

FACTORS INFLUENCING THE USE OF
COMMERCIAL PAPER AS A DEBT
INSTRUMENT IN KENYA

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In many corporations, borrowing short-term money from banks is often a laborious and annoying task. The desire to avoid banks as much as possible has led to the widespread popularity of commercial paper. Usage of commercial paper among developed countries has recently been on the increase. Commercial paper issuance growth in Kenya has been unsteady since inception in 1994. This money market instrument that is considered a low cost source of financing is not growing as expected. This study therefore investigates the factors influencing the issuance of commercial paper as an instrument of debt financing in Kenya. It is through determining the various contributors to the C.P issuance that proper policies can be formulated to increase its usage. The study covered all the eight companies that had outstanding commercial papers as at the second quarter of 2006. (CMA's records as at June 2006 and annual report 2004/5). The study established that majority of companies that had outstanding commercial papers utilized the funds on working capital. This is taken to be within expectation considering that the instrument is short term financing. Most of companies in this study were for introduction of commercial paper into the secondary market for ease of transacting. Majority, Seventy five percent, of the sampled companies felt that the current CMA rules are accommodating. Among the factors that have been strongly cited by the study for the increase in commercial paper issuance are: the unexpected increase in demand of products and services that create a need for enhanced working capital, the attractive borrowing interest rates of commercial paper that are far below the commercial banks lending rates, the indirect effect of positive credit rated companies issuing CP on their stock prices, the favorable regulatory procedures and the issuers ownership status. It is important that CMA forms a forum to occasionally discuss issues pertaining to CP issuance with both the current and potential issuers so as to develop this sector of the money market.