THE NAIROBI STOCK EXCHANGE
ITS HISTORY, ORGANIZATION AND ROLE IN THE
KENYAN ECONOMY

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ABSTRACT

A stock exchange is said to be an indispensable institution in a capitalist economy. It is said to perform the following major functions:

(a) To provide a source of capital to those who require it for productive employment.

(b) To allocate the available capital between productive users in such a way as to ensure their most efficient usage.

(c) To provide a market in existing securities so as to guarantee liquidity to those who invest in them.

The purpose of this thesis is to examine the history, organization and role of the Nairobi Stock Exchange in Kenya's mixed and developing economy.

With respect to the above stated functions of a stock exchange, the Nairobi Stock Exchange is:

(i) Not an important source of capital either for the private sector or the public sector, although it was found to handle most of the Government debt.

(ii) Not an important allocator of investible funds both because of its limited role as a source of capital and because cost of capital consideration is not heavily weighted by firms.

(iii) Not providing any meaningful liquidity in securities owing to the narrowness of the market of most securities.

It was also found that the Exchange has largely failed to respond to the local environment which badly needs an aggressive and educational initiative in promoting investment activities.