Assessing Political Factors that Influence Local Participation in NSE and Its Implications on Trade in Kenya (2011 to 2017)

By

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DECLARATION

STUDENT'S DECLARATION

I declare that this dissertation is original work to the best of my knowledge and has not been presented anywhere for the award of any academic degree.

Signature…………………………… Date…25/06/2021…………………….

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SUPERVISOR'S DECLARATION

This Research Project has been submitted for examination with my approval as University Supervisor

Signature: Date: 28/6/2021

PROFESSOR FRED JONYO

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DEDICATION

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To my late parents, William and Lucrezia Matiro for desiring the highest and the best for their children. To my eight siblings who gave me my first glimpse of society.

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ABBREVIATIONS AND ACRONYMS

CDSC:	Central Depository and Settlement Corporation Limited
CDS:	Central Depository and Settlement
CGT:	Capital Gain Tax
CMA:	Capital Market Authority
IFC:	International Finance Corporation
IPO:	Initial Public Offering
LSE:	London Stock Exchange
NSE:	Nairobi Securities Exchange
NYSE:	New York Stock Exchange
SME:	Small and Medium Enterprises
USA:	United States of America
USD:	United States of America Dollars

ABSTRACT

This study endeavours to assess the political factors which influence local participation in the NSE. These political factors are considered from the perspective of the government's and its agencies' policy interventions which serve to encourage individual Kenyans in taking part in the activities of the NSE. Most studies of trade in the NSE take a profoundly Economics discipline approach, which tend to be influenced by a Neo-Liberal market outlook that considers the market as self regulating. Consequently, local participants have been overlooked as an important segment in the trade of NSE largely due to being treated as a part of general traders of the NSE.

Considering that local participants form more than 90% of registered traders in the NSE, yet they contribute less than 20% of the trading activities in the NSE. This study sought to find out ways in which the imbalance of registered local participants to the actual trades in the NSE attributed to this group can be evened.

For instance, the NYSE and the US government assisted in raising household participation in trading activities from 3% to 25%. In this regard, the study makes a case of the NSE in taking a similar approach. Consequently, the study sought to find out the experience of local participants in the NSE, the incentives and disincentives to their taking part in the activities of the NSE and the most effective government interventions which encouraged local participants to trade in the NSE. Utilising the method of expert assessment (experts being the principal advisors of local participants who trade in the NSE) it was found that most local participants are pessimistic towards the NSE and that respondents were of the view that the government and its agencies are not doing enough to encourage local participants' trade in the NSE.

As a result of local participants' response to government intervention in promoting trade in the NSE, the study found which interventions were the most effective from respondents. Consequently, the study uses its findings to recommend to the government and its related agencies on the specific interventions that can be utilised in order to bolster local participation in the NSE. A difference from previous studies is that local participants are better understood and therefore specific policy interventions to support this segment are recommended.

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The Nairobi Securities Exchange (NSE) provides a platform of trade of securities in Kenya. Government securities and company stocks are traded on the market. From July 2011, the NSE rebranded from its previous name Nairobi Stock Exchange to its current name Nairobi Securities Exchange to cover its widened strategic plan which was to include trade, acting as a go between buyers and sellers of equities, bonds, derivatives and other financial securities (Okumu, 2012).

NSE assists the Kenya government and locally listed companies raise capital while providing individuals and local enterprises with an opportunity to augment their capital through participating in different investment opportunities which it offers. These activities include lending to the government through bonds and bills at an interest and buying into the ownership of companies that are locally listed resulting in capital growth and dividend payout where such companies perform well (Bekaert and Harvey, 1998).

The study seeks to determine political factors that affect local participation in the NSE, these are mainly seen from government intervention and regulatory measures together with entities of public interest which seek to bolster NSE activities as driven by local participants. Many studies have been conducted from an Economics discipline standpoint to determine factors that affect trade levels, however, many overlook local participants as a distinct segment of analysis or amalgamates this segment together with other traders generally as buyers and sellers. This has overtime resulted to a weak understanding on the kind of interventions needed to be made in order to improve the impact of local participants in the NSE.

1.2 Statement of the Research Problem

Since gaining independence, Kenya has had foreign dominated investments in most sectors of its economy (Leys, 1974). Low levels of investment have been characteristic of Kenya's economy which is prevalent in Third World countries (Todaro and Smith, 2012). Economists have over time attributed low investor participation to inefficient markets which they would attribute to factors such as poor information flow, lack of public knowledge, unfavourable regulatory framework among other factors. However, a prevalent assumption in the dominant economic literature is that the market should be self-regulating with minimal government intervention which affects its activities. In view of this Birchfield(1999) highlights the rampant ways in which anti-politics of market ideology has spread, he calls for the re-establishment and primacy of political agency in assessment of democratic theory. Consequently, disregard for government intervention as a key political agent is prevalent in literature relating to stock markets around the world. Scholars such Arestics and Demetriades (1999) indicate that for countries to develop, a significant proportion of income earned by the country needs to be dedicated to investment opportunities. It is with this in mind that the study assesses the political factors which influence local participation in the NSE.

The study assessed the political factors in the NSE that affect local participation. Assessment was done on what political factors needed to be addressed in order to enable local participants to play a greater role in the trading activities of the NSE. A plethora of literature is available on trading drivers of the NSE, however there is scant literature on the effort that could be made to encourage local participation to take up a bigger role in the trading activities of the NSE.

The study focussed on a 7-year period starting from 2011 to 2017. The reason for the period chosen starting with the year 2011 is informed by the NSE's change in its strategic plan which was launched in the prior year that was to evolve the NSE into a complete service securities exchange which supports required operations such as clearing, trading and settlement of derivatives, debt, equities and other associated instruments (NSE, 2019). In view of this aim the NSE was rebranded in July 2011 from its previous name Nairobi Stock Exchange to the current name Nairobi Securities Exchange to cover its widened strategic plan. The end year of the study which is 2017 is taken as a reasonable cut off in assessing the achievement of the institution's strategic plan and provides the most recent year with annual complete data on performance of the NSE.

The study provides an in-depth understanding to NSE's investor participation with an end to encouraging greater involvement of the Kenyan population. This leads to suggesting indicative measures to provide for opportunities to maximize investment activities in the bourse. As a result, the following research questions provided guidance for collecting data and organizing the study:

1. What is the experience of local investors in the NSE?
2. What are the political factors motivating local investors' participation in the NSE?
3. What are the political factors deterring local investors' participation in the NSE?

1.3 Definition of the Terms

Given definition

Participation: the terms has a twofold meaning according to World Federation of Exchanges (2018), the first meaning is the breadth of participation which is the absolute number of individuals investing directly in the market and the second meaning is the depth of participation which is the absolute levels of trading activity which is measured according to the number of trades and values traded.

Securities Exchange: means a securities organization, exchange, market or any other place where securities are offered or provided for exchange, purchase or sale, this include connected or related services such as transfer, settlement or clearing (Fabozzi and Drake, 2009).

Securities: long term (maturity greater than one year) financial instrument issued by corporations and governments (Fabozzi and Drake, 2009).

Operational definition

In this study, the following terms will have the following meaning in their use.

Local Participation: refers to the absolute number of traders in the NSE who are Kenyan and their contribution to the number of trades and value of trades in the NSE.

Trade Levels: exchange value attributed to buying and selling of securities at the NSE.

1.4 Objectives of the Study

General Objective

The general objective of this study is to establish the political factors that influence local participation in NSE and its implications on trade in Kenya.

Specific Objectives

The study discusses political factors that influence local participation in NSE by addressing the following research objectives:

1.4.1 To find out local investors' experience in participating in the NSE.

1.4.2 To find out political factors which motivate local investors' participation in the NSE.

1.4.3 To find out political factors which deter local investors' participation in the NSE.

1.5 Research Hypothesis

The following hypothesis guides the study

1.5.1 Local investors eschewed participation in the NSE is due to past negative experience.

1.5.2 Many political interventions promoting local participation influence increased trading levels in the NSE.

1.5.3 Few political interventions promoting local participation influence decreased trading levels in the NSE.

1.6 Proposed Chapter Outline of the Project

The study has been organized into five chapters.

Chapter 1 provides an introduction together with an overview that sets the general scheme for the following chapters. Chapter 2 has the literature review, the conceptual framework and a justification of the study. Chapter 3 gives the research methodology and approaches used in collecting data. Chapter 4 has the findings, analyses data and provides a discussion. Finally, Chapter 5 gives the summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter selected scholarly works are reviewed under four themes. The first theme assesses the political ramification of the stock market in a country. The second theme interrogates the importance of stock markets in the development of economies, the third theme highlights challenges of raising capital for third world countries such as Kenya and the fourth theme looks at the importance of local participation as pivotal to the growth of a country's economy. A subsection assessing various stock markets around the world is provided, the participation level is compared to the Kenyan stock market performance.

2.2 Political Ramification of the Stock Market

Politics has many varied definitions depending on authors who ascribe to different schools of thought. For the purpose of this study, the definition provided by Easton (1953) is used; Easton defines Politics as the science of the state or the authoritative allocation of values. Politics is viewed from the perspective that goes beyond the formal structures of government and understood from a point of decision making relating to the production and distribution of resources. Politics is emphasized from the standpoint of authority in comparison to economics which emphasizes free exchange backed by legal provisions.

State involvement in authoritative distribution emanates from how such distribution takes place within the confines of the state and through state institutions. State agents initiate and see through to completion how authoritative allocation and distribution is done. Institutional activity is a key focus for the expression of political activities within the state of which a stock market provides an arena of analysis. It is noteworthy that the recognition of an "economic institution" is a political act (Moran, 2006).

Government involvement according to the Eastonian definition of Politics becomes a critical component to be assessed, the economy forms part of the civil society and the state is considered to be the most pervasive political structure in society (Moran, 2006). As such the pervasive structure of government as the administrative arm of the state is the arena in which politics is considered to take place. Focus on authority becomes a pertinent issue, what the proper ambit of authority is in the system becomes an important object of inquiry. The scope of politics and economics in relation to the voluntary exchange and its relation to the authoritative relations is done in order to shed light on how they inter-relate.

Caporaso and Levine (2009) indicate that authority should be left for activities where free exchange reaches its limits. Authority in a market system is called for to ensure rights are enforced or to attain outcomes relating to universal rights, equality and justice of which the market in inherently limited to provide by itself. Enforcement of rights of specific interest groups provide for the wielding of authority which requires political enforcement of particular wills against others such as citizens against foreigners, capital against workers etc. Consequently, politics results to a situation where there are segments of society which gain and others which lose. Politics thus works with the limitation that there cannot be collective mutual gains and authority ends up facing the fate that not everyone approves of its action. Questions arise as to the issue of legitimacy which occur as an inevitable outcome resulting from cleavages spawned from state polices.

In this section various literature that assess the role of government and state agencies are assessed to give their impact on individual participants role in various stock markets around the world. Policy intervention by government and regulatory authorities are assessed and their specific role in influencing participation level of individuals in various stock markets is assessed.

Pinto, Weymouth and Gourevitch (2010) locate the political determinants of stock market development in the distributional divide among voters and interest groups. Their study assesses competing explanations on the development of stock markets such as legal origins school which advocates for common law principles for investor protection compared to seeking the strengthening of civil law; electoral law school which talks of proportional representation systems having weaker protection compared to majoritarian systems; institutional economics view that propounds that checks on policy making discretion such as veto gates protect the property rights of investors and encourage investment. They test the different arguments on the level of stock market capitalization in 85 selected countries between the years 1975 to 2004. They find that contrary to belief, left leaning governments are more likely to be associated with higher stock market capitalization than their counterparts to the right and center of the political spectrum. The study debunks the common notion that assumes left governments frighten investors and depress financial market development.

Pinto and others reiterate a position held by Pagano and Vopin (2005) who are of the view that the amount of equity finance that external investors are willing to provide is affected by the degree of protection that they expect to receive from company law. Pinto and others' findings stem from distributive consequences of policies aimed at regulating financial markets where workers in seeking increase in the demand for labour will lobby with some investors in promoting policies that push for equity capitalization against the political influence of concentrated economic groups that oppose the liberalization of markets both domestically and internationally. They also note that opposition to financial liberalization emanates from domestic reaction which is made up of domestic capital. They see a kind of protectionism in this and thus indicate that the contestation of financial liberalization mirrors protectionist politics in general. The study assesses political factors affecting the stock market focussing on various outlooks, however, government policy impact on local participation is not specifically considered based on the interest of the societal segments factored, it is seen as an amalgam of other groups within the state arena.

Lei (2018) discusses the impact of different political regimes on stock markets where he found that there is a common belief that having democratic institutions leads to better investor protection as emphasized by the feature of rule of law. This in turn moves investors' confidence in participation in a given stock market. Lei does not separate the investors into domestic and foreign, his study looks at investors from a general category.

2.3 Local Participation in the NYSE and LSE

Ott (2008) provides a comprehensive historical account on how retail investors were provided with opportunities to become a significant segment in the trading activities of the New York Stock Exchange. The study investigates the history of the American investor and provides a background of the policy mechanisms that led to increased local participation through a laissez-faire push to provide economic security and justice for all. According to Ott, debates on the meaning of democracy and citizenship in view of industrial corporate capitalism drove early twentieth century securities marketers and their ideological allies who promoted investment. Due to the ideological drive to push local participation in the activities of the stock market, majority of U.S households partook in bond or stock investment since most Americans consider investment consistent with political democracy.

Based on the ideological drive that took the form of proprietary democracy, a prevalent belief in American society today is that securities ownership confirms the democratic nature of capitalism in an “ownership society.” However, a century ago most Americans regarded Wall Street with suspicion, the study highlights that less than 3 percent of American households held stocks or bonds in the lead up to World War I and this changed to 25 percent by 1929. Ott probes the change of mentality from seeing the stock market suspiciously to having many households taking pride in participating more actively and the factors that led to this change.

Ott (2008) attributes the change to various players such as the federal government, financial institutions and corporations as having employed strategies to popularise the stock market in United States of America. It is emphasized that specific political goals were targeted in the early twentieth century to universalize financial securities ownership and this did not merely happen through mass market demand for capital occurring as an inevitable phenomenon. At the beginning of the industrial age, the US experienced the rise of corporations as the dominant force in the economy, financial volatility, salient inequality, increased immigration and class conflict. The federal government in response followed by some corporations and financial institutions took calculated measures to popularise bonds and stocks ownership. The main idea that drove them was that universal investment would marry corporate capitalism with the traditional political ideal of proprietary democracy which was noted to link political virtue and citizenship to the ownership and control of property.

Ott’s study provides useful insights on enhancing local participation of a country’s citizenry in the stock market. The study debunks popular Market Liberalist beliefs that markets have internal mechanisms to spontaneously reach the required participant and generally discount the role of state policy in the growth and development of such markets. The work however would do well to give greater insight on specific household perception on government policy intervention and state agencies which popularised the New York Stock Exchange in the American economy.

Goodison (1988) highlights how the British government in its endeavour to popularise stock ownership by citizens in the United Kingdom took calculated steps through a drive to enhance individuals’ direct interest in the corporate sector. This was done using an industry privatization programme. According to a share ownership survey conducted in 1988 in Britain, nine million shareholders were observed to be in existence which constitutes 20 per cent of the adult population. The London Stock Exchange new investors were noted to have invested mainly due to government advertising. Goodison (1988) does not provide particulars on the privatisation policy done by the government in enhancing local participation, however he highlights the importance of government intervention in enabling participation by local share owners to improve.

2.4 Shortcomings of Prevalent Market Ideologies

Macaulay (2015) makes a case for a producer centred philosophy in Political Economy where she indicates that financial markets have repeatedly failed to live up to their reputation of creating free and efficient markets. It is indicated that financial markets produce no goods but deal in mere agreements or pledges. Stock markets are run such that once a company has raised capital through floating their shares initially to the public for sale, such shares are re-traded almost endlessly having no ceiling price and not generating any additional revenue to the company. The study reiterates Marx (1991) who termed stock market investment as 'fictitious capital' and Keynes (1936) who indicated that stock market investments were akin to gambling and speculation. Macaulay makes a case for the instability and uncertainty associated with the stock markets. Macaulay indicates that experts only admit to the speculative tendency associated with stock markets when there is an evident crisis such as a "markets crush" or when the "financial bubble bursts." Indication is made of how governments have intervened in past stock market crises to sustain positive public opinion by overseeing an arranged venture vis-à-vis public debt agreement. In her study Macaulay does not provide information on the role of government policy on investor participation, she however provides useful insights on how a stock market can be sustained yet it is inefficient.

Birchfield (1999) critiques the market ideology manifested through neoliberal globalization which goes against democratic principles. He makes use of the work of Gramsci and Polanyi to highlight the atomization, depoliticization and commodification which is characteristic of neoliberal globalization. In his study Birchfield elucidates the rampant ways in which anti-politics of market ideology has spread he urges for the re-establishment and primacy of political agency in assessment of democratic theory.

Birchfield (1999) makes the point that Politics is deemed as the means of public discourse where social compromises are reached and enables social forces far removed from ordinary citizens to be contested and made to account. As such the prevalence of market ideology is considered to be inimical to the ideals of democracy through such mechanisms applied of the triumph of free market as an ideal, this renders the real potential of politics to be impotent.

Birchfield echoes Polanyi (2001) who challenged Adam Smith and the assumption of the 18th century political economy, he indicates that the establishment of laissez-faire economics required state intervention and that market society did not emerge naturally as a result of man’s propensity to ‘truck, barter and exchange’ and that the expansion of the market was not impersonal or inevitable. In order to achieve a free market, this needs to be opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. For Birchfield and Polanyi the self regulating market was largely a myth as it required deliberate political action to pave the way for such an approach to economic organisation.

Emergence of market society involved astute political analysis contrary to a strictly economic phenomenon. Self regulation of markets through a pricing mechanism creates conditions that make the market the only organizing power in the economic sphere. This effectively subordinates the substance of society to the mechanism of the market through commodification of land, labour and money seen as ‘fictitious commodities’.

Gramsci (1971) also gives credence to the claim that economic organisation is politically motivated and therefore legitimately contestable in a democratic society. For Gramsci the market ideology is noted to erode the centrality of politics by providing a sharp distinction of the public/ private, politics/ economics, national/ international realms.

As demonstrated in the prior paragraphs, the works of Gramsci, Polanyi and Birchfield give useful pointers on the need for state intervention to countervail the excesses of free markets, however the specific mechanisms on how state intervention needs to be done is not clearly stipulated in these works. The studies provide a general critique to liberal market operation highlighting the tendency of market fundamentalists’ error of overlooking the need of a strong state’s oversight role.

Carruthers (1994) makes a case for the early 18th century London stock market where he analyses data on shares of two companies in relation to trading among three groups; political parties, ethnic/religious groups and guilds. The study shows how economic theories of rational trading do not account for market behaviour despite the 18th century London stock market being an organised capital market. Carruthers highlights Karl Polanyi's theory of economic action as embedded in social relationships and the two cannot be separated. Carruthers' study does not give details of market participants, also in the development of the London Stock market, the work does not highlight the difference in the institutional development in relation to the market as it is in recent years.

Fligstein (1996) indicates the absence of empirical literature showing embeddeness of the market according to Granovetter's (1985) view. The work highlights the implication of markets as politics which shows that states play a key role in the development of market institutions. The organizations, groups and institutions that make up the state in capitalist society claim to make and enforce the rules governing economic interaction in specific geographic area. Capitalist firms could not operate without collective sets of rules governing interaction, state building discussions have generally been averse to the aspect of capitalist states being constructed in interaction with the development of their economies and the governance of economies is part of the core of state-building. Property rights, governance structure and rules of exchange are aspects in which modern states establish rules for economic actors. States provide stable and reliable conditions under which firms organize, compete, cooperate and exchange. The enforcement of these laws affects what conceptions of control can produce stable markets.

For Fligstein (1996) there are political contests over the content of laws, their applicability to given firms and markets and the extent and direction of state intervention into the economy. It is obvious that such laws are never neutral as they favour certain segments of the market. Property rights define the relation between an economic elite and the state. States differ regarding their rules for cooperation and competition such that some allow extensive cooperation between firms while other restrict the ability of firms in similar industries to cooperate. All states restrict competition to some degree by not allowing certain forms of predatory competition or by restricting entry into certain industries by use of trade barriers and regulation. The political process that generates these rules reflects the organised interest of a given set of firms in one market. Market involvement by the state may take the form of either intervention which involves the making of substantive decision for the market or regulation which creates agencies to enforce general rules in the market.

The study of Fligstein (1996) aptly indicates the practice of state intervention in ensuring that markets operate to serve specific interests in society. In view of local participants in a stock market the importance of directed government policy intervention in favouring this segment is supported by the work. However, the study does not provide the detailed interventional mechanisms which a government can use in favouring specific market segments.

World Federation of Exchanges, WFE (2017) indicates that participation of individual investors is noted to improve the legitimacy of the stock market together with its perceived relevance. The study on enhancing retail participation observed that reduced cost of trading was noted to increase participation levels in the stock market, also, it was observed that interventions to improve financial literacy led to more individual investors engaging in stock market activities. Individual investors are noted to counterbalance the effect of a concentration of institutional investors such as in the Stock Exchange in Thailand, individual investors were noted to account for an amount of slightly less than 60% of value traded in the year 2016. It was observed that the diversified nature of its investment base that comprised of a mix of individual and institutional investors provided the Thailand market with a high degree of resilience during periods of volatile international portfolio flows.

WFE (2017) found that individual participation contributes to greater democratisation of finance. A well functioning stock market enables positive contribution to wider economic growth and development. Individual citizens participation in the stock market through directing savings to productive enterprises enables them to tap into a country's growth story therefore the stock market is provided with a modicum of "social licence" to operate. As a result, the stock exchange is perceived not as something far removed from the citizenry but as an institution that contributes positively to individuals' ability to improve their social mobility. All in all, by enhancing broad based wealth creation by means of financial inclusion, the stock market is potentially perceived as having a high degree of public legitimacy and relevance.

2.5 Other Stock Markets around the World

Kohli (2012) provides a historical study of Germany and Japan where he notes that these early stock markets were large, however, this did not mean that they were qualitatively important for the purpose of providing capital and possibilities of spreading investment risk. In his assessment Kohli analyses development as being driven by the growth of stock markets or banks in different economies. Kohli relates the importance of stock market growth in economic development but does not assess the significance of individual investors in the overall investment activities. Verdier (2001) explains that large corporations tended to use stock markets to raise capital while small corporations would use banks as the preferred source of raising capital in developed economies. Verdier fails to provide information relating to the role of households in the development of stock markets in his work.

Rajan and Zingales (2003) note that most economies in continental Europe and Japan had more developed stock markets in 1913 than in 1980 based on pointers of stock market development like market capitalisation ratio, equity issues as a proportion of capital formation and the number of listed companies. France, Germany and Japan had much larger stock markets than the US at the beginning of the 20th century, however, this came to change at the close of the 20th century. The authors assess the growth of the US in a holistic manner, they do not provide the specific growth driver that would lead one to understand the role of individual investors and how they impacted the growth of the US economy.

An assessment of the World Federation of Exchanges database (World Bank, 2018) shows various country securities exchanges which can be compared to the one in Kenya. In the year 2000 whereas Kenya's market capitalization which refers to the value of shares of companies traded in the stock exchange of listed domestic companies stood at USD 1.2 billion, Argentina's was USD 45.8 billion, Australia's market capitalization was USD 372 billion, South Africa; USD 204 billion and United States of America; USD 15 trillion. In the year 2014 in considering the stocks traded as a percentage of the Gross Domestic Product, we note that the figure for Kenya was 2%, Brazil had 26%, China was 114%, Australia was 48% and USA was 224%. The number of listed companies in the year 2016 according to the World Federation of Exchanges database indicates that Kenya had 65 listed companies on its securities exchange, France had 485, Australia had 1,969, Egypt had 251, South Africa had 303 and USA had 4,331. Generally, Kenya's securities market can be referred to as being at an early stage of development in comparison to more advanced securities' markets globally.

2.5.1 Importance of Stock Market in the Development of an Economy

Feldman and Kumar (1995) discuss the outstanding characteristics of emerging equity markets and development of equity prices. In their work they see Kenya's stock market as part of a group of African stock markets which were in the early stage of development. These markets are characterised as having a small number of companies that trade in the stock market, small amounts of shares worth traded by companies, companies concentrated in one place, low liquidity, a high tendency of investors coming and leaving without a clear reason and a comparatively undeveloped institutional setting. They further note the benefit of stock markets which include mobilizing capital, the ability to effect changes in the management of companies that trade in the stock market, acting as channels for foreign savings, bringing about improved accounting and reporting standards with possible benefit of local companies to advanced and sophisticated managerial techniques which is sourced from foreign expertise. Furthermore, quoting some findings of the International Finance Corporation (IFC), they indicate that in most developing countries, the top ten largest stocks traded make up more than thirty percent of the total stock market value traded which is the capitalization of the stock markets. Feldman and Kumar do not provide the role of local investors and their impact in the development of economies in emerging markets consequently the specific impact of this category of investors is not highlighted in their work.

Bekaert and Harvey (1998) indicate that the fundamental purpose of capital markets and financial institutions is to ensure capital allocation is done in an efficient manner which means funds are directed to investment projects that yield the highest returns on the capital allocated to them. They assert that there is a direct relationship between development of a stock market and economic growth. Bekaert and Harvey are of the view that illiquidity and increases in cost of transactions are a manifestation of a stock market which is inefficient, this could arise due to the market influence of brokers and other parties which results to inflated transaction costs and the market being dominated by a few firms or individuals. The study indicates the role of dominance by individuals or firms which may cause the stock prices to be artificially determined thus manipulating them to be low or high as determined by the desires of those in power. As a consequence, the overall effect may lead to the suppression of benefits to be gotten from the stock market, these inefficiencies lead to loss of confidence in capital markets by the public resulting to low participation in the trading activity of the stock market.

In addition, Bekaert and Harvey (1998) highlight the interactive role in stock markets of foreign and local participants. When one considers that high transaction costs for foreign investors in developing countries are caused by illiquidity which refers to the difficulty in finding a buyer when one is selling or the difficulty of finding a seller when one is buying, taxes together with various capital market restrictions such as exchange controls and official registration of securities transactions. They further noted that several markets that are developing are segmented meaning that investors are predominantly local and foreigners who participate in the local market are limited, such limitation is done through prohibition of foreigners, regulations, institutional and tax barriers to investments. The study is useful in explaining the fluctuation of foreign investors in the NSE, however local investors who are participants are mentioned without providing the needed assessment on their general influence in the market. The work of Bekaert and Harvey is pertinent in providing the determining factors that influence increases or decreases in the trading proportion of local investors in a stock market.

Verdier (2001) gives an account of the origin of corporate securities' markets, his study distinguishes four main lines to be assessed. The first one is economic development which is a major reason for development of financial markets. It is hinged on savings which drives investment or seeding role driven by a public debt market that includes government finance needs which drives this line. The second is information asymmetry, which indicates absence of rules favouring publishing of financial information which would prevent insider trading. This usually results from access to privileged information by unscrupulous individual traders who use it to their own advantage. Information asymmetry negatively impacts the development of securities market. The third and fourth lines of analysis are government intervention and legal origins respectively. Verdier emphasizes the role of common law and the legal system as having a civil origin; countries with poor investor protection emanating from insider trading based on weak legal institutions and poor mechanisms of law enforcement tend to have a poorly developed capital market. The study provides useful market regulatory pointers, however the impact of local investors is not adequately highlighted in the work and how it determines the trading pattern in the securities market.

Todaro and Smith (2012) highlight some impacts of stock markets in developing countries as increased volatility in the economy due to inflows and outflows of funds from abroad. They say that the development of stock markets plays a significantly important role in spurring growth. According to their work, this is because where there has been a consistent record of stock market development as assessed through market capitalization or turnover in comparison to Gross Domestic Product (GDP) this forecasts a more rapid economic growth to occur as a result. They further indicate that several scholarly works have posited a direct relation between the development of stock market and growth in the economy. They indicate that stock markets promote availability of liquidity and risk diversification in investments which helps to encourage entrepreneurs who want to sell a stake of their business to the public in future. The work takes a profound Economics approach to the stock market assessment, in view of stock markets' trading level in relation to individual investors there is no clear provision of the relation between the two.

2.5.2 Challenges of Raising Capital for Third World Countries

Todaro and Smith (2012) indicate ways of developing stock markets which may be through a form of barrier removal which is aligned to a liberalization policy. They note that regulations which may retard development of stock markets include capital repatriation policies, limitations on direct investments, controls on participation of foreign brokers, restriction of entry on investment banking and brokering services that could lead to seeking to increase one's share of wealth without actual creation of wealth commonly referred to as rent seeking and selective application of regulations together with lack of transparency. The issues indicated continue to affect the stock market in Kenya, however as indicated the authors approach the market from a general analytical standpoint without providing the qualitative impact of participants such as traders and as to whether their nationality plays a role in raising capital.

Okeahalam and Afful (2006) found that stock markets in and of themselves in Sub-Saharan Africa may not be enough for promoting investments. In their analysis of several countries in Africa including Kenya, they find that stock markets have been seen to work in enabling investment in the economies of countries such as Ghana, Kenya and Nigeria. However, this has not been the case in Botswana, Swaziland, Mauritius and Cote d'Ivoire. They further indicate that stock markets do not develop on their own volition and so there is a need to facilitate key development indicators and the infrastructure as a key support together with reinforcement of effective institutions. They emphasize that stock markets do not of themselves attract investment capital in Sub-Saharan Africa. The authors influenced by their

Economics background take for granted the qualitative nature of different markets in Africa, the factors influencing individual traders based in the different countries is not highlighted. The administrative provisions in determining the direction of these markets is overlooked.

Arestics and Demetriades (1999) note that economic development is stimulated through increased investment and increase in the average productivity of capital. They see a fault in scholars who have in the past championed for financial liberalization as they have tended to assume the availability of perfect information, presence of market traders inclined to a profit maximization competitive behaviour and markets characterised by an institution free environment. Financial liberalization literature has tended to ignore the role of stock markets due to the assumption that in general business reliance on funds received from stock markets is insignificant and that the role of stock markets is minimal for the general economic growth.

For Arestics and Demetriades (1999), stock markets play a pertinent role in financial liberalization. This includes allowing firms to seek funding through selling equity in the stock market in the face of increase in bank interest rates in a liberalized economy. It also opens a channel for foreign investors to gain access to the economy and finally the stock market tends to be an implied condition for financial liberalization. However, Arestis and Demetriades indicated that the reasons for stock markets in developing countries not playing a significant role in economic growth are due to issues related to poor pricing mechanisms, excess volatility, lack of transparency and insider trading. The authors are emphatic about achieving an efficient market as an economic ideal, market participants who are individual investors are not assessed in their work which is influenced by inquiry from an Economics perspective.

Adjasi and Biekpe (2009) conclude that despite the liquidity, magnitude and trading constraints characteristic of many African stock markets they still mobilize significant amounts of investment. They observe that the main function of a stock market is raising of capital for firms. They note that the activity of a stock market is directly correlated with investment. Adjasi and Biekpe lament the dearth of studies relating to the function of stock markets in promoting investment growth for markets that are developing such as in Africa. They infer a positive co-relation between stock markets returns and investment growth, however, the impact of individual traders is not a salient feature of their study, their work overlooks the characteristic of stock market participants emphasizing mainly on achievement of vibrancy. The ownership profile of trade volumes from investors is thus generally not given adequate consideration as an important characteristic of stock markets in Africa.

Ngugi (2003) provides a chronological overview in the growth and development of the Nairobi Securities Exchange. She identifies three stages in the development of the NSE; initiation, formalization and revitalization/ restructuring stage. At initiation stage, it is noted to be one dominated by foreign investors it is then followed by the formalization stage which is identified by set up of a regulatory framework to provide checks and balances for the market with there being a concerted effort to increase local citizenry participation during the post independence period. During this stage Ngugi highlights the disintegration of the East African Community (EAC) which resulted to a significant loss of NSE's market share and led to a general state of dormancy prior to the revitalization stage. The revitalization stage was noted to have improved institutional infrastructure and an enhanced policy environment. Ngugi’s work provides valuable insights on the interactive role of domestic and foreign income in the NSE. The work falls short in providing the domestic capital owners participation especially individuals who are of interest to this study. Ngugi considers domestic investors comparing them with foreign investors, the former are not divided into retail and institutional and as such we are not informed about the role of individual investors’ participation.

2.6 Importance of the Local Participants in a Country’s Economy

Local participants in different economies come mainly from the middle class according to Banerjee and Duflo (2008) together with Birdsall, Graham and Pettinato (2000). With this consideration, the study looks at the middle class as providing important insights on the influence of local participation in the NSE. It would be important to understand the characteristics of the middle class in Kenya before explaining their function in the economy. The concept middle class would require a clear understanding to appreciate its significance in the contribution of this segment of the population to the income trends in an economy. A general explanation into the nature and character of the middle class is thus provided using various scholarly works that have attempted to clarify this concept.

Grundy (1964) in writing about class struggle in Africa enumerates the perceived divergence between the middle class in Africa and the middle class found in Western Europe/ North America. North American and Western European middle class have traditionally been identified as being property owners with a firm economic base that characterises their social status. Grundy views the middle class in third world countries as being simple; they have the main distinguishing feature as belonging to the bureaucratic intelligentsia. This segment draws from various service and professional segments of the citizenry composed of civil servants, teachers, urban service personnel, white-collar workers and career military officers. Grundy indicates that their social status is not derived from owning property but rather due to their special skill and their role in society and government. Grundy's work clarifies middle-class earners in an African context, his study is mainly a cultural analysis with little to do with an economic and social interactive context of his subject.

Aspaturian (1962) assesses the third world middle class which he concludes they belong to this segment for four reasons. The first one is that the social function they play is traditionally a middle-class function and second is that they tend to have a nationalistic ideological motivation. The third reason for association with the middle class is because this group exhibits similar middle-class aspirations and values found in Europe mainly as a consequence of receiving their education from Europe's middle class and as a result, they aspire to act like them and thus imitate them. Consideration should be given that Aspaturian writes in the immediate post independence wave in Africa. Many African countries were still in the process of taking over the state bureaucracies and educational institutions previously run by former European rulers. The fourth reason of justifying the African middle class is that they do not reject religious practices, norms and principles. Aspaturian provides useful insights in identifying the character of African middle class, his work is also a social analysis and thus he does not provide the function of the middle class in Africa within the economic context of the continent.

Shikwati (2007) attempts to explain the role of the middle class in NSE, in his work, he indicates that participation in the NSE by many Kenyans was noted during activities such as floatation of shares to the public with recent IPOs such as Ken Gen, Scan Group, Kenya Airways and Safaricom. He considers that to privatise government run industries, based on his affirmed position of the middle class being a majority group investing in NSE, this will facilitate citizen ownership of such industries. Shikwati notes that the Kenyan middle-class forms most of the people investing in ordinary shares in the NSE. His work does not provide data to support many of his assertions although he attempts to write in depth about the role of local participation in the trading of the NSE.

Sened, Walker and Thompson (2010) make a case for the centrality of the middle class in the development of the economy. They try to clarify on the meaning middle class while referring to several Eastern Europe countries. Their demarcation of the middle class in the general context is not clear. For Birdsall, Graham and Pettinato (2000), they view the middle class as middle income. In their analysis of middle class, they describe it as "households with per capita income in the range of 75 and 125 percent of the median household per capita income". The boundary they provide of the middle-income earners is drawn from an analysis based on economics, their work does not shed adequate light as to the basis of selection of the range.

Banerjee and Duflo (2008) provide three traditional distinct arguments for why the middle class plays an essential role. The first argument indicates that new entrepreneurs who have a capability and tolerance for delayed indulgence provide the foundation from which the middle class come and thus create employment opportunities which results to growth in productivity for the rest of society, this assertion was similarly supported by Acemoglu and Zilibotti (1997). The second argument shows that the middle class is deemed to be a key source of essential inputs for entrepreneurship, this is through such values characteristic of the class that push for the growth of human capital and investment hence making this class vital for the capitalist accumulation process, Doepke and Ziliibotti (2005, 2007) make similar claims in their work. The third argument is that middle class consumers tend to be publicized as the ones disposed to pay an extra price for quality. Consequently, this demand for quality goods and services informs investment in marketing and production resulting to a general rise in income levels. Murphy, Shleifer and Vishny (1989) have highlighted similar characteristics of the middle class.

Banerjee and Duflo (2008) conclude that a key distinction of the middle class according to the cross-country studies they conduct are those likely to hold salaried jobs as compared to the poor who tend to be casual workers.

> Having a regular, well-paying, salaried job may thus be the most important difference between the poor and the middle class.

They note that an essential reason of the differences between the poor and the middle class is that the latter work longer hours on jobs that are more stable and higher paying, of which they also go through more trouble to find. This finding contrasts with a common assertion that it is the middle class’ proclivity to take risk and run businesses that is a driver to their economic success compared to the poor. The reason for this is that the middle class and the poor tend to run similar businesses according to the research they conducted.

Among the middle class, petty entrepreneurs have been found not to be capitalists in waiting. This is because the businesses they run assist in increasing their relatively small household income. Many were observed to be ready to shut down their business if they happen to find a salaried job to their liking. The middle class’ relevance for growth is not because of its entrepreneurial spirit. The answer to their research question what is middle-class about the middle-classes is the fact of having a steady well-paying job.

Barnejee and Duflo conclusion that middle class is mainly defined by having a steady well-paying job echos Grundy’s (1974) assertion that the African middle class is simply part of the bureaucratic intelligentsia or those who are service professionals. A similar view is held by Burbige (2014) who sees the middle class as more than an economic concept. Burbige conducted a study on the middle-class perception on the election in Kenya includes a socially perceived idea of the middle class as:

> "those studying in higher education or working in formal employment who are financially stable and therefore able to regularly consume non-essential goods and services."

A salient characteristic of the middle class according to the literature is that those who belong to this class have a stable income as they hold jobs in government and private sector that make them generally exhibit characteristics of their counter parts in United States of America and Western Europe who are deemed to be property owners.

A substantial amount of literature reviewed also reiterates the idea put forward by Aristotle (1995) where he indicated the importance of the middle class in any country. Aristotle was categorical that the wealth of a state depends on the wealth, size and constitutional protection of its middle class. The literature seen provides useful indicators on the middle class as a significant segment in the determination of local participation of individuals in an economy.

2.7 Individual Participation in the Stock Market

Laakso (2010) did a cross European study involving fourteen European countries assessing aspects of health, ageing and retirement as the main influences of stock market participation. In addition to the aspects indicated, the study also asked questions relating to employment, health, cognitive skill, wealth, expectations and personal values with an end to testing various drivers of stock market participation. Other demographic variables were considered from a control variable perspective. Laakso found that risk aversion as a variable tended to feature prominently as a driver in stock market participation. The study observed that all other influences tended to operate through risk aversion. It was noted that individuals who have good cognitive abilities are more likely to invest in stocks. Also observed was that poor health and increased level of health risks made individuals avert securities that were thought to be risky. Laasko concludes that the drivers and barriers of stock market participation are complex, interrelated and result from unexpected aspects of life.

Laasko's study in seeking to find out the influence of participation in securities' markets used a list of given influences. The study is biased in taking the given influences and conducting empirical tests as to how the influences provided affect participation. The study was not objective in being able to unravel other influences that were not provided at the onset of the study.

Aroni, Namusonge and Sakwa (2014) assess the impact of financial information on individuals' investment decision in NSE. They found that there is a positive correlation between financial information and an individual's decision to invest in listed shares of firms in the NSE. Consequently, one variable that Aroni et al have found that influences individuals' participation in the trading of shares on the NSE is financial information on the shares of the company to be invested in. The study does not provide information on how local investors influence trade in the NSE although it gives pointers on financial information as a key influence in determining local retail traders' participation in the NSE.

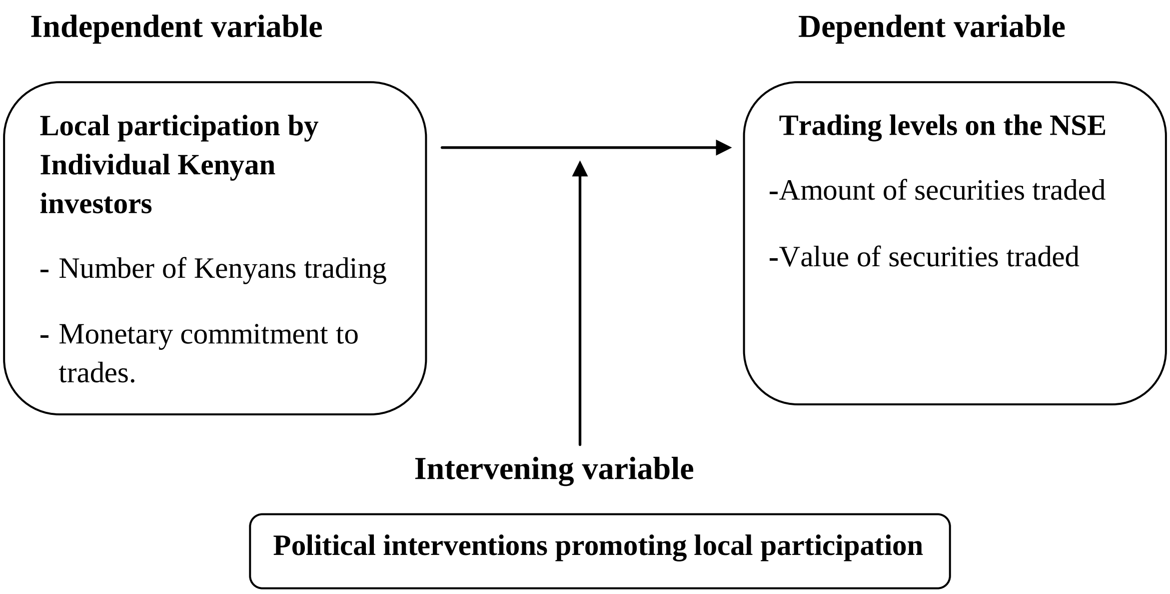
Wendo (2015) writing about factors influencing individual investors' participation in the Nairobi Securities Market focuses her study on advocates found in Nairobi County. According to Wendo, investors tend to imitate what others do in the market compared to making autonomous decisions based on what they know. The study surveyed 105 advocates and noted that the assessed investors were risk averse meaning that they tended to choose investments that had lower chances of incurring losses. Wendo indicates that only twenty-two per cent of those sampled opted to invest in the securities market instead of the real estate market. Also, it was noted that the sample of study indicated that only a quarter of people set aside their earning for investment purpose. Some of the reasons found for investment according to the study were the pursuit of capital growth and to have an alternative form of savings. The need to earn income was provided as another reason for investment in the securities market. The study indicated that most people have inadequate knowledge and skill to make sound investment decision and therefore relied on professional and investment advisors when making investment decisions. It was found that popular opinion arising from the market together with trends in performance of different securities also influence investment decisions made. Majority of investors according to Wendo had a low frequency of trading in shares already invested. It was also found that the most popular source of information for investment purpose was the print media particularly newspapers and magazines.

Wendo's study does not provide information on how individual investors influence the trading level in the NSE, the study done provides insights on the drivers or influences of local participants, however, how the sample group influences trade in the NSE is not explained.

2.8 Conceptual Framework

The conceptual framework highlights the relationship between the dependent and independent variables. It provides the study with a clear understanding of the objectives and brings clarity to the units of analysis of the study.

As the study analyses local participation as influencing trade in the NSE, the relation of the variables used are related in a conceptual framework. The study opted to use a conceptual framework to analyse the inter-related variables, to this end, the conceptual framework illustrates the relational direction of the variables under study. The conceptual framework is founded on concepts which provide for the main variables in the research inquiry. It thus relates the main ideas which the study has focussed on; the conceptual framework provides a summary of the study's own constructed model used to highlight the relationship between the variables. The conceptual framework is the study's model which shows how the study is to be conducted logically. It is made up of the essential interlinkage of concepts in the study by clarifying the existing relationship between the variable and how the study explicates the research problem



The conceptual framework has the trading level on the NSE as the dependent variable it is driven by the independent variable which is local participation by individual Kenyan investors. The independent variable, local participation by individual Kenyan investors is determined by the number of Kenyans trading and the monetary commitment of trades done. The dependent variable which refers to trading levels on the NSE is determined by amount of securities traded and the value of securities traded.

The intervening variable in the conceptual framework is the political interventions conducted in order to promote local participation in the NSE. This variable refers to the policies and programs initiated and run by the government and its agencies to ensure that local participation is encouraged in the NSE.

The conceptual framework posits that local participation is directly related to the trading level on the NSE or the volumes of equity trades registered on the NSE. Political intervention to promote local participation positively relates to the trading levels in the NSE.

2.9 Justification of the Study

As part of the growing national discourse on the subject of distribution of the country's wealth, the study assessed the country's performance indicators in view of the financial sector as indicated by the NSE. Through understanding the local participation level and its impact on trade in the NSE, the study will make useful contributions to the causes and implications on the country's economic resource distribution.

In consideration of the circumstances in Kenya's economy, recurring discussion on financial inclusion have been ongoing since independence. One of the preoccupations that have been in Kenya since independence is how to enable greater access of the financial resources which the economy enables the general populace to have. To this end, in assessing the NSE as a pertinent institution in the economy of Kenya, it is then important to consider whether it reflects the general face of the country. In this regards if one is to consider the different levels of income earners contributing to the country's economy, would this be mirrored in looking at the participants who take part in the activities of the NSE? If this is not the case, what would then be the reason for any variation when it comes to assessing the activities of the NSE?

In grappling with these matters the study thus takes the steps of seeking to appreciate the role of local participants, in this it assesses their current position in the activities of the NSE and inquires whether this is the best it can be. Consequently the study assesses the promise role of the NSE as a "people's market" and what it is that is hindering it from achieving this status. Local participants are supposed to be a formidable force in the activities of the NSE yet past statistics indicate that although this segment has the largest percentage of registered traders, it delivers the smallest number of trades in the bourse. How this can be changed provides a foundation for the study.

2.9.1 Academic Justification

The Nairobi Securities Exchange (NSE) as an important institution of Kenya's economy provides valuable insights as to the general state of the economic performance of the country. The study will deepen academics' theoretical understanding of stock markets located in Africa with an end to appreciating the dynamics of trade from buyers and sellers who participate in the market. Useful conclusions will be reached to enable scholars in Political Economy and Finance to better appreciate the applicability of the main underpinnings of market theories such as Liberalism and Economic Nationalism in understanding the operations of market forces in stock markets.

2.9.2 Policy Justification

The study's utility to Policy makers will arise from the findings reached. Consequently, policy makers from different sectors will be informed on the right policy interventions to be applied such as in deepening market participation of Kenyans in the NSE. Policies such as application of taxation and subsidies to be provided to Kenyans to enhance the growth of the NSE will be informed by the study's findings. The study will also provide useful ideas on expansion of the NSE through its understanding of the main incentives and disincentives for participation of Kenyans in the activities of the NSE.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The general objective of this study is to determine the political factors which influence local participation in NSE and its implications on trade in Kenya. This section examines the methodology to be used in the study and the selection of the research design that was adopted in the study. It provides the population of the study, the sampling design which details the sample size and sampling technique. The section will discuss the methods applied in data collection, analysis and presentation.

The study applied a mixed method of research making use of both quantitative and qualitative data analysis. The findings of the study were subjected to both quantitative and qualitative analysis from which useful conclusions have been drawn.

3.2 Site Description

The NSE serves Kenya and the international market, consequently, the traders in the market are both Kenyan and non-Kenyan. The NSE is physically located in Nairobi and thus the study was focussed in the Nairobi region as the focal point of data collection.

3.3 Research Design

The study applied a longitudinal research design since it assessed performance of the NSE over a 7-year period. A longitudinal study is based on representation of events over a given period (Saunders and Thornhill, 2016).

3.4 Research Method

The study took on the nature of an exploratory research, according to Saunders and Thornhill (2016), exploratory studies seek to discover what is happening and gain insights into a topic of interest. Such studies are useful where one would like to clarify ones understanding of a given phenomenon.

The study employed a survey research strategy, in seeking to answer the research questions. A survey is associated with a deductive research approach and it is useful for an exploratory study (Saunders and Thornhill, 2016).

3.5 Population and Sampling Design

The population under study are traders in the NSE, the specific segment of interest to the study is the population of traders who are Kenyans. The sampling frame is drawn from the CMA data of local individual traders who total 1,175,852 (CMA, 2019). However due to accessibility and time limitation, the study opted to gather data from trading experts through who individual traders deal in trading activities of the NSE.

The study limited itself to collecting data from the trading agents who are professional advisors and dealers of individual traders in the NSE. Since trades in the NSE are executed through a stockbroker who rely on dealers and custodians, all trades are channelled through these professionals and consequently they are well placed to speak on behalf of individual investors who trade in the NSE. The sampling design adopted an expert assessment to gather feedback on the influence of local participants in the NSE.

The study targeted the gathering of data from professionals who advice and trade on behalf of local participants in order to get information on the influences that affect trades of local participants. The study collected data from at least 50 investment professionals drawn from a variety of organisations that deal with trading participants such as stock brokerage companies, securities dealers, fund management firms and investment advisors. The study also sought the views of experts who are part of regulatory authorities namely NSE, CDSC and CMA in order to enrich the data collected.

The sampling technique used in the study was purposive sampling which applied a stratified random sample based on the different professional functions identified that relate to local trades. The stratified random sample was picked from stock brokerage companies, securities dealers, fund management firms and investment advisors.

3.6 Data Collection Methods

3.6.1 Questionnaire

The study collected information through a structured questionnaire. The Questionnaire was used due to the convenience of collecting large amounts of data within a limited time period. The questionnaire was administered to the identified professionals and was standardized to enable respondents fill in a series of both open and close ended questions (Appendix A).

3.6.2 Key Informant Interviews

The study sought to determine the qualitative reasons that drive local participation levels in the NSE. This provided a clearer understanding of findings that were established through the quantitative analysis done from questionnaires considering that the study took a mixed method approach in order to enrich the findings. The structured interviews were conducted with front office sales personnel of one of the prominent stock brokerage companies of the NSE. The selected professionals were identified and specially selected for their regular interaction with local trade participants. The responses resulting from the interviews enabled the study to acquire a better understanding of responses given from questionnaires administered. A sample of the structured interview questions is provided (Appendix B).

3.6.3 Documentary Sources of Information

The study made use of secondary sources of information in the preparatory stages in order to acquire background information on local participation in the NSE and other stock markets around the world. The information was sourced from chosen books, journals, government publications, internet sources, discussion papers, newspaper articles, working papers and other policy papers by various Non-governmental agencies. The assessment of these documentary sources was guided by the research questions for this study and the information was thematically ordered.

3.7 Data Analysis, Interpretation and Presentation

The study made use of Google analytics tools which were embedded in the Google documents on which the questionnaire was formulated, also the study made use of Microsoft Excel as the main data analysis tools.

3.7.1 Reliability and Validity of Study

Reliability refers to replication and consistency (Saunders and Thornhill, 2016), it is determined where a researcher can repeat a research design done before and achieve similar findings. The study conducted achieved the criteria of reliability based on application of the stipulated research design.

Validity refers to the appropriateness of the measures used, accuracy of the analysis of the results and generalisability of the findings (Saunders and Thornhill, 2016). The study achieved validity based on the data analysis tools which were applied, consideration was given to the fit for use criteria that was applied in the selection of the research methods to be used.

3.7.2 Ethical Issues relating to the Study

Ethical issues which arose arise during the study were recognition of responsibilities of participants who were involved in the study, this was mitigated by doing a risk assessment and assessment of possible conflict of interest which could have arisen. The study took steps to ensure that the right to consent was facilitated during data collection, this was achieved by ensuring the study safeguards respondent anonymity. No means of coercion were applied during the study. Other ethical issues such as keeping objectivity of the study were kept through review of the study approach during the research process to ensure that the study answered the research question formulated.

3.8 Scope and Limitation of the Study

The study looked at local individual investors as a significant proportion of indigenous capital in Kenya especially those individuals who are found in Nairobi County. The study posits that useful extrapolations may be drawn from this segment of the Kenyan population by seeking ways to improve key economic drivers such as investment activities in the country.

Limitations of the study were that most data and scholarly works approach the study from an Economics perspective which limits the qualitative findings, the study was mainly focussed in Nairobi County yet the Nairobi Securities Exchange serves Kenya as a whole, the time frame to be conducted for the study, 7 years, may not adequately capture the performance trends relating to local participants, the study is constrained financially and was thus limited from a budgetary aspect. At the early stages of field work, the study was affected by the Covid-19 pandemic which affected normal work operations globally, the study had to limit physical contact done through structured interviews and focussed on questionnaires as the preferred tool of data collection as a result.

CHAPTER FOUR

FINDINGS, DATA ANALYSIS AND DISCUSSION

4.1 Introduction

In this chapter, findings, data analysis and discussion of the data collected from respondents is presented. The chapter is divided into two parts. Part one provides findings from respondents who are trade experts in the NSE, assessment is done of questionnaires administered and structured interviews conducted. Part two assesses findings based on respondents' general perception on trade in the NSE and its relation to government policy in mobilising trade by local participants. Correlation of attitudes of traders and government policy in promoting trade of local participants is examined in view of the objectives and hypotheses of the study. In the following sub-section, we commence by presenting demographic characteristics of trade experts of the NSE sampled during the study.

4.2 Demographic Characteristics of Sampled Population

There were 51 sampled individuals. Characteristics such as professional function in the NSE and level of experience are presented in tables 4.1 and 4.2 below and following.

4.2.1 Profile of Professionals in the Study Sample

The study sought to find out the function of professional respondents assessed. Table 4.1 shows the distribution of professionals according to their role.

Table 4.1: Frequency Distribution of Professionals by Function

Function	Frequency	Percentage
Stockbroker/ Trader	7	14
Financial Analyst	8	16
Financial Advisors/ Instructors	18	35
Investment Support Services	18	35
Total	**51**	**100**

Source: Field Research (2020)

The function of the respondents is central to the study as it indicates their relevance for data collection. The study collected data from professionals who play various roles in assisting local participants who trade in the NSE. These professionals are well placed to explain the various factors influencing local participants make decisions in the manner of trading in the NSE.

From table 4.1, most respondents in the study play the role of Financial Advisors and Instructors who formed 35% of the respondents. The other function of respondents with an equal share is Investment Support Services who formed 35% of the respondents. The Investment Support Services was mainly composed of professionals such as Accountants, Lawyers and Economists who deal with traders in the NSE by providing various investment support advice and services. Financial Analysts formed 16% of the respondents, their role is to provide guidance to traders in the NSE by making empirical assessment of data of investment products in the NSE. Stockbrokers or Traders receive instruction to trade on behalf of local participants formed 14% of the sampled respondents.

Table 4.2: Frequency Distribution of Respondents' Experience

Professional experience in years	Frequency	Percentage
16 year and above	6	12
11 to 15 years	10	20
6 to 10 years	10	20
1 to 5 years	14	26
No response	11	22
Total	**51**	**100**

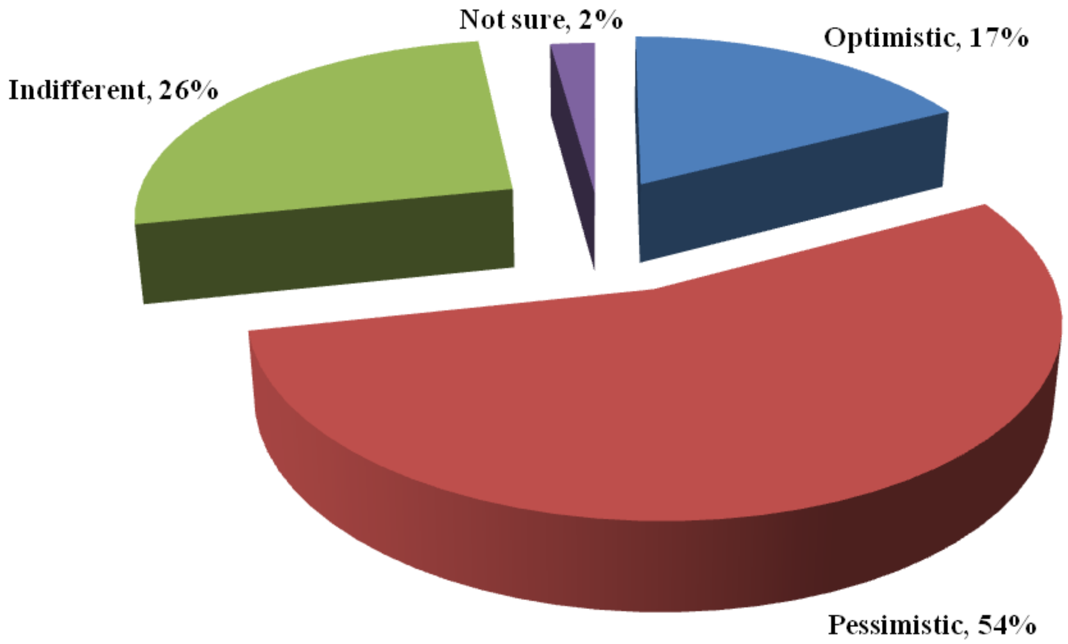
Source: Field Research (2020)

The findings show that 26% of respondents have been dealing with local participants in the NSE for more than one year but less than 5 years. 20% of respondents have experience of 6 to 10 years and another 20% have experience of 11 to 15 years with both groups dealing with local participants who trade in the NSE. 12% of respondents are noted to have experience of more than 16 years in dealing with local participants who trade in the NSE. During the study 22% of respondents did not disclose their level of experience in dealing with local participants who trade in the NSE.

4.3 Perception of Local Participants towards the NSE

The study sought to find out the general perceptions of local participants towards the NSE. Figure 1 provides the findings using graphical representation through a pie chart.

Figure 1: Perception of Local Participants towards NSE



Source: Field Research (2020)

The findings show that 2% of respondents were not sure of the general perception of local participants toward the NSE, a review of the reasons given of the sampled responses from this category indicated that since there are multiple situational factors which influence local participants outlook, it was difficult for particular respondents to give a general outlook about participants' perception.

17% of respondents indicated that the general perception of local participants is optimistic. A sample of the reasons as to why respondents thought that local participants are optimistic towards the NSE were that the participants who invest in the NSE did so for reasons of getting economic benefits and this in itself is an indication of optimism in the market. Another sample response for an optimistic outlook of participants is that there has been a relative increase in investments in NSE stocks relative to other investment avenues such as from people saving in the form of fixed income deposits in banks. This therefore indicates a general optimism in the NSE.

The findings also showed that 26% of respondents were of the view that participants were indifferent to the NSE. An assessment of some the reasons for this disposition noted among participants by respondents of this category is because the public was deemed to lack awareness of the activities of the NSE and thus many are indifferent towards it. It was also indicated that trading activities tend to be cyclic which is characterised by having highs and lows, as such one respondent was of the view that this is the reason why they would consider most Kenyans to be neither optimistic nor pessimistic but indifferent to this fact. Another respondent indicated that the indifference noted was because most participants do so on the advice received to trade; if this is not forthcoming no action takes place, as such awareness based on private activities or publicly sanctioned needs to take place for action to participate. Another respondent who indicated that participants are generally indifferent was of the view that people tend to see the NSE as a market for the wealthy and thus their indifference to taking part in the trading activities. It was also indicated that due to participants having inadequate information this makes many wary of taking part in the activities of the NSE. The NSE is considered by some participants to be unpredictable and this results to them adopting an attitude of indifference according to another respondent. Since the NSE has been on a downward performance trajectory, another respondent indicates that this is a reason why local participants are indifferent. This has been exacerbated by dominance of foreign investors.

According to Figure 1, the findings show that 54% of respondents feel that the general perception of local participants toward the NSE is pessimistic. A sample of the reasons provided by respondents for local participants having this outlook are as follows, the NSE is perceived to be on a downward performance trajectory and this has been due to adverse economic conditions that have faced the country over the period under study. It was noted that there have been a number of cases of poor governance in corporations that are listed in the NSE, as a result participants have been made to shoulder losses on investments made in such entities, this has led to a general pessimistic view as a consequence. Instances of insider trading which is indicated to be the case where certain individuals gain access to privileged information from which they get an unfair trade advantage in the market have led many participants to have a pessimistic view of the NSE. Some respondents were of the view that since some participants were not knowledgeable about the operations of the stock market, they adopted a pessimistic view as a result. Other respondents indicated that since some participants had incurred losses in the past, they opted to avoid trading again in the NSE and thus their pessimistic view towards it. Other respondents felt that past failures of some listed companies which local participants had invested in also led many to have a pessimistic view.

It was also noted by some respondents that local participants tend to have a "get rich quickly" attitude whenever they invest in the NSE, as a result of failure in their expectations, many adopt a pessimistic attitude.

4.4 Factors Leading to Increase in Local Participation

The study sought to find out the factors that lead to an increase in local participation. In view of this the study opted to assess respondents' views on key drivers that encouraged local participation. Since the study is interested in the government's intervention done to improve local participation, it also sought to find out what specific policy interventions the government carried out that have positively improved participants activities in the NSE. Finally as a follow up to the general interventions conducted by the government, the study sought to find out which were the most effective policy interventions as given by respondents among the general policy interventions conducted by the government in order to bolster local participation in the NSE.

4.4.1 Perceived Reasons for Encouragement of Local Participation

Respondents provided their views about the perception of factors that generally encouraged local participants to take an active role in the activities of the NSE. Table 4.3 gives a summary of respondents' views.

Table 4.3: Frequency Distribution of Factors encouraging Local Participation

Factors	**Number**	**Percentage (%)**
Prospects of higher earnings in the NSE compared to other investment avenues.	33	38
Knowledge of trading activities in the NSE.	10	11
Public euphoria such as during an IPO.	24	28
Prestige/ mere enthusiasm in participation.	9	10
Buying into the ownership of targeted companies.	9	10
Encouragement by word of mouth.	1	1
Need to have alternative investment products.	1	1
Total	**87**	**100**

Source: Field Research (2020)

From the findings, respondents were given the opportunity to give as many reasons for factors which encouraged people to participate in the NSE. Table 4.3 provides a summary of the responses indicating what options respondents provided. As per the findings summarised in Table 4.3, 38% of respondents are of the view that participants are driven by the prospect of earning higher returns in the NSE as compared to other investment avenues this makes them want to invest in the NSE. 11% of respondents indicated that participants who are knowledgeable of the activities of the NSE are encouraged to participate in the NSE. 28% of participants are encouraged to take part in the NSE because of public euphoria around periods where there are Initial Public Offerings (IPOs) meaning that new shares are presented to the public for purchase. Respondents who thought that participants take part due to prestige or mere enthusiasm in participation were 10%. Of those who wanted to buy into the ownership of targeted companies, such participants were indicated to be 10% according to respondents' views. The factors with the least responses were noted to be encouragement by word of mouth and mere pursuit of alternative investment products of which only 1% of respondents were of those views. In summary 66% of respondents gave prospects of higher earnings in the NSE compared to other investment avenues combined with public euphoria during IPOs as the main driver of local participants taking part in the activities of the NSE.

4.4.2 Government Policies which Encourage Participation

The study sought to find out the general actions conducted by the government which have positively led to increased participation. Table 4.4 provides a summary of the findings from the analysis of respondents on the policies driving an increase in participation in the NSE.

Table 4.4: Frequency Distribution of Government Policies encouraging Local Participation

Factors	Number	Percentage (%)
Advertising/ publicity campaigns through mass media and conducting road shows and social media campaigns.	11	20
The M-Akiba bond.	8	16
The NSE Challenge programme for students	7	14
Investor conferences organised by regulators such as CMA and investor education.	6	12
IPOs.	5	10
Provision of new Corporate Governance guideline by CMA	2	4
Launch of SME market option in the NSE.	2	4
Removal of Capital Gain Tax (CGT)	2	4
Investor protection policies and campaigns	2	4
Ibuka Programme (incubation programme of non-listed companies).	1	2
Diversification of financial products	1	2
Providing an online trading platform	1	2
Dematerialization of shares (compulsory adoption of CDS accounts and hence the abandonment of share certificates)	1	2
Allowing local participants to trade in smaller amounts.	1	2
Tax incentives for new listing in the NSE	1	2
Total	**51**	**100**

Source: Field Research (2020)

A review of the responses received on what respondents considered to be the government policies encouraging participation according to table 4.4 shows that advertising and publicity campaigns done by the government was considered by most respondents to be effective as 20% of respondents indicated this as an option. The M-Akiba bond was the second most indicated option with 16% of respondents selecting it. The M-Akiba bond is a security traded via mobile phone issued by the Government of Kenya, its purpose is to finance the government’s infrastructural budget and it is can be purchased for as little as Kenya Shillings 3,000 (M-Akiba, 2020).

The NSE challenge for student was indicated by 14% of respondents to be another government policy which encouraged participation. Investor conferences organised by regulators such as CMA and other investor educational forums were indicated by 12% of respondents as encouraging participation. IPOs (Initial Public Offerings) were noted by 10% of respondents to be another effective government policy which increased participation.

Other factors such as provision of new corporate government guidelines by CMA, launch of the SME market option in the NSE, removal of Capital Gain Tax, investor protection policy and campaigns were noted to have been indicated by 4% of respondents each as being government policies that were considered to be effective in encouraging participation. Factors such as diversification of financial products, providing an online trading platform, the dematerialization of shares which refers to adopting electronic ownership of share certificates, allowing trade of shares in smaller amounts and tax incentives of new listing in the NSE were all considered by 2% of respondents each as being government policies which bolstered participation.

In view of the responses received, the study opted to refine its understanding of the most effective government policies which increased local participation. Table 4.5 provides findings of what respondents considered the most effective government policies which encourage local participation.

Table 4.5: Frequency Distribution of the most Effective Government Policy encouraging Local Participation

Factors	Number	Percentage (%)
IPOs	10	27
Mass media campaigns and road shows	10	27
M-Akiba	6	16
NSE challenge for students and the youth	6	16
Investor education	2	5
Provision of an online trading platform	1	3
Elimination of taxes on investments	1	3
Investor protection	1	3
Total	**37**	**100**

Source: Field Research (2020)

Table 4.5 shows that most respondents are of the view that IPOs together with mass media campaigns and road shows are the most effective government policies in increasing local participation since the options had the most respondents who selected them each having 27%. The option of M-Akiba and NSE challenge for students and the youth each had 16% of respondents who selected them as the options that were most effective in increasing local participation. Investor education is considered by 5% of respondents to be an effective government policy which leads to increase in participation. Other options such as provision of an online trading platform, the elimination of taxes on investments and investor protection were each considered by 3% of respondents as being the most effective government policies leading to increase in local participation in the NSE.

4.5 Factors leading to Decrease in Local Participation

The study sought to find out the factors that led to local participants decline in taking part in the activities in the NSE. In view of this, participants were asked which government policies discouraged participation. Table 4.6 provides a summary analysis of respondents' views.

Table 4.6: Frequency Distribution of Government Policies discouraging Local Participation

Factors	**Number**	**Percentage (%)**
Corporate governance failures which are not properly addressed.	18	56
Low participant education and awareness policies	4	13
Taxation on investments	4	13
Inefficient trading mechanisms such as through over regulation	3	9
Illiquidity which results to difficulty in exiting such as through selling investments by individuals	2	6
Difficulty in accessing information arising from hefty NSE charges for accessing market data.	1	3
Total	**32**	**100**

Source: Field Research (2020)

The findings indicate that of the responses received, 56% indicated that corporate governance failures which were not properly addressed resulted to participants' discouragement in engaging in trades in the NSE. Corporate governance failures mainly relate to issues to do with misappropriation of corporate finances, mismanagement arising from corrupt practices such as favouritism in company tendering processes, political intervention that hamper proper operations of a company's board of directors of publicly listed companies among other such practices. Government related agencies not taking adequate steps to deal with such failures discourage participants according to 56% of the responses received.

Low participants' education and taxation of investments in the NSE each had 13% of respondents indicating that they resulted in discouragement of participants taking part in the activities of the NSE. Inefficient trading mechanisms such as through over regulation was another government policy of which 9% of respondents indicated had caused a decline of participants in the activities of the NSE. Illiquidity which is the inability to sell off one's investments in case one desired to exit was indicated by 6% of respondents as a cause which made local participant shun the activities of the NSE. 3% of respondents also indicated that the government's policy of making it difficult to access information due to high charges of information access to NSE's market data made local participant get discouraged in participating in the activities of the NSE.

Having interrogated government policies which discourage local participants from taking part in the activities of the NSE, the study went on to assess respondents view of other general factors. Table 4.7 provides summary responses of what respondents indicated to be other factors other than government policies which discouraged participants in taking part in the activities of the NSE.

Table 4.7: Frequency Distribution of General Factors which Discourage Local Participation in the NSE

Factors	Number	Percentage (%)
Reduced earnings in the NSE compared to other investment avenues.	29	42
Lack of knowledge of trading activities at the NSE.	28	40
Fear of participation.	7	10
Suspected insider trading & price manipulation	2	3
Absence of innovative trade products	2	3
Poor investor protection.	1	1
Low income level of participants	1	1
Total	**70**	**100**

Source: Field Research (2020)

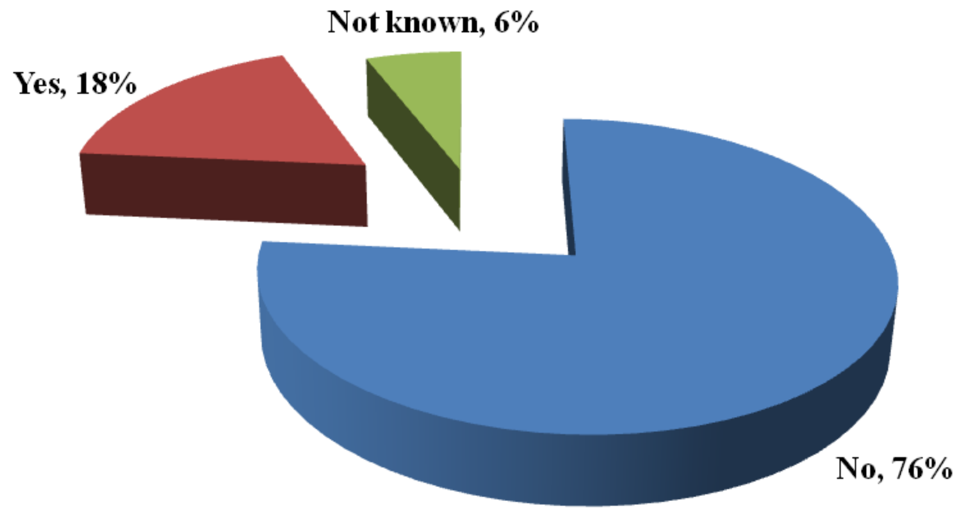
Respondents were asked to provide general reasons as to why local participation was discouraged from taking part in the activities of the NSE. Respondent could give as many reasons as they could in the responses which they were to give. A dominant reason which generally discouraged participants from taking part in the activities of the NSE is reduced earnings in the NSE compared to other investment avenues, according to 42% of respondents. This is followed by lack of knowledge of participants which results to low participation in the NSE of which 40% of respondents indicated it as a reason for participants being discouraged from taking part in the activities of the NSE. A general fear of participation was highlighted by 10% of respondents as the reason why local participants do not take part in the activities of the NSE. 3% of respondents are of the view that the factors of suspected insider trading which includes price manipulation and the absence of innovative trade products results to low participation in the activities of the NSE. 1% of respondents gave the reasons of poor investor protection and low income level of participants as causing a reduction in local participation in the NSE.

Overall from the findings, the two main reasons which discourage local participants from taking part in the activities of the NSE are reduced earnings in the NSE as compared to other investment avenues and the lack of knowledge of the trading activities of the NSE. In aggregate 82% of respondents indicated either one of the two reason or both as being the cause of low participation the NSE.

4.6 Adequacy of Government Intervention in encouraging Local Participation in the NSE

The study sought to find out if the Government was taking adequate measures to encourage local participation in the activities of the NSE. Consequently, respondents were asked to provide their views based on three options which were provided in the questionnaire and from the structured interviews conducted. The three options which involved responses to the question whether the Government was taking adequate measures to encourage local participation were Yes, No and Not known (not sure). Figure 2, provides a visual summary on the responses using a pie chart.

Figure 2: On whether the Government is taking adequate measures in encouraging Local Participation



Source: Field Research (2020)

76% of respondents according to the findings are of the view that the government is not taking adequate measures in ensuring that local participants are encouraged to take part in the activities of the NSE. 18% of respondent indicated that the government is taking adequate measures to ensure that local participation is encouraged in the NSE. 6% of respondents could not tell whether or not the government was taking adequate measures to ensure that local participants are encouraged to take part in the activities of the NSE.

In an effort to know the measures which respondents would like the government to embark on in order to improve their perception on the adequacy of what the government was doing to improve local participation, table 4.8 gives summary findings from respondents. Table 4.8 summarises respondents' views of what their perceptions are on the kind of action which they thought the government could embark on in order to improve local participation in the NSE. Since respondents are experts in the NSE operations, the study sought to find out what in their view the government could do in order to enhance to the role of local participants in the NSE.

Table 4.8: Frequency Distribution of recommended Measures to the Government in order to improve Local Participation in the NSE

Measures	Number	Percentage (%)
Financial literacy training/ having programmes which encourage saving for investment.	18	36
Tax relief on earnings from NSE and tax incentives to investors such as those who issue of stocks.	9	18
Publicity campaigns to encourage investment in NSE.	6	12
Encourage IPOs for other companies and parastatals.	5	10
Strengthening of corporate governance laws and procedures.	5	10
Relaxation of entry requirements such as opening CDS accounts and to make it easier to divest.	3	6
Provide innovative products such as to allow pooling of investors.	2	4
Enabling of market data to be more accessible.	1	2
Devolve the stock exchange to counties.	1	2
Total	**50**	**100**

Source: Field Research (2020)

The study found that 36% of respondents would like the government to provide financial literacy training or conduct programmes which encourage saving for investment as an important measure to improve local participation in the NSE. 18% of respondents prefer that the government allow for tax relief on earnings from the NSE or provide tax incentive to people who issue stocks for the NSE, this will boost local participation. 12% of respondents indicate that the government should do more publicity campaigns to encourage investment in the NSE. 10% of respondents are of the view that the government should encourage initial purchase offers for shares of other companies and parastatals as a measure to increase local participation in the NSE. Also, 10% of respondents indicate that the government should strengthen corporate governance laws and procedures as a measure to increase local participation. 6% of respondents are of the view that local participation can be increased if the government relaxes entry requirements such as opening CDS accounts and to makes it easier to divest. Providing innovative products in order to allow pooling of investors was mentioned by 4% of respondents as a measure which will enable the government increase local participation. 2% of respondents indicated that the government needs to enable market data to be more accessible and another 2% were of the view that the government should devolve the stock market to the counties as measure to increase in stock market participation.

4.7 Perception on Local Participants versus adequacy of Government measures to increase Local Participation in the NSE

The study sought to find out if there is a correlation between responses relating to the perception of local participants and whether respondents thought the government was taking adequate measures to increase local participation in the NSE. Table 4.9 and 4.10 give summary of responses received as presented in Figures 1 and 2 respectively.

Table 4.9: Percentage Distribution of Local Participants Perception of the NSE

Attitude	**Percentage (%)**
Pessimistic (P)	55
Indifferent (I)	28
Optimistic (O)	17
Total	**100**

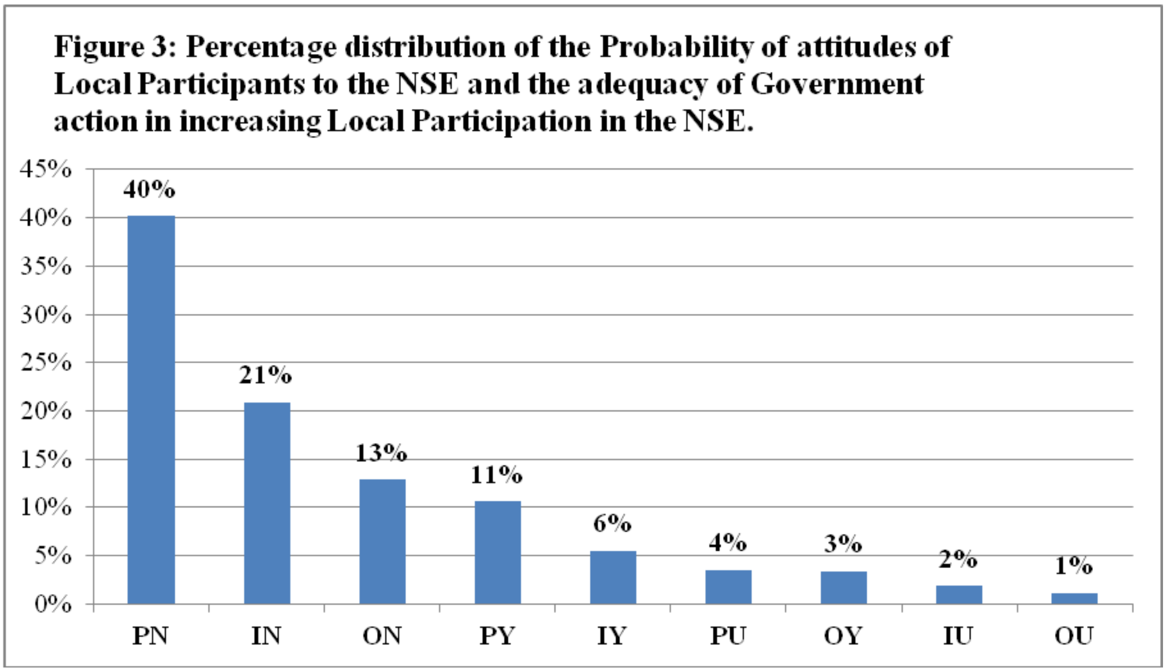
Source: Field Research (2020)

Table 4.10: Percentage Distribution of Respondents' Perception on whether the Government is taking adequate measures to increase Local Participants in the NSE

Adequacy	**Percentage (%)**
No (N)	74
Yes (Y)	20
Not known (U)	6
Total	**100**

Source: Field Research (2020)

Based on Tables 4.9 and 4.10, the study sought to find out if there is a relationship between responses relating to the attitude of local participants and adequacy of government action as given by respondents. A probability table of the variables relating to the attitude of local participants and the adequacy of government action was calculated, this has been graphically presented through a bar graph in Figure 3.



Source: Field Survey (2020)

According to Figure 3, the perceptions as given by respondents are coded under 9 different categories. PN refers to the probability of respondents indicating that local participants are pessimistic and that the government was not taking adequate measures to increase local participation in the NSE, this category has the highest probability with 40%. IN refers to the probability of respondents indicating that local participants are indifferent and that the government was not taking adequate measures to increase local participation in the NSE, this category had a probability of 21% of respondents aligned to it. ON which has a probability of 13% of respondent in the category refers to the probability of respondents indicating that local participants are optimistic and that the government was not taking adequate measures to increase local participation in the NSE. PY which has a probability of 11% of respondents refers to the probability of respondents indicating that local participants are pessimistic and that the government was taking adequate measures to increase local participation in the NSE. IY which has a probability of 6% of respondents refers to the probability of respondents indicating that local participants are indifferent and that the government was taking adequate measures to increase local participation in the NSE. PU refers to the probability of respondents indicating that local participants are pessimistic and that they are not knowledgeable if the government was taking adequate measures to increase local participation in the NSE, this category has a probability of 4% of respondent. OY has a probability of 3% of respondents and it refers to the probability of respondents indicating that local participants are optimistic and that the government was taking adequate measures to increase local participation in the NSE. IU refers to the probability of respondents indicating that local participants are indifferent and that they are not knowledgeable if the government was taking adequate measures to increase local participation in the NSE, this category has a probability of 2% of respondent who related to the it. OU refers to the probability of respondents indicating that local participants are optimistic and that they are not knowledgeable if the government was taking adequate measures to increase local participation in the NSE, this category has 1% probability of respondents who indicated the option and is the one with the least number of respondents.

The category which had the probability of most respondents picking it is PN which had a 40% chance of respondents who indicated that they thought that most local participants are pessimistic toward the NSE and that the government was not taking adequate measures to increase the participation of locals in the activities of the NSE. This category was followed by IN which indicated that 21% of participants are indifferent to the activities of the NSE and that the government was not taking adequate measures to increase local participation in the activities of the NSE. In summary as highlighted in Table 4.10, 74% of respondents are of the view that the government is not taking adequate measures to increase local participation in the NSE.

4.8 Conclusion

The foregoing presentation has provided data findings on expert views from respondents relating to local participants attitude to the activities of the NSE. The reasons for local participants taking part in the NSE, the reasons for deterred activities of local participants in the NSE and the government’s role in facilitating local participation or discouraging it have been presented.

The first objective of the study was to find out local investors’ experience in participating in the activities of the NSE, in summary the study found that 54% of local participants are pessimistic about the NSE which explains the low participation rates captured of this segment of the population over the period of the study. The second objective of the study was to find out the political factors which motivate local investors’ participation in the NSE, the study found that that 38% of participants, which was the highest proportion among the reasons provided, did so for the prospects of receiving higher returns on investments compared to other avenues of investment. This was in view of general motivational factors, however in consideration of the political factors, the most effective government policy which encouraged local participants to take part in the activities of the NSE was found to be Initial Public Offerings (IPOs) and mass media campaigns which were driven by the government, both reasons were selected by 27% of respondents.

The third objective of the study was to find out political factors which deterred local investors' participation in the activities of the NSE. Generally the study found that the reason most attributed to the falling participation numbers of local individual investors in the NSE was reduced earnings in the NSE as compared to other investment options; this was attributed to by 41% of respondents. In achieving the third objective, the study found that the perceived government policy which most respondents link to the fall of local participation is the failure to address corporate governance malpractices; this was indicated to be so by 56% of respondents in summary.

Generally the sampled respondents when asked whether the government was taking adequate measures to encourage local participation had most of them giving an emphatic no, this response was given by 76% of respondents. In recommending actions to be taken by the government in order to increase local participation in the NSE, most respondents, that is 36% indicated that the government should embark on financial literacy training or engage the citizenry in programmes which encourage savings for investment. The study found that most respondents who thought that local participants are pessimistic toward the NSE are also of the view that the government is not doing enough to encourage local participants to engage in the activities of the NSE, these are 40% of the respondents who were sampled.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The Nairobi Securities Exchange is an important institution to Kenya's economy, 57 years since Kenya acquired independence an assessment can be made regarding the sovereignty of the country based on its economic institutions. The analysis can be done by gauging the dominant forces which influence institutions such as the Nairobi Securities Exchange. The Nairobi Securities Exchange was initially set up to assist the settler population to raise funds for their businesses in Kenya's pre-independence period. It was a satellite market which was pegged to the London Stock Exchange (LSE) but later acquired autonomy from the LSE. However after Kenya's independence, the NSE continued to be dominated by foreign players as most locals who are Kenyan were not significantly taking part its activities.

After various attempts by the government to Africanise the NSE in order to enable more locals to participate, results show that efforts made have not yielded the required outcomes even after half a century of independence as the NSE trades continue to be dominated by foreigners. The study sought to find out reasons for this apathy in participation by Kenyans who have not played a significant role despite their registering large numbers compared to foreign traders in the NSE.

A review of the literature indicates that the approach of most studies to the subject is one of bundling local participants as part of a larger category of traders in general, consequently this segment has not had enough attention paid to it for analytical purposes. Most studies of the NSE traders have taken a profound Economics discipline approach resulting to an outlook influenced by a Neo-liberal approach which sees the market as self regulating. Consequently the dominant literature has ignored the need to make concerted policy efforts in order to promote the role of local participation in the NSE, this is especially through advising the government of the need to encourage this segment through specific policy interventions. The study makes an example of the New York Stock Exchange (NYSE) which became a "people's market" through the United States of America's government cooperating with regulators and interested corporations in taking calculated steps in promoting the NYSE trade activity to become owned by more than 25% of American households from just 5% of households at the onset of the campaign.

The study took the approach of expert assessment, this was informed by the fact that the NSE trades are conducted through experts who assist local participants in their trading activities. These experts act as intermediaries in the market and all local participants who desire to trade have to go through them. As a result, the experts are well placed to speak on behalf of local participants due to their privileged interaction with them. The study in fulfilling its objectives set out to ask the experts what is the general attitude of local participants toward the NSE, it also sought to find out the factors that result to an increase or decrease in participation of locals. Finally the study sought to find out what specific government actions encouraged or discouraged local participation in the NSE.

Research tools utilised by the study was mainly questionnaires which were sent to 46 respondents and structured interviews which were conducted with 5 respondents. The questionnaires were sent to more than 100 prospective respondents, each recipient was required to respond after which the answers would automatically be captured according to the respondent's feedback on the automated online questionnaire powered by Google. The responses to the questionnaire were uploaded to Google documents on the questionnaire platform which the study made use of to collect data, tally and analyse.

The study found that most local participants were pessimistic about the NSE, this was assessed from respondents' answers where 54% indicated that local participants are pessimistic towards activities of the NSE. The findings confirm the study's first hypothesis that most local investors eschewed participation in the NSE due to past negative experiences. Such experiences as highlighted by respondents are due to past cases of poor corporate governance in listed entities in the NSE which have made investor bear losses which result. Also other negative experiences shown to have been faced by investors are occurrences of insider trading which led to certain individuals gaining access to privileged market information from which they get an unfair trade advantage in the market. Another negative experience of investors which has contributed to a general pessimistic outlook is poor performance of stocks invested in that have led to general losses in investments made.

The main reasons given by respondents for local participant being encouraged to participate in the activities of the NSE was the prospect of getting higher earnings in the NSE as compared to other avenues of investment, this was given by 38% of respondents. The government policy which was considered by most respondents as boosting local participation was noted to be advertising and other publicity campaigns conducted by the government of which 22% of respondents indicated this. However, on making further enquiry from respondents into which was the most effective government policy which led to an increase in local participation, respondents gave two options, these are initial public offering (IPOs) and mass media campaigns by the government, the two options had 27% each of respondents who selected them.

In assessing the government's action or inaction which led to a decline in local participation, most respondents indicated that corporate failures which were not properly addressed by the government was the leading cause of decline, 56% of respondents gave this reason. The study sought to find out from respondents their general assessment of factors which led to falling local participation, most respondents, that is 41% gave reduced earnings in the NSE compared to other investment options as the main reason.

In order to establish if the government was taking adequate measures to encourage local participation in the NSE the study enquired from respondents if this was being done, most respondent indicated in the negative with 76% of respondents indicating this. On seeking to establish which government policy would have the greatest impact in increasing local participation, 36% of respondents indicated that financial literacy training and conducting programmes which would increase savings for investment is the option which would increase local participation. The study made a further correlation on the views of respondents in relation to the general perception of locals to the NSE in comparison to whether they thought the government is taking adequate measures to increase local participation, it was noted that most respondents, that is 40% are of the view that local participants are pessimistic to the NSE and that the government was not taking adequate measures to increase local participation in the NSE.

This affirms the study's second and third hypothesis which indicate that many political interventions promoting local participation influence increased trading levels in the NSE and that few political interventions promoting local participation influence decreased trading levels in the NSE in that order. Since local participants are pessimistic they are therefore averse to taking part in the trading activities of the NSE, the government has not been taking adequate steps to promote the activities of the NSE which exacerbates local participants aversion to the activities of the NSE. The study in assessing responses received was able to affirm that the chance that respondents were of the position that local participants are pessimistic towards the NSE and that the government was perceived as not taking enough action to encourage local participation is at 40%.

The study in assessing local participants as a key segment in the NSE has been able to bring about a greater understanding of this group of traders in the NSE. In understanding the group's diverse motivations in taking part in the activities of the NSE, the study has shed more light on the policy interventions which could be taken in order to encourage the mobilization of financial resources from this group. As indicated, the tendency of most studies has been to bundle local participants with other investors who may be driven by different behavioral motivations. Consequently, local investors have in the past been overlooked or at best misunderstood in the type of policy intervention which would work to encourage them play a greater role in the activities of the NSE. The study has thus enabled policy makers to be more informed in the options available to them in order to achieve a greater role of local participants in the activities of the NSE.

5.2 Recommendations to the Government

The government through NSE (Nairobi Stock Exchange), CMA (Capital Market Authority) , CDSC (Central Depository and Settlement Corporation Limited), Ministry of Trade and Industry and other related agencies should seek ways to improve the confidence of Kenyans in the NSE. Generally most Kenyans are averse to the activities of the NSE for various reasons given; chief among them is the falling returns on investment made in the NSE.

The government should step up efforts to improve Kenyans outlook in the activities of the NSE, prior effort has been made by the government in this regard, however, the impact of the policy decisions to promote local participation needs to be conducted. An important policy decision is to increase funding towards educating Kenyans in financial literacy skills, this could be done through training institutions such as schools, tertiary colleges and other institutions of higher learning like universities. Greater promotional activities need to be taken by the government in order to help Kenyans prioritise investing in the NSE, this will help more Kenyans to be aware of this investment option which they can then consider in earning returns through participating. Another campaign which the government needs to embark on is to promote the NSE as a means of getting Kenyans to take greater ownership of their country's economy, past effort has been made successfully through the M-Akiba bond floated by the government to encourage the average Kenyan purchase an infrastructural bond from the government. This can be developed further to increase participation of locals in the NSE.

Concerted effort needs to be taken by the government to address corporate malpractices of companies listed in the NSE as this has been identified as a prime reason which discourages local investors from taking part in the activities of the NSE. The government needs to deal with past cases of corporate governance malpractices of listed state corporations, looking to the future clarity needs to be provided on steps to be taken where such malpractices are identified perhaps including the Judiciary and other independent professional bodies which could be enlisted to address such matters.

5.3 Recommendations to Listed Corporations

The NSE provides a platform for raising capital for companies listed in it, such companies have a chance to gauge investor confidence on their performance through the performance of their stocks in the bourse. Although the study's main thrust was to assess government policy intervention in relation to local participation, listed companies have a role to play as it is in their interest that the NSE flourishes. Some of the reasons given for declining local participation touch on corporate governance mishaps, it would be a high time for corporations to formulate self regulatory procedures as they work with state agencies in order to boost local investor confidence.

5.4 Suggestions for Future Research

The study has highlighted the plight of local participants as a pertinent segment of traders in the NSE. A greater understanding needs to be made of this segment in order to appreciate their behavioural disposition toward the NSE. Local participants need to be further understood from the perspective of rural versus urban dwellers. Also the study touched lightly on understanding the middle class as an essential segment that is influential to the country's economy, the impact needs to be better understood by analysing the main characteristics and influence of this segment of the population to the country's economic institutions.

The government has over the years conducted vast policy intervention in the NSE to improve local participation, however, studies of the impact assessment of such policy interventions need to be conducted and documented to in order to improve the approach used to measure and gauge their success.

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Appendices & Annexes

A. Questionnaire:

Section I: Back ground of the respondent

1) What is your profession? ____

2) Are you a registered investment advisor/ agent/ trader with the CMA/ NSE or ICIFA?

____

3) What is your role in providing trading/ investment services in relation to the NSE?

____

4) How long have you provided services for individual traders in the NSE? ____________

Section II: Respondent's perception on general local traders' experience

1) What in your view is the general attitude of local (individual Kenyan) traders on the NSE?

Optimistic ☐

Pessimistic ☐

Indifferent ☐

(Please tick (√) once appropriately)

2) In relation to the answer provided above in 1) above, what are your reasons for the attitude given?

a) ____

b) ____

c) ____

d) ____

e) ____

Section III: Motivating factors for local participants in the NSE

- What are the main publicity exercises done by the government and its related agencies in the past 10 years which encourage Kenyan citizens to trade in the NSE?

a) ______

b) ______

c) ______

d) ______

e) ______

- Which publicity exercises done by the government and its related agencies have been most effective in helping Kenyans trade in the NSE?

a) ______

b) ______

c) ______

- What are the reasons which encourage local individual participation in the NSE?

Prospects of higher earnings in the NSE compared to other investment avenues ☐

Knowledge of trading activities at the NSE ☐

Public euphoria such as during an IPO ☐

Buying into ownership of targeted companies ☐

Prestige/ mere enthusiasm in participation ☐

Other reasons:

a) ______

b) ______

c) ______

Section IV: Demotivating factors for local participants in the NSE

- What are some government's and its related agencies' actions which have in the past caused Kenyans to reduce or stop trading in the NSE?

a) ______

b) ____

c) ____

d) ____

e) ____

- What are the reasons which discourage local individual participation in the NSE?

Reduced earnings in the NSE compared to other investment avenues ☐

Lack of knowledge of trading activities at the NSE ☐

Fear of participation ☐

Other reasons:

a) ____

b) ____

c) ____

B. Structured Interview Questions:

1. Assess to what extent the NSE is open to all Kenyans.
2. What is the limitation of participation by various Kenyans in the NSE?
3. What is the perception on the key drivers that leads more local investors to trade on the NSE?
4. What are some of the reasons for low participation of Kenyan in the NSE?
5. What is your suggestion to improve local investor participation in the NSE?