (1992) defined financial structure as the way the firm's assets are financed. It includes long term debt, preferred stock, common equity and short-term finance. Further capital structure refers to the firm's permanent financing represented by long-term debt, preferred stock and common equity Weston et al (1992).

Jorgenson et al (1967) agreed with MM and emphasised that lenders are indifferent as to how a firm finances its investments as long as they receive the expected risk-adjusted opportunity cost of borrowed funds. They argued that regardless of the firm's financial

position, it is always optimal for the entrepreneur to invest so as to maximise the value of the enterprise.

Financing decisions by organisations involves planning for and obtaining funds to permit their use in maximising the value of an organisation. Factors normally considered in financing decisions include, cost of funds, the financing convenience, reliability of finance, the timing of cash flow, choice between short term versus long-term financing and choice between debt, equity, and internally generated funds (Weston et al).

An investment decision involves issues on why and where the funds of a firm should be put so as to maximise value. It involves deciding on what investments to make, what specific assets to purchase, and how much should be invested in each asset. The challenge as pointed by Gapenski (1991) is to obtain the optimal mix of financing and investments that maximises value of an organisation. The Net Present Value rule has been traditionally used to evaluate the optimal mix of financing and investments whereby investment projects are accepted if the difference between the present value of the anticipated future returns exceeds the present value of the costs of the projects. Weston et al (1992) points out that financing in business organisations is the primary tasks of finance managers who have to plan for the acquisition and use of funds so as to maximise the value of the firm. Finance managers are charged with making decisions about alternative sources and uses of funds with the goal of maximising the firm's value. Financing involves forecasting and laying plans that will shape the firms future position. On the basis of long run plans firms must raise capital needed to support growth. A successful firm usually achieves a high rate of growth in sales, which requires increased plant, equipment, machinery, and current assets to produce goods and services. The finance manager must determine the optimal rate of sales growth, determine the specific investments to be made and types of funds to be used to finance these investments. Management of firms is interested in capital investments because they are indicators of the organisation capacity to support growth and maximisation of firms' value. Capital investments in accordance to International accounting standards (IAS) adopted by the

Institute of Certified Public Accountants of Kenya (ICPAK) effective on or after 1st January 1999 include Property, Plant and Equipment, intangible assets and other fixed assets (refer to appendices for itemised definitions). Capital investments may go wrong and result in adverse repercussions to the organisations as a result of types of funds used to finance investments. Myers (1965) explained that financing investments in the right manner normally adds value to the firm. Certain frameworks, for example the pecking order framework by Myers et al (1984) suggests that there is a preference among firms for internal generation of funds as opposed to external sources. It would be of interest to find out why companies finance capital investments the way they do, and which sources are often used by quoted companies in Kenya.

1.2. Statement of the Problem

Myers and Robicheck (1965) found that financing decisions are some of the most important decisions that corporate managers make on behalf of their companies because they impinge on profitability, growth and survival of a firm. Haim et al (1994) expounded that capital investment decisions can materially change the character and directions of even the largest firm in a single decade. According to Dixit (1994) a large body of theoretical and empirical models have pointed to the existence of capital markets imperfections, making the financing and investment decisions of the firm a simultaneous and interdependent decision. However, Lumby (1994) explains that these empirical and theoretical models offer little practical guidance to managers on financing and therefore managers may play it safe by adapting to what every one else is doing.

The World Bank draft report on Enterprise Finance In Kenya (1994) points out that problems of limited information, limited communication, weak contract enforcement mechanisms and high transaction costs are endemic to Kenyan financial markets. Each of these deficiencies creates “friction” in the relationship between borrowers and lenders, thereby influencing the market’s ability to supply financing for capital investments, diversify risks and provide liquidity and insurance.

The Kenya Investment Climate for 2002 report by U.S and Foreign Commercial Service and United States of America Department Of State (2001) points out that the asset quality of Kenyan banks is poor with about 41% of the total assets by June 2001 of the 48 commercial banks in the country worth about \$5.2 billion, classified as non-performing. This report explains that a significant proportion of non-performing bank assets translates into higher costs of funds by commercial banks and in turn higher costs of lending funds to potential borrowers. Kiogora (2000), highlighted that in Kenya the high interest rates imposed by banks makes companies shy away from borrowing, while dilution of ownership and stringent listing rules tend to discourage equity financing. Kamere (1987) pointed that the business environment affects the type of financing that firms use to finance investments. Carruth (2000) argued that the financial structure, which a firm operates in, may limit the number of available financial instruments, thereby influencing the investment decision. The findings, arguments and scenarios highlighted triggers interest in finding out how capital investments are financed and what factors influence the choice of the mode of financing by quoted companies in Kenya.

1.3. Objectives of the Study

The objectives of the study were: -

- To identify how capital investments are financed by quoted companies in Kenya
- To identify the factors that the management of quoted companies consider in making their financing capital investments decisions.

1.4. Importance of the Study

The results of this study are expected to be important to the following groups:

- Policymakers in Kenya who may wish to improve the functioning of the national financing system and therefore assist firms in maximising their value.

- International policymakers such as the World bank and IMF may need to understand how capital investments are financed and the influencing factors which may assist in the promoting and monitoring development of market-based financial infrastructure, which they introduced in Kenya in the early 1990s and have been proved successful in other countries.
- Financial, investment managers and corporate stakeholders may want to know how others fund capital investments and the influencing factors especially if it results to lower cost of capital to a given firm and assures its liquidity.
- Investors both existing and potential in evaluation of risks and returns attributable to financing and investments decisions.

2. LITERATURE REVIEW

2.1. Introduction

Cleary (1999) explains that determination of an appropriate source of finance for a capital investment of a business firm is a difficult task that management has to deal with. The difficulty of the task lies in the fact that shareholders expect management to make decisions that maximise returns to them and enhance the market value of the firm without unduly risking the future of the firm. The conditions of an individual firm, the suppliers of funds and the economic, social and legal environment in which a firm operates, all exert influence on the decision on how firms finance their capital investments.

Lumby (1994) points that capital investment projects are normally financed from three alternative (but not necessarily mutually exclusive) sources: -

- Finance directly supplied by the capital markets in form of ordinary share capital
- Finance directly supplied by capital markets in the form of interest bearing medium and long-term loans
- Finance internally generated by the firm in the form of retained profits.

These sources of finance differ on how they are issued, on the obligations that they impose on a firm's management and in terms of risk. Firstly, issue of equity present issues, particularly with regard to risk and control. Secondly ploughing back of profits is done at the expense of paying out dividends to shareholders who must be given reasons to forego present income. If better investment opportunities exist for shareholders, they may agree to forego present income. Thirdly, debt financing presents an important feature because interests payments are a fixed cost to the business. As a firm increases the amount of debt in its capital structure, these fixed costs increase and unless additional borrowing enhances the earning capacity of the firm, its future may be in jeopardy. If lenders perceive a high probability of default, they are bound to seek compensation by

way of higher interest rates. Therefore to resolve the difficult task of finding the right financing mix firm Domodaran (2000) explains the following principles: -

- Invest in assets that yield a return greater than the minimum acceptable hurdle rate
- Choose a financing mix that minimises the hurdle rate and matches the assets being financed.
- If there are not enough investments that earn the hurdle rate return the cash to stockholders.

2.2. Financing Decisions and Sources of Finance

A business firm is confronted with many decisions (Haim et al 1994). This study is concerned with those business decisions, which determine the firm's capital expenditures and their financing. In the typical capital investment decision management makes a commitment of current resources in order to secure a stream of benefits in the future years. The financial decision making involves purposeful behaviour, which implies the existence of goals or objectives. These goals may be distinguished as company oriented goals and stockholder-oriented goals. We assume the primary goal of the financial manager is to maximise the value of the firm to its stockholders.

Factors that influence financing decisions from documented literature and empirical studies undertaken include the following.

➤ Capital structure considerations-are important in any financing decision especially the way the firm's capital structure compares to its target capital structure (Brigham Gapenski (1991)). In Kenya notable researches have been carried out on capital structures. A study by Kamere (1987) noted that Kenyan firms adjust towards some target debt-equity ratios. However it was not known whether firms in Kenya have target capital structures. Kamere (1987) study found that a number of factors influence the capital structure decision of the firm. The factors include:-

- Stability of future cash flows-It was pointed out that a firm that is expected to have stable sales and income would be exposed to less risk than one where income is expected to fluctuate. Firms with fluctuating income may have

problems repaying debt since interest payments are a fixed cost and therefore display a prevalence of high leverage ratios.

- The level of interest rates in the economy –it was explained that firms prefer to use less debt financing when interest rates in the country are high and more debt financing when the interest rates are low.
- The asset structure of a firm-it was pointed that a firm with high investment in fixed assets may find it easier to borrow than when one invests mainly in current assets.
- The need for outside capital-It was found that outside capital is sought in the form of debt and fresh equity issues.
- Lender attitudes towards a firm- It was explained that lenders attitude towards a firm may be based on an individual firm's past performance or the type of business in which the firm is engaged.
- Attitudes of management towards risk-It was noted that management might prefer equity to debt financing depending on their degree of risk aversion. A risk averse manager is likely to by pass investment projects that he considers risky and will be unwilling to borrow to finance such investments. Risk seekers on the other hand are bound to borrow heavily because they are willing to invest in risky projects.

➤ Leverage considerations have been documented from research to affect financing and investment decisions. Titman (1988) and Rajan (1995) used both book and market values to measure leverage. Leverage using book values is defined as the ratio of book value of debt to the sum of book values of debt and equity. A market value of leverage is defined as the ratio of market value of debt to the sum of market value of debt and market value of equity.

Some determinants of optimal leverage from research studies include the following: -

- Income variability- Myers et al (1984) argued that the greater the volatility of earnings the higher is the profitability of bankruptcy arising from default on payment of interest.

- Expected growth-Rajan et al (1995) argue that due to the Myers et al (1984) underinvestment problem, firms expecting high future growth use a greater amount of equity finance thus suggesting a negative relationship between expected growth and leverage.
 - Profitability-According to Myers et al (1984) firms should prefer internal to external financing, and the more profitable the firm the greater the availability of internal capital. Hence there should be a negative relationship between profitability and leverage.
 - Non debt tax shields-As stated in MM (1958), the main incentive for borrowing is to take advantage of the interest tax shields. This is only true if the firm has enough taxable income to justify debt. The presence of other non-debt tax shields like depreciation and amortisation reduces this incentive. Using the ratio of depreciation to total assets to measure the existence of non debt tax shields, a negative relationship between this variable and optimal leverage would be expected.
- Information Asymmetries-occur when one contracting party has more information than the other contracting party. In the theory of Myers et al(1984), insiders of the firm are better informed about the firm's value than capital markets are. The insiders aim to transfer wealth from new providers of capital to existing shareholders. Due to information asymmetry in comparison with insiders, providers of capital expect insiders to raise capital when this new capital is overvalued.the implication of this adverse selection is that firm's face a premium on external financing. As external financing is expensive firms will initially fund investments from internal sources. If the investment expenditure exceeds internally generated funds, the premium on external funds (as a result of information asymmetry) would influence the financing-investment decision of a firm.
- Amount of financing required will influence the financing decision mainly due to floatation costs utilised in the sourcing the finance (Gapenski (1991).
- Maturity Matching-The best all rounded financing strategy is to match debt maturities with asset maturities(Gapenski (1991).In recognition of this fact,firms generally do

place great emphasis on maturity matching and this factor dominates the debt portion of the financing decision

- Availability of collateral-Titman (1988) argued that firms with a greater percentage of their total assets composed of tangible assets will have a higher capacity for raising debt.

Businesses need finance (funds) both in the short and long term to operate or just to survive (Gapenski (1991). Their expenditures would be broadly be classified as either capital which includes the purchase of fixed assets and spending on items which are to be held by the business for a long term and will be accounted in the balance sheet and revenue expenditure which include purchase of goods and services which will or have already been consumed in the day to day operations of the business. This section will primarily look at some sources of finance for capital expenditures that constitute capital investments.

The business environment affects the source of financing that firm's use for their investments (Kamere 1987) as mentioned earlier. Lending institutions are sometimes able to be both lenders and shareholders of the companies that they support. The system of co-ownership exists in Kenya where the Industrial Development Bank (IDB), The Industrial and Commercial Development Corporation (ICDC) and the Development Finance Company of Kenya (DFCK), for example participate in both debt and equity in some companies.

However it has not been established whether there is a tendency towards more debt financing in the companies these lending institutions support. The fact that these lenders are represented in the boards of the companies may give them a chance to exert some influence on the investment and financing policies of the firms.

Firms in Kenya are exposed to borrowing rates that are not uniform and this fact may influence the mode of financing that these firms use. Those that can borrow at lower rates may therefore tend to use more debt than those that cannot. At the same time, some

public companies in Kenya for example Kenya Power and Lighting (KPLC) enjoy substantial government support and are able to continue their operations and even undertake capital investments projects notwithstanding that they are unable to meet their debt obligations.

Financial institutions that participate in both debt and equity financing in companies in Kenya (U.S & Foreign Commercial Service Draft Report on Trade and Project Financing in Kenya (2001) are hereby discussed.

Industrial Development Bank (IDB)

IDB is a Government of Kenya funded financial institution. IDB provides medium and long-term loan finance, direct equity investment and guarantees for loans from other sources. It also underwrites security issues, shares, stocks and similar obligations.

Industrial and Commercial Development Corporation (ICDC)

ICDC has been the Government's main conduit for joint venture investments and has made equity investments in many industrial and commercial ventures along with local and foreign partners. ICDC provides project and commercial financing.

Development Finance Company of Kenya (DFCK)

DFCK is owned jointly by the Kenya Government through ICDC, the Netherlands Overseas Finance Company (FMO), the Commonwealth Development Corporation (CDC), the German Development Bank (DEG) and the International Finance Corporation (IFC). DFCK provides medium-term local and foreign currency financing for projects in the industrial, agro-processing, and tourism sectors.

East African development bank (EADB)

Primarily the governments of Kenya, Uganda and Tanzania hold the bank's shareholding. The EADB provides medium and long-term loans designated in foreign currencies.

Kenya Industrial Estates Ltd. (KIE)

KIE provides term loans, and a package of other services. The loans are designated in Kenya shillings.

Kenya Equity Management Ltd. (KEM)

KEM provides equity and term financing, and particularly supports existing companies who wish to expand rather than start-up operations.

The Africa Growth Fund (AGF)

AGF managed by Kenya Equity Management, an affiliate of the U.S. owned Equator Bank, invests in the full range of productive businesses, including manufacturing, agriculture, finance and service industries. Typically, funded projects are between \$5 million and \$50 million in size. Funding comes from the U.S. Overseas Private Investment Corporation (OPIC).

International Finance Corporation (IFC)

IFC is an affiliate of the World Bank and finances private sector investment projects in agriculture, manufacturing and tourism. IFC extends term loans and makes equity investment in projects entailing investment of more than \$20 million. It normally does not finance more than 25 percent of the project cost. The term loans are generally made in foreign currencies. IFC also manages the Africa Enterprise Fund, which can support projects with lower project costs.

African Project Development Facility (APDF)

APDF is a facility established by IFC, UNDP, USAID and The African Development Bank (AFDB). The facility supports medium-sized, African-owned projects by offering assistance in project preparation, locating joint venture partners and negotiating project finance.

Industrial Promotion Services Ltd. (IPS)

IPS is a venture capital company owned by the Aga Khan, IFC Washington, Kenya Commercial Bank, and a merchant bank in the U.K. IPS offers equity investments up to 40 percent of share capital, provides loans and management assistance. IPS also assists in project development and in locating sources of technical know-how.

Economic Development For Equatorial and Southern Africa(EDESA)

EDESA provides medium and long term financing in foreign and local currency. EDESA offers tailor-made package financing for start-up, rehabilitation, and expansion of local ventures, which include loans, convertible loans, guarantees and equity.

The Acacia Fund Limited (AFL)

The Acacia Fund is a private equity fund, which makes equity, or equity related investments in private sector Kenyan companies. Kenya Capital Partners manage AFL. Its shareholders are CDC(the Commonwealth Development Corporation, DEG (the German Investment &Development Company), Barclays Bank of Kenya and Development Bank of Kenya.

European Development Banks

A number of European development banks provide finance to ventures in Kenya. They include the Netherlands Overseas Finance Company in Kenya (FMO), the Commonwealth Development Corporation (CDC), the Danish Development Bank (IFU), and the Swedish Fund for Industrial Development of Africa (SFIDA). Private insurance and pension funds are also important mobilisers of long term savings in Kenya. These institutions normally invest their funds in real estate and listed securities.

Equity and debt capital as defined by authors Weston et al (1992) and Brigham (1991) are the major sources of long-term finance offered by the institutions mentioned above are hereby explained.

- **Equity Capital** -is raised through sale of new shares to potential and existing investors. The main types of shares include ordinary and preference shares. Ordinary shares entitle the owners to receive returns out of the company's profits after tax and interest in form of dividends. Preference shares are designed for investors who do not wish to take degree risk associated with being an ordinary shareholder particularly if the business is declared insolvent. They offer a guaranteed dividend although this fixed level of return can be potentially be less than that received by an ordinary shareholder.
- **Debt Capital**-also referred as loan capital is financing generated over the long term and the forms it can take include-
 - **Debentures**- Debentures are normally associated with limited companies. A business will offer the opportunity to invest in the company through debentures, which are divided into units, similar in principle to shares. The investors, called debenture holders, are deemed as creditors to the business and not owners, and will receive interest payments from the company until, at an agreed date, the loan is redeemed. Most debentures are Secured, in that the holder of the debenture will have claim over specified assets of the business should the business default on interest payments.
 - **Mortgages**- Business may take out mortgages to purchase assets such as land and buildings. The land and buildings concerned are the security for the loan, should the business default on repayments. If the value of the land / buildings concern increases during the period of the mortgage, or the mortgage incorporates a period of fixed interest - and interest rates rise, this reduces the real cost of borrowing for the business.
 - **Venture capital**- According to Bergam (2001) venture Capitalists offer capital to business ventures which other financial institutions / investors might consider too risky. Usually the venture capital firm will require shares in the business and influence in the running of the

company at a strategic level, to protect their investments, normally a non-executive position on the board. Their aim is to see the value of their shares in the business grow, so that at some latter date they may sell their interests in the business at a profit. Often this may involve the business being floated on the stock exchange.

2.3. The financing System in Kenya

A financial system comprises of financial markets and financial institutions (Central Bank Of Kenya Monthly Economic Review November (2001)). Financial markets transfer funds from people and institutions with an excess of available funds to those with a deficit of funds and is made up of money markets, capital markets and foreign exchange markets. Financial markets may be structured along the following frameworks (Capital Market Authority Annual Report (1999)): -

- Money and capital markets-Money markets trade in short term instruments such as treasury bills, bank certificates of deposits, banker's acceptances and repurchase agreements. Capital markets trade in long-term securities i.e. both equity securities and debt securities.

Financial institutions are what make financial markets work and comprise of:

- Depository institutions-include commercial banks, Non Bank financial institutions (NBFIs), mortgage finance companies and building societies.
- Contractual savings institutions-are financial intermediaries that acquire funds at periodic intervals on a contractual basis. Examples are insurance companies and pension funds.
- Investment intermediaries-include finance companies, mutual funds and money market mutual funds.

Kenya inherited at the time of independence a financial system comprising of a currency board; a commercial banking system wholly dominated by two major British banks; a Post Office Saving Bank and a small number of non-bank financial institutions (NBFIs)

providing mortgage finance, insurance and other near-bank financial services. The sector has grown and comprises of, the Central Bank of Kenya, 48 domestic and foreign commercial banks with branches, agencies and other outlets throughout the country; 4 NBFIs, 4 building societies; 37 insurance companies; 7 development finance companies providing long-term finance; 47 foreign exchange bureaux and the Post Office Savings Bank, with a large network of branches around the country; and over 1,500 savings and credit unions (Central Bank Of Kenya Monthly Economic Review, (2001)).

Kenya's capital market is still in its infancy (U.S & Foreign Commercial Service, Trade and Project financing in Kenya (2001)). Treasury Bills and bonds dominate the market for short-term securities. There is relatively light trading in commercial paper, and now there is a secondary market in government paper. The Nairobi Stock Exchange (NSE) is the only licensed trading exchange in the country. The NSE trades in stocks from publicly quoted companies and had a market capitalisation of Kenya shillings 101.42 billion by the end of December 2000(Capital Markets Authority Annual Report (2000)). The NSE is improving its operations through automation of its trading, clearing and settlement systems. Activity at the NSE has been diversified through trading in commercial paper and corporate bonds issued by private companies. Commercial papers (CPs) issues continue to show remarkable progress and are beginning to constitute a major source of working capital financing. The total issued CP programs from 1997 to 2000 total Kshs 12.2 billion.

2.4. Financing and Investments Relationships

The best known empirical study on financing and investments relationships is that by Fazzari et al(1988).They analysed the impact of financing and investment activity by empirically testing models of company investment which they categorised into four broad classes. The four classes are the neo-classical model, the sales accelerator model, the Tobin's q model and the Euler-equation model. In the neo-classical model, the relative cost of capital is the main determinant of corporate investment . The model is defined as:

$$\{I/K\}_{it} = x_1 + x_1\{C_K/K\}_{it} + x_2\{C_K/K\}_{i,t-1} + x_3\{CF/K\}_{it} + e_{it}$$

where **I** stand for the investment level, **K** for the capital stock, **C_K** for the cost of capital and **CF** for cash flow. The coefficient **x₁** and **x₂** give cash flow sensitivities for firm *i* and **e_{it}** is the error term. Although today's investment generates tomorrow's output, the model does not include any forward-looking variables.

Similarly, the sales accelerator model (Abel (1986) does not include expectations about the company's growth potential and assumes that investment grows along with total sales:

$$\{I/K\}_{it} = x_1 + x_1\{S/K\}_{it} + x_2\{S/K\}_{i,t-1} + x_3\{CF/K\}_{it} + e_{it}$$

where **S** stands for total sales.

A more fundamental criticism of these two types of model is that a positive relation between investment and cash flow is assumed to be evidence of liquidity constraints. However, a positive cash flow coefficient may not reflect the importance of internally generated funds for investment purposes, but could instead indicate higher future profitability.

Investment is likely to depend not only on the current level of optimal capital stock but also on its future, optimal level (Bond et al 1994b). As data on expectations are not available, the relation between investment decisions, expected future levels of output and the hurdle rate (the minimum required rate of return to accept investment projects) cannot be estimated. The inclusion of current and lagged levels of output and hurdle rate into investment models is not a proper solution because no distinction is made between factors influencing the optimal stock (the level of capital for which the marginal product of capital equals the hurdle rate) and factors which forecast the future value of the capital stock. Therefore, the cash flow variable of the above investment equations could reflect either financial constraints or the formation of expectations.

Models incorporating Tobin's **q** (defined as the ratio of market values of equity and debt over the replacement value of the firm's capital stock) have attempted to solve this

problem as the expectation of future profitability is captured by the forward-looking stock market valuation (Abel 1990).

$$\{I/K\}_{it} = y_i + y_1 Q_{it} + y_2 \{CF/K\}_{it} + e_{it}$$

where Q_{it} stands for Tobin's q and y_1 is the investment for firm i needed to generate future profitability, which is reflected in Q . If firms are not financially constrained y_2 is expected to be equal to zero, otherwise y_2 will typically be different from zero.

However, estimated q -models is not without problems for various reasons. First, Tobin's q is difficult to measure: the replacement value of assets is not reported in published financial statements in conformity with international accounting standards. Proxying the denominator of Tobin's q by book value of assets also suffers from estimation problems such as the measurement of intangibles. Second, Tobin's q will only include future expectations if the firm is a price taker in perfectly competitive industries, if there are constant returns to scale and if the stock market value correctly measures the fundamental expected present value of the firm's future net cash flows (Hayashi 1982). In practice, these conditions may not be fulfilled, e.g. if the stock market displays excessive volatility relative to the fundamental value of the companies. Thus, if cash flow (or profitability) variables are included in an investment model along with Tobin's q , these cash flow variables may still be made up of expectations not captured by Tobin's q . It may then be difficult to disentangle the effect of expectations from the one of liquidity constraint in the parameter estimate of the cash flow variable. Chirinko and Schaller (1995) show that average Tobin's q is flawed as it reflects the average return on a company's total capital whereas it is the marginal return on capital that is relevant. Gugler et al (1999) developed a technique to measure marginal Tobin's q and test the degree of cash flow sensitivity to investment in different Tobin's q scenarios to distinguish between cases with asymmetric information and agency conflicts.

The Euler-equation model of Bond et al (1994a and 1994b) (hereafter-called B&M) is based on the first-order conditions of a maximisation process. The model deals with the shortcomings of the neo-classical and average Tobin's q -models. The level of investment

relative to the capital stock is a function of discounted expected future investment adjusted for the impact of the expected changes in the input prices and net marginal output. The Euler specification has the advantage that it controls for the influence of expected future profitability on investment spending whilst no explicit measure of expected demand or expected costs is required as future unobservable values are approximated by instrumental values. The theoretical model translates into the following empirical specification and tests the wedge between retained earnings and outside financing:

$$(I/K)_{it} = x_1(I/K)_{i,t-1} + x_2(I/K)^2_{i,t-1} + x_3(CF/K)_{i,t-1} + x_4(S/K)_{i,t-1} + x_5(D/K)_{i,t-1}$$

Steve Bond(1994) recommended the standardisation of investment to sales I/S instead of I/K resulting to the model below.

$$(I/S)_{it} = x_1(I/S)_{i,t-1} + x_2(I/S)^2_{i,t-1} + x_3(CF/S)_{i,t-1} + x_4(D/S)_{i,t-1} + e_{it}$$

Where Gross Investments (**I**) is defined as the purchases of fixed assets and fixed assets acquired during the year. Cash flow (CF) is defined as the sum of retained profits and provision for depreciation. Capital stock (K) is the sum of firm's beginning of the period net book value of fixed assets. Debt (D) is total loan capital consisting of all loans repayable in more than one year and e_{it} the error term.

Other papers relevant in this study are Vogt (1994) Hadlock(1998), Cho(1998), Gugler(1998) and mainly investigate cash flow sensitivities of United States of America firms. Vogt (1994) empirically discriminates between the managerial discretion theory and the asymmetric information hypothesis by including an interaction term between Tobin's q and cash flow in the below regression equation that seeks to check whether liquidity is important in explaining investments in fixed assets or not.

$$I_{it} = a + b_1 Q_{it} + y CF_{it} + e_{it}$$

The variable I_{it} represents investment in fixed assets for firm i during year t scaled by the firm's beginning of the period net book value of fixed assets. Tobin's Q_{it} at the beginning of year t controls for changes in investment demand due to investment opportunities. The impact of cash flow (CF) on investment is reflected by the coefficient γ . Both investment and cashflow are scaled by the firms beginning of the period net book value of fixed assets to neutralise potential heteroskedasticity.

The empirical literature documented by Fazzari et al (1988) indicates that the level of internally generated funds significantly influences investment spending. The result findings were that the sensitivity of capital expenditure with respect to internally generated funds is highest for fast growing and(or) low dividend firms. Kaplan and Zingales (1997) criticised the Fazzari, et al (1988) by examining in greater detail their data used, and collecting quantitative and qualitative information on financing constraints for the Fazzari et al sample. Their results were contrary to those of Fazzari et al i.e. the higher the likelihood that companies face financial constraints the lower their investment cash sensitivity. They argue that these apparently financially constrained firms could have augmented their use of cash and lines of credit at a particular moment in time.

3. RESEARCH DESIGN

The study was exploratory in nature.

3.1. Population

The population of the study comprised of all companies quoted at the Nairobi Stock Exchange. The study used listed Companies published results for the last five years from period 1997 to 2001.

3.2. Data Collection

Both primary and secondary data were used in the study. Primary data was collected using self-administered questionnaires to financial managers of publicly quoted companies. It was felt that financial managers would be better placed to know what factors influence the choice of a mode of financing capital investments and the relative importance of these factors. Secondary data was gathered from the annual published results of companies listed on the Nairobi Stock Exchange. Data collected included the financing and capital investment variables as outlined on the data collection worksheet in the appendices.

3.3. Data Analysis

Data collected on capital investment and financing variables was analysed through descriptive statistics and correlation analysis. Percentages were used to present the ratings of various items by the respondents as well as their opinions and views. The SPSS computer package was used to compute the Pearson's coefficient of correlation and the descriptive statistics.

4. DATA ANALYSIS AND FINDINGS

4.1. Introduction

The data collected was analysed using descriptive statistics and correlation analysis. The secondary data on, capital investments, Internally generated funds, New equity, Long-term debt and Short-term debt figures for the periods 1997 to 2001 were tabulated in industry categories. Yearly totals for the capital investments and financing variables for the Agricultural, Commercial, Financial and industrial categories were calculated and were expressed as percentages of the respective industry total. It should be noted that the 4 industry categories classification employed is that used by Nairobi Stock Exchange and the Kenya Bureau of Statistics and was assumed to ensure homogeneity of firms within the same industry.

Correlation analysis was done to ascertain how various pairs of capital investments and financing variables varied together in each industrial category and the significance of the relationships. Complete information was not available on all companies for which secondary data was sought. Correlation analysis was therefore restricted to complete paired cases only. A total of 30 questionnaires from the 52 self-administered were completed and returned to the researcher within the duration of this study. Primary data analysis was limited to the completed 30 questionnaires.

4.2. Findings and Discussions

4.2.1. Primary data Analysis Results

Primary data was sought using self-administered questionnaires(see appendices) to finance managers. The questionnaires sought to find out among other things whether in the opinion of finance managers a target debt/equity ratio existed in their companies. 45% of the finance managers reported that their companies had a target debt/equity ratio,37% reported that their companies had no target debt/equity ratio and 18% could not tell.

Finance managers whose companies had target ratios specified a ratio of debt to total capitalisation, which could not be exceeded.

The questionnaires also sought to find out the sources and frequencies of finances used for capital investments undertaken over the last 5 years .The results are detailed on the table below. The tabled results were found to be consistent with secondary data results.

SOURCES OF FINANCE	1 %	2 %	3 %	4 %	5 %
New Share Capital	-	10	-	20	70
Internal Funds	80	-	10	10	-
Long Term Debt	10	10	40	30	10
Short Term Debt	10	30	40	-	20
Leasing	-	30	-	20	50
Others(specify)-Hire purchase,barter agreements-ETC	-	-	-	20	80

(Scale 1- most frequently used, 2-frequently used, 3-moderatly used, 4-rarely used, 5-not used)

The finance managers were further required in the questionnaires to rate the importance of different factors that are said to influence the choice of financing capital investments, in accordance with the second objective of the study. Factors got ratings ranging from very important rated 1 to totally unimportant rated 5.The table below shows the ratings accorded to the various factors in percentages from responses from the respondents.

THE IMPORTANCE ATTACHED TO DIFFRENT FACTORS THAT INFLUENCE THE CHOICE OF THE MODE OF FINANCING CAPITAL INVESTMENTS BY FINANCE MANAGERS

	1 %	2 %	3 %	4 %	5 %
Asset structure of the firm	30	40	20	-	10
Size of the business	20	60	20	-	-
Stability of future cash flows	70	30	-	-	-
Level of interest rates in the economy	40	20	30	10	-
Stability of future sales	40	50	10	-	-
Attitude of management towards risk	10	30	50	-	10
Profitability of the business	50	40	10	-	-
Lenders' attitudes towards the firm	30	40	10	10	10
Level of competition in the industry	50	20	20	-	10
Ability of shareholders to raise funds	30	10	40	10	10
Tax advantage of debt	10	30	30	10	20

The need for outside capital	-	20	40	20	20
The firm's target debt/equity ratio	20	50	30	-	-
Age of the business	-	10	10	20	60
Government policy	10	30	30	10	20
Technology required	10	30	30	10	20

(1-Very important, 2-Important, 3-Fairly important, 4-Unimportant, 5-Totally Unimportant)

Questionnaires also sought to find out the 5 most important influences of financing capital investment decisions. The results are tabled below.

The 5 Most Important Influences of Financing Capital Investment Decisions

	1	2	3	4	5
	%	%	%	%	%
Stability of future cash flows	70	30	-	-	-
Profitability of the business	50	40	10	-	-
Level of competition in the industry	50	20	20	-	10
Stability of future sales	40	50	10	-	-
Level of interest rates in the economy	40	20	30	10	-

(1-Very important, 2-Important, 3-Fairly important, 4-Unimportant, 5-Totally Unimportant)

Many other factors albeit not listed on the questionnaire were mentioned by the respondents as important considerations in the financing of capital investment decisions. They included: - Cost of Production, Turnover, Cost of capital, Return on investment, Availability of credit, Level of inflation, Projected government budget, Capital Investment tax Deductions, Modernisation of core business, Expansion in the region, New product development, Customer care needs, Availability of sale and lease-back facilities, Size of the investment, Payback period

4.2.1. Secondary data Analysis Results

Secondary data was sought in accordance with the objectives of the study. The researcher also used the secondary data with a view of ascertaining whether how capital investments are financed and the factors that influence their financing as said by the respondents are reflected in the published results of quoted companies.

The secondary data results revealed that the Industrial sector dominated the level of capital investments undertaken for period 1997 to 2001 taking up 37.9% of the total capital investments made by NSE quoted companies. Commercial sector followed with 30.75%, the financial sector with 19.43% and the Agricultural sector with 11.93%.

The results from the financing variables revealed that in the period 1997 to 2001, the Industrial sector used the highest proportion of Long-term debt in the NSE market of 38.53%, followed by the Commercial sector 37.30%, Financial sector 12.40% and the Agricultural sector had 11.76%.

The scenario for internally generated funds had the Financial sector with the highest level, taking up 38.21% of the total internally generated funds by NSE quoted companies. The Industrial sector followed with 29.89%, the Commercial sector with 22.02% and the lowest level was the Agricultural sector with 9.88%.

Short-term debt was employed largely by the Industrial sector with the highest level of 49.36%. It was followed by the Commercial sector with 24.57%, the Financial sector with 16.60%, and the Agricultural sector raised 9.47%.

The use of New Equity was dominated by the Industrial Sector with 51.91%, followed by the financial sector with 40.09%, the commercial sector had 7.95% with the Agricultural sector trailing with a mere 0.06% of new ordinary share capital raised.

Correlation analysis run through the SPSS computer package was used to explain the relationships of capital investments paired with the identified financing variables. Correlation was measured using a correlation coefficient denoted (r).

The results on the relationship between capital investments and Long-term debt in the Commercial sector and Industrial sector showed a positive Pearson's correlation coefficient (r) value of 0.540 and 0.327 respectively. Both correlation coefficients were

significant at 0.01 level. This means we would confirm with 99% confidence that capital investments and long-term debt in the Commercial and Industrial sector period 1997 to 2001 moved in the same direction. Capital investments and Long-term debt were found to be positively correlated with a correlation coefficient of 0.277 in the Agricultural sector but this relationship was not significant. In the Financial Sector, Long term debt and Capital investments had a correlation coefficient value of -0.010. However the correlation coefficient was not significant to justify conclusion that Long-term debt and capital investments moved in opposite directions in the financial sector.

The results on the relationship between capital investments and Internally generated funds revealed a positive Pearson's correlation coefficient r value of 0.646, 0.540, 0.555 and 0.715 in the Agricultural, Commercial, Financial and Industrial sectors respectively. All sectors recorded Pearson's correlation coefficient r -values significant at 0.01 level. In other words we would confirm with 99% confidence that internally generated funds positively influences capital investments in all companies quoted at the NSE.

The results on the relationship between capital investments and Short-term debt revealed a positive Pearson's correlation coefficient r value of 0.496, and 0.440 in the Agricultural, and Commercial, respectively. Both sectors recorded Pearson's correlation coefficient r -values significant at 0.01 level. We would confirm with 99% confidence that Short-term debt is positively correlated with capital investments in the Agricultural, and Commercial sectors. Both the Financial and Industrial sectors had a low correlation coefficient r -value of 0.060 and 0.038 and were not significant positive relationships to justify conclusions.

The results on the relationship between capital investments and New Equity revealed a positive Pearson's correlation coefficient r value of 0.572, and 0.333 in the Industrial, and Financial sectors, respectively. The Industrial sector recorded Pearson's correlation coefficient r values significant at 0.01 level whereas the Financial sector recorded Pearson's correlation coefficient r values was significant at 0.05 level. We would confirm

with 99% confidence that New Equity is positively correlated with capital investments in the Industrial sector and with lesser confidence of 95% in the financial sector. Both the Agricultural and Commercial sectors had a low negative correlation coefficient r -value of -0.174 and -0.023 and were not significant negative relationships to justify conclusions therefrom. The summarised Secondary data Analysis results is hereby attached

Descriptive statistics and Correlation's Summary							
Sector	Variable	No. Of Cases	1997-2001 Group Mean Kshs'000	1997-2001 Group Std Kshs'000	% of Market Total	Percent correlation with capital investments	Significance 2-tailed 0.01 Level, **Sig) 1-tailed 0.05 Level, *Sig)
AGRICULTURAL	Capital Investments	36	105,311	101,647	11.92%	1.000	
COMMERCIAL	Capital Investments	56	271,711	667,809	36.75%	1.000	
FINANCIAL	Capital Investments	53	171,657	194,038	19.43%	1.000	
INDUSTIAL	Capital Investments	77	334,866	611,749	37.90%	1.000	
AGRICULTURAL	Long-term Debt	40	129,061	327,060	11.76%	0.277	0.102
COMMERCIAL	Long-term Debt	70	409,288	1,374,882	37.30%	0.540	**
FINANCIAL	Long-term Debt	60	136,064	408,583	12.40%	0.818	0.945
INDUSTRIAL	Long-term Debt	88	422,784	1,095,642	38.53%	0.327	**
AGRICULTURAL	Internal Funds	37	135,797	151,752	9.88%	0.646	**
COMMERCIAL	Internal Funds	59	302,698	676,757	22.02%	0.540	**
FINANCIAL	Internal Funds	55	525,332	1,217,377	38.21%	0.555	**
INDUSTRIAL	Internal Funds	78	410,958	611,749	29.89%	0.715	**
AGRICULTURAL	Short-term Debt	40	67,198	115,159	9.47%	0.696	**
COMMERCIAL	Short-term Debt	50	174,362	444,761	24.57%	0.640	**
FINANCIAL	Short-term Debt	50	117,795	421,218	16.60%	0.868	0.702
INDUSTRIAL	Short-term Debt	74	350,274	692,792	49.36%	0.838	
AGRICULTURAL	New Equity	40	50	318	0.06%	-0.174	0.309
COMMERCIAL	New Equity	70	6,902	29,912	7.95%	-0.023	0.869
FINANCIAL	New Equity	60	34,810	98,962	38.89%	0.333	*
INDUSTRIAL	New Equity	77	45,075	130,144	31.91%	0.572	**

* - Correlation is significant at the 0.05 level (2 tailed)

** - Correlation is significant at the 0.01 level (2 tailed)

Supporting detailed data can be found in the appendices.

5. SUMMARY AND CONCLUSIONS

5.1. Summary

The objectives of this study were to identify how capital investments are financed by quoted companies in Kenya and identify the factors that the management of quoted companies consider in making their financing capital investments decisions. Both primary and secondary data were used for this study. Information provided from primary data was found to be consistent with secondary data information. The findings and results were also found to consistent with assertions of earlier researchers referred in section 3 of the literature review.

5.2. Conclusions

It was observed from the published reports of companies in this study that capital investments are usually financed by internally generated funds. Correlation analysis between capital investments and internally generated funds confirmed a significant positive correlation with a 99% confidence level among all sectors of companies quoted at the NSE. Primary data findings further ascertained and justified the positive influence of internally generated funds in financing capital investments. The findings on the relationships of long-term debt, short-term debt and New equity with capital investments did not present the researcher with adequate justification to make substantive conclusions. There was very little or no change in the amount of new equity issued by the companies in the study sample over the years. This shows that there is a general preference for internally generated funds, which may have to do with the desire of the existing shareholders of the companies to retain control and hence the absence of fresh stock issues, besides other explanations.

Financial managers consider various factors to be important in making financing capital investments decisions. The stability of future cash flows was considered the most important factor in financing capital investment decisions. The risk inherent in a business

being rendered insolvent in event of default in repaying debt elevated the importance of stability of future cash flows. It is therefore recommended that financial managers should have proper forecasts of projected future cash flows prior to making decisions on how to finance capital investments.

The profitability of the business ranked second in importance. Financial managers felt that profitability of a business would justify ploughing back of the profits to the business and even borrow to make up for the capital investment deficit. Managers were unwilling to forego profitable investment opportunities just because funds were not available.

The level of competition in the industry ranked third in importance. According to the respondents there was strong need to invest in-order to maintain or face-up to competition. Stability of future sales ranked forth. Financial managers felt that a firm that is expected to have stable sales and income will be exposed to less risk than one where income is expected to fluctuate. Firms with fluctuating sales may have problems repaying debt since interest payments are a fixed cost.

The level of interest rates in the economy ranked fifth in importance. The respondents were of the opinion of using less debt financing in their capital investments when the interest rates in the economy are high. Overall, there is need to diligently evaluate all the factors in their varying degrees of importance, given the critical role of financing capital investments decision making process.

5.3. Limitations of the Study

The study period covered five years only. It was felt that given the study was exploratory, respondents were more likely to give responses reflected in the current published reports. It was appreciated that a period of five years is short a time for such a study to give conclusive findings.

Further testable empirical models explained in the literature review were not employed in this study. The same study could be replicated this time using empirically tested models.

The study used correlation analysis in the research design. Correlation has limitations and the researcher acknowledges that correlation does not necessarily mean causation.

5.4. Suggestions for Further Research

This study attempted to identify how capital investments are financed by quoted companies and the factors considered in the making financing capital investment decisions. Internal financing was identified as the major source of financing capital investments. Various factors that management of quoted companies considers in making capital investment decisions were also highlighted.

It would also be of interest to study the relationship between internal financing and ownership structure of Kenyan companies. Another study investigating the relationship of capital investments with other financing variables such as mortgage financing can be carried out.

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APPENDICES

Definitions

Capital Investments (I) - include Property, Plant and Equipment, intangible assets and other fixed assets

Property, Plant and Equipment –include assets such as land and buildings, machinery, equipment, fixtures and fittings and vehicles

Assets–enterprise resources derived from past events and expected to produce future economic benefits.

Fixed assets–are long-term tangible assets used in the operation of the business. Tangible means they physically exists.

Intangible assets–are assets with the following characteristics: separately identifiable, non- physical in substance, useful in the production or supply of goods or services or administrative work and are rental to others.

Internally generated funds or internal funds (IF)– defined as the sum of Net Profit after tax, plus provision for depreciation of fixed assets.

Long Term Debt (D) –defined as is long-term debt securities consisting of all loans repayable in more than one year. **Long Term Debt Securities** will include debentures or bonds and mortgage debentures. Debt securities pay a fixed income for which the issuer promises to pay a fixed amount of interest periodically and to repay the principal or par amount at the maturity of the bonds.

Short Term Debt (SD)–defined as short-term debt securities consisting of all loans repayable within than one year. **Short term Debt securities** will include borrowings made up of bank overdrafts, short-term bank loans and commercial papers.

New Equity Capital (NE)–is defined as equity securities issued for the first time or (and) additional equity securities issued during a financial year

Capital stock (K)– Capital stock (K) is the sum of firm’s beginning of the period net book value of fixed assets.

Sales (S) –defined as Total Turnover

Listed firms means companies whose Equity and Debt securities have been admitted on the official list of the Nairobi stock Exchange.

APPENDIX I

Equity Securities means ordinary shares and preference shares.

Ordinary shares represent ownership in the firm; they have no maturity, and provide the owner with voting rights and other privileges of opportunity for growth in price and receipts of dividends.

Preference shares represent hybrid securities that have no maturity although some are convertible into common stock and pay fixed dividends.

The issuer means any public company or other legal entities whose securities are subject of an application for admission or have been admitted to the Nairobi Stock Exchange

FINANCING CAPITAL INVESTMENTS**QUESTIONNAIRE TO FINANCE MANAGERS**

1. Name of the company.....(optional)

Industry/sector (*please tick where appropriate*)

- ☐ Industrial & allied
- ☐ Finance & investment
- ☐ Commercial & services
- ☐ Agricultural
- Other(state).....

2. In relation to the other firms in the industry, what is the size of your firm?

- ☐ Large
- ☐ Medium
- ☐ Small

3. What criteria or criterion did you use to determine the size of your firm?

- ☐ Value of total assets
- ☐ Amount of total sales
- ☐ Number of employees
- ☐ Other(specify).....

4. Does your company have a target debt/equity ratio?

- ☐ Yes
- ☐ No
- ☐ Cannot tell

5. Tick the description given below if it best fits your company's understanding of what capital investments stands for or specify your company's definition

- ☐ Property, plant and equipment, intangible assets and other fixed assets
- ☐ Other(specify).....

6. Tick the type of capital investments undertaken by your company over the last 5 years?

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- ☐ Land and buildings
- ☐ Plant and Equipment
- ☐ Vehicles
- ☐ Fixtures and fittings
- ☐ Others(specify).....

7. Please tick from the sources of finance that have been used in Nos.7 above. (Please tick in the scale given below:1- Most frequently used,2-frequently used,3-moderated used,4-rarely used,5-not used)

	1	2	3	4	5
New Equity Capital					
Internal Funds					
Long Term Debt					
Short Term Debt					
Leasing					
Others(specify)-Hire purchase, barter agreements ETC					

8. Below is a list of some of the factors that are said to influence the choice of financing capital investments. Indicate how important you consider each of the factors to be by

APPENDIX II

placing a tick in the appropriate box. (Please tick in the scale given below: 1-Very Important, 2-Important, 3-Fairly Important, 4-Unimportant, 5-Totally Unimportant)

	1	2	3	4	5
Asset structure of the firm					
Size of the business					
Stability of future cash flows					
Level of interest rates in the economy					
Stability of future sales					
Attitude of management towards risk					
Profitability of the business					
Lenders' attitudes towards the firm					
Level of competition in the industry					
Ability of shareholders to raise funds					
Tax advantage of debt					
The need for outside capital					
The firm's target debt/equity ratio					
Age of the business					
Government policy					
Technology required					

9. What other factors besides the ones listed above do you consider important in the choice of financing capital investments in your company? (Please tick in the scale given below: 1-Very Important, 2-Important, 3-Fairly Important, 4-Unimportant, 5-Totally Unimportant)

	1	2	3	4	5

11. Of the factors listed in Nos. 9 and 10, which are the Five most important? (Please list them in order of importance beginning with the most important and tick in the scale given below: 1-Very important, 2-Important, 3-Fairly important, 4-Unimportant, 5-Totally Unimportant)

APPENDIX II

	1	2	3	4	5
1)					
2)					
3)					
4)					
5)					

THANK YOU VERY MUCH FOR YOUR CONTRIBUTION.

APPENDIX III

COMPANY NAME.....
SECTOR.....

FINANCING VARIABLES

YEAR	NEW EQUITY CAPITAL Kshs,000.	NET PROFIT AFTER TAX PLUS DEPRECIATION (INTERNAL FUNDS) Kshs,000	LONG-TERM DEBT Kshs,000.	SHORT - TERM DEBT Kshs,000.	TOTAL Kshs,000
1997					
1998					
1999					
2000					
2001					

CAPITAL INVESTMENTS

YEAR	LAND & BUILDINGS Kshs,000.	PLANT & EQUIPMENT AND VEHICLES Kshs,000.	OTHER FIXED ASSETS Kshs,000.	TOTAL ADDITIONAL FIXED ASSETS Kshs,000.
1997				
1998				
1999				
2000				
2001				

CAPITAL INVESTMENTS (Kshs'000')

	AGRICULTURAL SECTOR	Sector	2001	2000	1999	1998	1997
1	Brooke Bond LTD Ord 10.00	A	442,747	264,267	157,790	200,768	253,606
2	Eaagads LTD Ord 1.25	A	1,927	-	18,325	6,670	3,447
3	George Williamson Kenya LTD Ord 5.00	A	79,424	106,445	123,824	73,730	58,056
4	Kakuzi Ord 5.00	A	-	132,042	203,736	294,425	267,596
5	Kapchorua Tea Co LTD Ord 5.00	A	18,118	48,592	41,476	33,991	23,581
6	Limuru Tea Co LTD Ord 20.00	A	-	-	2,263	1,978	668
7	Rea Vipingo Plantations LTD Ord 5.00	A	80,447	60,546	145,200	128,085	123,091
8	Sasini Tea & Coffee LTD Ord 5.00	A	50,033	70,270	48,707	144,119	81,200
	sector total		672,696	682,162	741,321	883,766	811,245
	% of Market Total		8.58%	9.91%	5.27%	7.08%	6.43%
	COMMERCIAL SECTOR						
9	African Lakes	C	313,680	131,640	75,720	-	-
10	A Baumann & Co Ord 5.00	C	-	2,613	516	16,836	29,921
11	CMC Holdings LTD Ord 5.00	C	-	-	142,000	138,741	68,918
12	Car & General (K) LTD Ord 5.00	C	9,796	5,950	10,569	74,286	38,560
13	Express LTD Ord 5.00	C	63,870	48,972	97,881	41,299	47,134
14	Hutchings Biemer LTD Ord 5.00	C	-	-	-	-	32
15	Kenya Airways Ord 5.00	C	1,489,000	400,000	4,154,000	2,169,000	1,800,000
16	Lonrho Motors EA LTD Ord 5.00	C	n/a	n/a	51,700	217,660	362,580
17	Marshall's (E.A) LTD Ord 5.00	C	17,750	36,463	24,388	32,153	31,779
18	Nation Media Group Ord 5.00	C	256,000	193,200	408,000	172,300	137,800
19	Pearl Drycleaners LTD Ord 5.00	C	n/a	n/a	-	253	2,373
20	Tourism Promotion Services LTD Ord 5.00	C	279,595	177,660	218,000	91,650	44,686
21	Standard Newspapers Group Ord 5.00	C	112,554	45,414	24,868	28,570	34,399
22	Uchumi Supermarket LTD Ord 5.00	C	265,938	298,963	26,000	196,000	56,200
	sector total		2,808,183	1,340,875	5,233,642	3,178,748	2,654,382
	% of Market Total		35.81%	19.48%	37.21%	25.48%	21.02%
	FINANCIAL SECTOR						
23	Barclays Bank LTD Ord 10.00	F	361,000	255,000	229,000	636,000	773,000
24	City Trust LTD Ord 5.00	F	-	-	-	171,898	74,000
25	C.F.C Bank LTD Ord 5.00	F	-	103,230	217,800	193,322	130,295
26	Diamond Trust Bank Of Kenya LTD Ord 4.00	F	-	29,079	24,089	29,246	23,276
27	I.C.D.C Investments Co LTD Ord 5.00	F	2,095	9,302	179,256	139,494	13,522
28	Housing Finance Co LTD Ord 5.00	F	20,266	32,781	44,309	26,066	32,700
29	Jubilee Insurance Co LTD Ord 5.00	F	12,657	9,451	23,728	17,204	10,579
30	Kenya Commercial Bank LTD Ord 10.00	F	403,528	494,510	564,035	362,180	386,471
31	National Bank Of Kenya LTD Ord 5.00	F	239,967	63,183	144,853	177,172	84,828
32	NAtional Industrial Credit LTD Ord 5.00	F	19,551	59,413	50,130	40,167	92,570
33	Pan Africa Insurance LTD Ord 5.00	F	-	32,193	-	16,546	20,417
34	Standard Chartered Bank LTD 5.00	F	402,702	573,403	320,485	191,861	534,000
	sector total		1,461,766	1,661,545	1,797,685	2,001,156	2,175,658
	% of Market Total		18.64%	24.14%	12.78%	16.04%	17.23%

CAPITAL INVESTMENTS (Kshs'000')

	INDUSTRIAL SECTOR						
35	Athi River Mining Ord 5.00	I	51,402	36,873	84,809	143,943	103,000
36	British American Tobacco Ord 10.00	I	297,988	438,037	250,377	566,464	452,365
37	Bamburi Cement LTD Ord 5.00	I	877,000	771,000	818,000	1,455,000	1,240,000
38	B.O.C Kenya LTD Ord 5.00	I	-	42,691	117,729	56,915	31,029
39	Carbacid Investments LTD Ord 5.00	I	-	-	22,149	51,619	13,809
40	Crown Berger LTD Ord 5.00	I	5,699	13,426	10,785	24,498	20,255
41	Dunlop Kenya Ord 5.00	I	-	2,504	-	859	1,116
42	E.A.Cables LTD Ord 5.00	I	5,297	5,994	4,627	15,162	21,324
43	E.A.Packaging LTD Ord 5.00	I	-	-	23,500	66,337	24,876
44	E.A.Portland Cement LTD Ord 5.00	I	213,754	179,837	171,462	216,379	447,448
45	East African Breweries LTD Ord 10.00	I	612,255	605,411	1,545,974	1,191,266	1,405,600
46	Firestone East Africa LTD Ord 5.00	I	-	106,982	246,180	287,972	453,783
47	Kenya National Mills LTD Ord 5.00	I	147,657	241,947	125,298	215,272	154,906
48	Kenya Oil Co LTD Ord 5.00	I	338,027	61,549	40,000	41,663	50,367
49	Kenya Orchards LTD Ord 5.00	I	-	-	-	2,925	2,354
50	Kenya Power & Lighting LTD Ord 20.00	I	n/a	n/a	2,351,083	1,542,191	2,223,312
51	Total Kenya LTD Ord 5.00	I	202,663	450,599	348,516	312,170	180,669
52	Unga Group LTD Ord 5.00	I	147,657	241,947	130,400	220,335	158,403
	sector total		2,899,399	3,198,797	6,290,889	6,410,970	6,984,616
	% of Market Total		36.97%	46.47%	44.73%	51.39%	55.32%
	TOTALS		7,842,044	6,883,379	14,063,537	12,474,640	12,625,901

APPENDIX IV

SHORT-TERM DEBT (Kshs'000')

AGRICULTURAL SECTOR		Sector	2,001	2,000	1,999	1,998	1,997
1	Brooke Bond LTD Ord 10.00	A	248,843	-	-	42,351	9,400
2	Eaagads LTD Ord 1.25	A	-	-	-	-	-
3	George Williamson Kenya LTD Ord 5.00	A	12,789	79,972	124,869	41,103	111,931
4	Kakuzi Ord 5.00	A	-	514,793	331,452	316,121	100,070
5	Kapchorua Tea Co LTD Ord 5.00	A	-	259	2,243	2,278	11,407
6	Limuru Tea Co LTD Ord 20.00	A	-	-	-	-	-
7	Rea Vipingo Plantations LTD Ord 5.00	A	136,280	126,783	202,538	164,512	99,617
8	Sasini Tea & Coffee LTD Ord 5.00	A	4,527	3,680	-	-	85
sector total			402,439	725,487	661,102	566,365	332,510
% of Market Total			5.13%	6.27%	6.26%	7.18%	3.48%
COMMERCIAL SECTOR							
9	African Lakes	C					
10	A Baumann & Co Ord 5.00	C					
11	CMC Holdings LTD Ord 5.00	C					
12	Car & General (K) LTD Ord 5.00	C	126,569	131,163	17,394	10,417	11,061
13	Express LTD Ord 5.00	C	284,185	242,069	73,108	147,826	107,140
14	Hutchings Biemer LTD Ord 5.00	C					
15	Kenya Airways Ord 5.00	C	156,000	-	562,000	458,000	3,000,000
16	Lonrho Motors EA LTD Ord 5.00	C	-	-	-	-	-
17	Marshalls (E.A) LTD Ord 5.00	C	459,426	532,746	589,336	16,715	9,937
18	Nation Media Group Ord 5.00	C	7,300	187,800	449,700	415,600	428,300
19	Pearl Drycleaners LTD Ord 5.00	C	-	-	7,835	9,395	5,950
20	Tourism Promotion Services LTD Ord 5.00	C	-	-	-	-	-
21	Standard Newspapers Group Ord 5.00	C	57,085	66,226	59,617	51,762	26,949
22	Uchumi Supermarket LTD Ord 5.00	C	-	-	-	-	9,490
sector total			1,090,565	1,160,004	1,758,990	1,109,715	3,598,827
% of Market Total			13.90%	10.03%	16.65%	14.07%	37.68%
FINANCIAL SECTOR		F					
23	Barclays Bank LTD Ord 10.00	F	-	-	-	-	-
24	City Trust LTD Ord 5.00	F	-	-	-	-	-
25	C.F.C Bank LTD Ord 5.00	F	-	-	-	-	-
26	Diamond Trust Bank Of Kenya LTD Ord 4.00	F	-	-	-	-	-
27	I.C.D.C Investments Co LTD Ord 5.00	F	-	-	-	13,333	-
28	Housing Finance Co LTD Ord 5.00	F	-	-	-	-	-
29	Jubilee Insurance Co LTD Ord 5.00	F	-	-	-	-	-
30	Kenya Commercial Bank LTD Ord 10.00	F					
31	National Bank Of Kenya LTD Ord 5.00	F	351,523	407,518	1,230,000	1,823,345	2,064,049
32	NAtional Industrial Credit LTD Ord 5.00	F	-	-	-	-	-
33	Pan Africa Insurance LTD Ord 5.00	F	-	-	-	-	-
34	Standard Chartered Bank LTD 5.00	F	-	-	-	-	-
sector total			351,523	407,518	1,230,000	1,836,678	2,064,049
% of Market Total			4.48%	3.52%	11.64%	23.29%	21.61%

APPENDIX IV

SHORT-TERM DEBT (Kshs'000')

	INDUSTRIAL SECTOR						
35	Athi River Mining Ord 5.00	I	112,250	109,970			
36	British American Tobacco Ord 10.00	I	674,259	1,079,633	287,725	-	627,758
37	Bamburi Cement LTD Ord 5.00	I	671,000	938,000	441,000	7,000	-
38	B.O.C Kenya LTD Ord 5.00	I	-	2,088	12,202	4,931	2,699
39	Carbacid Investments LTD Ord 5.00	I	-	-	-	-	-
40	Crown Berger LTD Ord 5.00	I	32,999	131,217	123,650	148,530	161,378
41	Dunlop Kenya Ord 5.00	I	-	5,884	-	-	-
42	E.A.Cables LTD Ord 5.00	I	-	-	3,130	-	-
43	E.A.Packaging LTD Ord 5.00	I	-	-	-	-	-
44	E.A.Portland Cement LTD Ord 5.00	I	235,152	271,577	-	-	51,458
45	East African Breweries LTD Ord 10.00	I	599,561	372,257	1,030,000	139,783	255,957
46	Firestone East Africa LTD Ord 5.00	I		20,000	248,299	53,869	60,726
47	Kenya National Mills LTD Ord 5.00	I	820,393	750,633	1,137,183	1,304,160	364,975
48	Kenya Oil Co LTD Ord 5.00	I	-	101,918	-	-	12,176
49	Kenya Orchards LTD Ord 5.00	I	-	-	-	-	-
50	Kenya Power & Lighting LTD Ord 20.00	I	-	-	-	-	-
51	Total Kenya LTD Ord 5.00	I	2,025,760	4,671,902	2,498,656	1,432,179	1,658,190
52	Unga Group LTD Ord 5.00	I	830,393	820,833	1,133,583	1,283,860	360,811
	sector total		6,001,767	9,275,912	6,915,428	4,374,312	3,556,128
	% of Market Total		76.49%	80.18%	65.45%	55.46%	37.23%
	TOTALS		7,846,294	11,568,921	10,565,520	7,887,070	9,551,514

INTERNAL FUNDS (NET PROFIT AFTER TAX PLUS DEPRECIATION) KSHS'000'

AGRICULTURAL SECTOR		Sector	2001	2000	1999	1998	1997
1	Brooke Bond LTD Ord 10.00	A	431,652	660,485	411,116	463,365	51,053
2	Eaagads LTD Ord 1.25	A	7,283	(4,502)	11,483	51,726	27,933
3	George Williamson Kenya LTD Ord 5.00	A	207,596	156,087	97,384	327,447	104,633
4	Kakuzi Ord 5.00	A		36,839	110,150	168,937	268,275
5	Kapchorua Tea Co LTD Ord 5.00	A	31,103	41,666	33,225	92,988	36,874
6	Limuru Tea Co LTD Ord 20.00	A			9,301	20,762	16,668
7	Rea Vipingo Plantations LTD Ord 5.00	A	58,520	18,476	56,326	78,876	106,141
8	Sasini Tea & Coffee LTD Ord 5.00	A	106,737	206,099	111,928	216,058	193,796
sector total			842,891	1,115,150	840,913	1,420,159	805,373
% of Market Total			4.54%	7.70%	6.60%	8.27%	3.86%
COMMERCIAL SECTOR							
9	African Lakes	C	(284,400)	70,080	126,120	-	-
10	A Baumann & Co Ord 5.00	C		7,607	15,983	6,698	(9,140)
11	CMC Holdings LTD Ord 5.00	C			160,507	155,155	188,184
12	Car & General (K) LTD Ord 5.00	C	5,428	8,348	31,709	(16,802)	(104,074)
13	Express LTD Ord 5.00	C	28,460	35,847	21,326	47,059	51,315
14	Hutchings Biemer LTD Ord 5.00	C					1,745
15	Kenya Airways Ord 5.00	C	1,602,000	2,785,000	1,598,000	1,962,000	1,214,153
16	Lonrho Motors EA LTD Ord 5.00	C			(1,073,000)	(464,440)	52,000
17	Marshalls (E.A) LTD Ord 5.00	C	(57,993)	249,570	(187,668)	91,718	125,577
18	Nation Media Group Ord 5.00	C	2,014,400	1,702,400	1,462,700	1,152,400	1,057,800
19	Pearl Drycleaners LTD Ord 5.00	C			(17,888)	(11,834)	(8,673)
20	Tourism Promotion Services LTD Ord 5.00	C	195,964	182,310	178,594	165,620	144,572
21	Standard Newspapers Group Ord 5.00	C	92,676	(102,037)	(96,450)	18,729	52,083
22	Uchumi Supermarket LTD Ord 5.00	C	87,329	245,294	300,687	348,288	250,134
sector total			3,683,864	5,184,419	2,520,620	3,454,591	3,015,676
% of Market Total			19.84%	35.78%	19.78%	20.11%	14.47%
FINANCIAL SECTOR							
23	Barclays Bank LTD Ord 10.00	F	3,359,000	2,518,000	2,758,000	3,481,000	3,110,000
24	City Trust LTD Ord 5.00	F	n/a	n/a	8,334	33,702	24,230
25	C.F.C Bank LTD Ord 5.00	F	n/a	259,784	241,044	262,627	282,477
26	Diamond Trust Bank Of Kenya LTD Ord 4.00	F	60,714	183,757	225,198	175,111	125,202
27	I.C.D.C Investments Co LTD Ord 5.00	F	211,932	228,237	161,426	111,132	119,303
28	Housing Finance Co LTD Ord 5.00	F	(152,653)	87,408	106,775	321,352	332,705
29	Jubilee Insurance Co LTD Ord 5.00	F	116,302	92,051	121,681	150,358	93,652
30	Kenya Commercial Bank LTD Ord 10.00	F	712,197	(131,591)	(1,247,435)	1,389,446	2,621,262
31	National Bank Of Kenya LTD Ord 5.00	F	371,495	(2,112,378)	(2,316,214)	(2,095,768)	467,286
32	NAtional Industrial Credit LTD Ord 5.00	F	294,064	347,666	333,516	335,185	424,263
33	Pan Africa Insurance LTD Ord 5.00	F	n/a	(1,424)	n/a	122,145	117,698
34	Standard Chartered Bank LTD 5.00	F	2,480,792	2,436,834	2,005,984	1,876,882	1,251,524
sector total			7,453,843	3,908,344	2,398,309	6,163,172	8,969,602
% of Market Total			40.14%	26.97%	18.82%	35.87%	43.03%

APPENDIX IV

INTERNAL FUNDS (NET PROFIT AFTER TAX PLUS DEPRECIATION) KSHS'000'

INDUSTRIAL SECTOR						
35	Athi River Mining Ord 5.00	I	92,716	87,340	77,655	92,316
36	British American Tobacco Ord 10.00	I	830,262	803,310	1,429,872	836,442
37	Bamburi Cement LTD Ord 5.00	I	1,434,000	1,033,000	1,343,000	1,409,000
38	B.O.C Kenya LTD Ord 5.00	I	n/a	113,599	154,860	198,592
39	Carbacid Investments LTD Ord 5.00	I	n/a	n/a	108,500	59,102
40	Crown Berger LTD Ord 5.00	I	49,260	47,320	70,870	74,246
41	Dunlop Kenya Ord 5.00	I	n/a	6,072	1,730	6,615
42	E.A.Cables LTD Ord 5.00	I	24,155	40,892	32,651	69,628
43	E.A.Packaging LTD Ord 5.00	I	n/a	n/a	(26,200)	6,461
44	E.A.Portland Cement LTD Ord 5.00	I	1,128,743	(92,892)	(562,724)	322,130
45	East African Breweries LTD Ord 10.00	I	2,322,003	1,982,657	1,753,966	1,537,519
46	Firestone East Africa LTD Ord 5.00	I	n/a	511,599	578,531	814,150
47	Kenya National Mills LTD Ord 5.00	I	146,668	(378,397)	(168,019)	357,461
48	Kenya Oil Co LTD Ord 5.00	I	463,235	213,901	245,242	161,748
49	Kenya Orchards LTD Ord 5.00	I	n/a	n/a	n/a	(7,724)
50	Kenya Power & Lighting LTD Ord 20.00	I	n/a	n/a	1,305,262	1,554,028
51	Total Kenya LTD Ord 5.00	I	(29,214)	348,798	665,113	212,433
52	Unga Group LTD Ord 5.00	I	127,294	(434,736)	(25,321)	352,281
sector total			6,589,122	4,282,463	6,984,988	8,056,428
% of Market Total			35.48%	29.55%	54.81%	38.65%
TOTALS			18,569,720	14,490,376	12,744,830	20,847,079

LONG-TERM DEBT (Kshs'000)

AGRICULTURAL SECTOR	Sector	2,001	2,000	1,999	1,998	1,997
Brooke Bond LTD Ord 10.00	A	-	-	1,361,574	1,467,769	9,400
Eaagads LTD Ord 1.25	A	-	-	-	-	-
George Williamson Kenya LTD Ord 5.00	A	39,480	25,286	493,812	-	30,500
Kakuzi Ord 5.00	A	-	333,109	569,270	298,815	47,686
Kapchorua Tea Co LTD Ord 5.00	A	18,451	11,459	120,600	-	-
Limuru Tea Co LTD Ord 20.00	A	-	-	3,011	3,011	-
Rea Vipingo Plantations LTD Ord 5.00	A	13,063	3,750	11,198	4,402	12,423
Sasini Tea & Coffee LTD Ord 5.00	A	-	-	132,378	151,976	-
sector total		70,994	373,604	2,691,843	1,925,973	100,000
% of Market Total		0.58%	2.61%	11.68%	10.76%	0.86%
COMMERCIAL SECTOR						
African Lakes	C	79,560	28,320	22,080	-	-
A Baumann & Co Ord 5.00	C	-	-	2,081	9,329	-
CMC Holdings LTD Ord 5.00	C	-	-	99,505	85,921	-
Car & General (K) LTD Ord 5.00	C	28,186	42,023	-	59,015	27,390
Express LTD Ord 5.00	C	-	-	5,831	26,288	-
Hutchings Biemer LTD Ord 5.00	C	-	-	-	-	71,989
Kenya Airways Ord 5.00	C	6,637,000	6,909,000	6,048,000	3,122,000	1,787,800
Lonrho Motors EA LTD Ord 5.00	C	-	-	318,700	227,500	333,620
Marshall's (E.A) LTD Ord 5.00	C	44,068	43,558	7,779	27,274	27,661
Nation Media Group Ord 5.00	C	3,800	200,000	151,600	247,000	311,000
Pearl Drycleaners LTD Ord 5.00	C	-	-	-	579	1,627
Tourism Promotion Services LTD Ord 5.00	C	199,773	114,114	300,000	129,000	102,000
Standard Newspapers Group Ord 5.00	C	209,150	267,347	163,041	102,277	26,395
Uchumi Supermarket LTD Ord 5.00	C	-	-	-	-	-
sector total		7,201,537	7,604,362	7,118,617	4,036,183	2,689,482
% of Market Total		58.62%	53.04%	30.89%	22.55%	23.15%
FINANCIAL SECTOR	F					
Barclays Bank LTD Ord 10.00	F	-	-	-	-	-
City Trust LTD Ord 5.00	F	-	-	11,893	11,893	11,893
C.F.C Bank LTD Ord 5.00	F	-	-	-	-	-
Diamond Trust Bank Of Kenya LTD Ord 4.00	F	-	-	-	-	-
I.C.D.C Investments Co LTD Ord 5.00	F	-	-	-	20,000	-
Housing Finance Co LTD Ord 5.00	F	-	-	-	125,377	151,206
Jubilee Insurance Co LTD Ord 5.00	F	-	-	-	-	-
Kenya Commercial Bank LTD Ord 10.00	F	1,000	176,000	295,000	314,000	464,000
National Bank Of Kenya LTD Ord 5.00	F	708,403	954,747	1,066,016	1,055,291	2,609,128
NAtional Industrial Credit LTD Ord 5.00	F	-	-	-	-	-
Pan Africa Insurance LTD Ord 5.00	F	-	-	-	80,900	107,100
Standard Chartered Bank LTD 5.00	F	-	-	-	-	-
sector total		709,403	1,130,747	1,372,909	1,607,461	3,343,327
% of Market Total		5.77%	7.89%	5.96%	8.98%	28.78%

APPENDIX IV

LONG-TERM DEBT (Kshs'000)

INDUSTRIAL SECTOR						
Athi River Mining Ord 5.00	1	-	-	180,696	69,252	75,929
British American Tobacco Ord 10.00	1	-	-	467,762	392,284	-
Bambun Cement LTD Ord 5.00	1	-	-	2,719,000	1,950,000	-
B.O.C Kenya LTD Ord 5.00	1	-	-	155,230	149,800	-
Carbacid Investments LTD Ord 5.00	1	-	-	-	-	-
Crown Berger LTD Ord 5.00	1	-	-	6,666	6,000	42,000
Dunlop Kenya Ord 5.00	1	-	-	-	-	-
E.A.Cables LTD Ord 5.00	1	-	-	4,663	5,521	-
E.A.Packaging LTD Ord 5.00	1	-	-	-	-	-
E.A.Portland Cement LTD Ord 5.00	1	4,219,167	5,160,609	4,499,292	3,545,680	3,743,801
East African Breweries LTD Ord 10.00	1	-	-	1,120,231	1,876,929	198,837
Firestone East Africa LTD Ord 5.00	1	-	-	-	-	-
Kenya National Mills LTD Ord 5.00	1	47,120	2,411	85,680	52,487	-
Kenya Oil Co LTD Ord 5.00	1	-	-	67,825	66,211	46,000
Kenya Orchards LTD Ord 5.00	1	-	-	-	21,930	21,090
Kenya Power & Lighting LTD Ord 20.00	1	n/a	n/a	2,447,033	2,140,441	1,347,356
Total Kenya LTD Ord 5.00	1	-	-	21,399	-	-
Unga Group LTD Ord 5.00	1	37,120	65,211	85,682	52,487	8,200
sector total		4,303,407	5,228,231	11,861,159	10,329,022	5,483,213
% of Market Total		35.03%	36.47%	51.47%	57.71%	47.20%
TOTALS		12,285,341	14,336,944	23,044,528	17,898,639	11,616,031

NEW EQUITY CAPITAL KSHS'000'

AGRICULTURAL SECTOR	Sector	2,001	2,000	1,999	1,998	1997
Brooke Bond LTD Ord 10.00	A	-	-	-	-	-
Eaagads LTD Ord 1.25	A	2,010	-	-	-	-
George Williamson Kenya LTD Ord 5.00	A	-	-	-	-	-
Kakuzi Ord 5.00	A	-	-	-	-	-
Kapchorua Tea Co LTD Ord 5.00	A	-	-	-	-	-
Limuru Tea Co LTD Ord 20.00	A	-	-	-	-	-
Rea Vipingo Plantations LTD Ord 5.00	A	-	-	-	-	-
Sasini Tea & Coffee LTD Ord 5.00	A	-	-	-	-	-
sector total		2,010	-	-	-	-
% of Market Total		0.21%	0.00%	0.00%	0.00%	0.00%
COMMERCIAL SECTOR						
African Lakes	C	n/a	n/a	n/a	n/a	n/a
A Baumann & Co Ord 5.00	C	-	-	-	-	6,400
CMC Holdings LTD Ord 5.00	C	-	-	-	-	-
Car & General (K) LTD Ord 5.00	C	-	-	-	-	-
Express LTD Ord 5.00	C	-	-	-	-	-
Hutchings Biemer LTD Ord 5.00	C	-	-	-	-	-
Kenya Airways Ord 5.00	C	-	-	-	-	-
Lonrho Motors EA LTD Ord 5.00	C	-	-	-	-	212,535
Marshalls (E.A) LTD Ord 5.00	C	-	-	-	23,989	-
Nation Media Group Ord 5.00	C	-	-	-	89,135	29,710
Pearl Drycleaners LTD Ord 5.00	C	-	-	-	-	-
Tourism Promotion Services LTD Ord 5.00	C	-	-	-	-	-
Standard Newspapers Group Ord 5.00	C	9	-	-	21,350	-
Uchumi Supermarket LTD Ord 5.00	C	-	-	-	-	100,000
sector total		9	-	-	134,474	348,645
% of Market Total		0.00%	0.00%	0.00%	9.17%	14.73%
FINANCIAL SECTOR						
Barclays Bank LTD Ord 10.00	F	-	308,950	-	257,250	-
City Trust LTD Ord 5.00	F	-	-	-	-	-
C.F.C Bank LTD Ord 5.00	F	-	100,000	-	-	-
Diamond Trust Bank Of Kenya LTD Ord 4.00	F	-	-	-	-	-
I.C.D.C Investments Co LTD Ord 5.00	F	38,336	3,431	47,097	50,106	-
Housing Finance Co LTD Ord 5.00	F	-	-	-	-	230,000
Jubilee Insurance Co LTD Ord 5.00	F	-	-	-	30,000	-
Kenya Commercial Bank LTD Ord 10.00	F	374,000	-	-	-	-
National Bank Of Kenya LTD Ord 5.00	F	-	-	-	-	-
NAtional Industrial Credit LTD Ord 5.00	F	-	-	82,415	-	109,935
Pan Africa Insurance LTD Ord 5.00	F	-	-	15,000	15,000	15,000
Standard Chartered Bank LTD 5.00	F	-	412,072	-	-	-
sector total		412,336	824,453	144,512	352,356	354,935
% of Market Total		43.97%	75.95%	21.50%	24.02%	14.99%

NEW EQUITY CAPITAL KSHS'000'

INDUSTRIAL SECTOR						-
Athi River Mining Ord 5.00	I	90,000	-	-	-	115,000
British American Tobacco Ord 10.00	I	-	250,000	-	-	-
Bamburi Cement LTD Ord 5.00	I	-	-	-	-	605,280
B.O.C Kenya LTD Ord 5.00	I	-	-	-	-	-
Carbacid Investments LTD Ord 5.00	I	-	-	-	-	17,700
Crown Berger LTD Ord 5.00	I	-	-	-	-	-
Dunlop Kenya Ord 5.00	I	-	-	-	40,000	8,000
E.A.Cables LTD Ord 5.00	I	-	-	-	-	-
E.A.Packaging LTD Ord 5.00	I	-	-	-	-	-
E.A.Portland Cement LTD Ord 5.00	I	-	-	-	-	-
East African Breweries LTD Ord 10.00	I	143,283	11,000	-	280,806	-
Firestone East Africa LTD Ord 5.00	I	-	-	-	463,904	-
Kenya National Mills LTD Ord 5.00	I	100,853	-	-	-	201,707
Kenya Oil Co LTD Ord 5.00	I	14,398	-	-	-	-
Kenya Orchards LTD Ord 5.00	I	-	-	-	-	-
Kenya Power & Lighting LTD Ord 20.00	I	-	-	527,520	-	703,360
Total Kenya LTD Ord 5.00	I	245,225	-	-	-	-
Unga Group LTD Ord 5.00	I	30,477	-	-	195,245	13,015
sector total		523,383	261,000	527,520	979,955	1,664,062
% of Market Total		55.81%	24.05%	78.50%	66.81%	70.28%
TOTALS		937,738	1,085,453	672,032	1,466,785	2,367,642