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Growth of the Nairobi Stock Exchange Primary Market

Rose W. Ngugi
Roline Njiru

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Kenya Institute for Public Policy Research and Analysis

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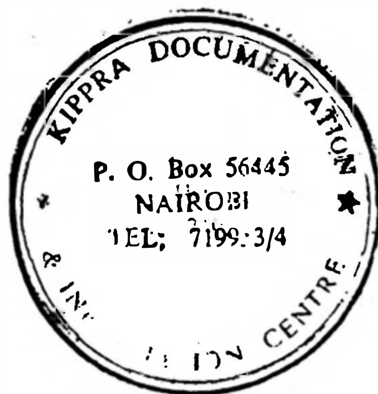

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Abstract

The study explores the development of the Nairobi Stock Exchange primary market since its inception in 1953. To understand the factors influencing growth of the market, the study uses a historical perspective approach. This captures the factors surrounding the development of the market, using a sample of 20 firms that had made public offers since 1980..

The market has witnessed slow growth in the number of listed firms. The number of firms listed in 2005 is less than that at independence (1963). There are very few locally-owned firms and there has been a significant number of delistings. There are on-going attempts to establish a second-tier market, which would accommodate firms that do not meet the listing requirement but have the potential to grow. However, unless the culture of share trading is well cultivated, such a move may not be sustained. Therefore, mass education on the stock market operations is important to the business community. Similarly, if the business environment is such that it threatens the growth and survival of the firms, the prospects of having such firms listing even in the second-tier market are very slim. The government needs to sustain a favourable business environment to reduce the risk of growth and survival of such firms.

Firms listing at the market are driven by the need to grow their productivity by investing in technology, the need to strengthen their capital base and the need to dilute shares through privatization. The benefits of going public include increased investment, profitability and growth opportunities and also easing the financial constraints. However, this has not attracted more entrants, may be because firms do not understand the benefits of going public or the cost of doing so. Mass education at firm level on the benefits of going public is important, with clear examples from those who have managed to reap benefits. In addition, it is important to carry out a study relating the costs and benefits of going public to the probability of firms listing.

The response to various tax incentives is highly inelastic. Although over the period the stock exchange has lobbied the government for tax incentives, the response from firms has been poor. The tax incentives provided are coupled with rising implicit and explicit listing costs. It may be that such costs out-weigh the benefits of tax incentives. Therefore, tax incentives need to be accompanied by efforts to strengthen the institutional setup with credit bureau and underwriter services. It is also important to understand the link between the capital structure and tax incentives.

Political relationships in the East African region are a major factor that influences the market scope of the Nairobi Stock Exchange. The on-going efforts towards regional integration are a potential source of expanded market scope for listings. Privatization has also made a significant contribution to the growth of the market. Therefore, encouraging privatization of strategic parastatals through the stock market will be a major boost for the market. Finally, stable macroeconomic conditions determine the performance of the firm and therefore the ability to satisfy the benefits of the shareholders. Sustaining a favourable macroeconomic environment will attract firms and investors to share trading.

Abbreviations and Acronyms

AFC	Agricultural Finance Corporation
CBK	Central Bank of Kenya
CIC	Capital Issues Committee
CMA	Capital Markets Authority
DFCK	Development Finance Corporation of Kenya
DFIs	Development Financial Institutions
EABL	East African Breweries Ltd
EAC	East African Community
EADB	East African Development Bank
HFCK	Housing Finance Company of Kenya
ICDC	Industrial Credit and Development Corporation
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IPOs	Initial Public Offers
KCB	Kenya Commercial Bank
KPCU	Kenya Planters and Cooperative Union
KTDC	Kenya Tourism Development Corporation
LSE	London Stock Exchange
NBFIs	Non-bank Financial Institutions
NBK	National Bank of Kenya
NSE	Nairobi Stock Exchange
NSSF	National Social Security Fund

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1. Introduction

The financial reform process emphasizes the development of the stock market as an alternative source of long-term capital in emerging markets. Long-term capital is crucial for economic development given the positive relationship between long-term capital and economic growth (Demirguc-Kunt and Levine, 1996). As a priority therefore, the Kenya government in the 1997/2001 Development Plan noted the need to shift from the expensive short-term finance in favour of cheaper long-term finance for sustainable industrialization to be achieved.

The need for long-term capital to finance private investment is not a recent realization in Kenya. As far back as the 1920s, foreigners who dominated the economic activities initiated share trading. Then, at independence, the government set up Development Financial Institutions (DFIs) to close the resource gap for long-term capital. Further, a study by the International Finance Corporation (IFC) and Central Bank of Kenya (CBK) in 1984 had recommended the need to develop capital markets in order to facilitate mobilization of long-term capital. In Sessional Paper No. 1 of 1986, the government reaffirmed its commitment in facilitating growth of the capital market.

To revitalize capital market development, the IFC/CBK (1984) made various recommendations aimed at enhancing growth of the primary market. For example, IFC/CBK recommended the need to reduce tax differences between debt and equity finance and lower the barriers in listing in the stock market. This was in realization that taxation and other government fees put barriers to issuing of new listings in the stock market, therefore increasing transaction costs. Further, taxation on financial savings discourages the flow of funds to capital markets, while taxes on corporate earnings and distributions inhibit the creation of financial assets. Also, taxes on financial transactions hinder the development of institutions (Akamirokhor, 1996). Establishment of the

capital market regulator and diversification of the money market instruments was also recommended to oversee the development of the capital market and strengthen surveillance of market activities. Consequently, the Capital Market Authority (CMA) was established in 1990, marking a shift from the self-regulatory system to the statutory regulatory system.

Further, the stock exchange has in the recent period been lobbying the government to create a conducive policy environment to facilitate growth of the economy and the private sector to enhance growth of the stock market. In addition, the divestiture of government parastatals through the stock market is expected to promote growth of the stock market (Ngugi, 2001).

Despite the long history and efforts made to revitalize the stock market, growth of the primary market is still very slow. For example, the number of listed firms presently is similar to the number of firms listed at independence and at the beginning of the reform process. Further, the number of traded securities in the market is very minimal, therefore narrowing diversity in sourcing for funds. For both researchers and policy makers, understanding factors that influence growth of the primary market is important in order to formulate a strategy to attract more private firms to use the stock exchange in mobilizing capital for long term investment. This study is an attempt to shed some light on the growth pattern of the initial primary market.

Section two of the study looks at development of the capital market in Kenya, including the type of securities available in the market. Section three explores factors that have influenced growth of the primary market over time with emphasis on the number of listed firms. Section four analyses the motivating factors for firms to go public while Section five concludes the study.

2. Development of the Capital Market in Kenya

By 1953 when the idea of formalizing the stock exchange was underway, there were six banks in Kenya. These had been attracted by the growing farming settler community and foreign traders. The number of banks had increased to ten by 1963 but the government felt that these banks were not serving the interest of African farmers and businessmen. Therefore, the government set up locally-owned banks in 1965 and 1968 and also made deliberate efforts to promote growth of indigenous financial institutions by establishing even regulatory systems across the institutions. This saw the mushrooming of non-bank financial institutions (NBFIs) and segmentation of the financial sector by maturity and risk, due to differences in effective loan and deposit rate ceiling. At the same time, the government made efforts to promote participation of local investors in the stock exchange.

Before independence, only two public institutions provided development finance: the Land and Agricultural Bank (LAB) and the Industrial Development Corporation (IDC). After independence, various development financial institutions (DFIs) were set up, including Agricultural Finance Corporation (AFC), ICDC, DFCK and KTDC as a deliberate effort by the government to boost the provision of long term credit and its access by the locals, who were discriminated by collateral requirement by other institutions. The DFIs were established with considerable donor support in the 1960s and 1970s, providing equity and term loans to industrial enterprises and loans for long-term agricultural investment. The establishment of DFIs was targeted to alleviate perceived market failures in the provision of long-term capital investment by providing equity and loans to industrial enterprises and agricultural business. However, the DFIs concentrated on funding state enterprises and failed to promote growth of private enterprises. Moreover, DFIs lacked effective statutory powers to raise funds

independently, weakening their capacity to meet their obligations. Furthermore, because of their state ownership and government influence over their policy and management decision, these institutions became vulnerable to political patronage and abuse, preventing them from developing into viable developmental and commercial entities (Nasibi, 1992). Consequently, DFIs became a drain on budgetary resources such that their obligations were tied to the government's ability to raise funds externally. In this context, the DFIs not only failed in their role of providing long-term capital, but they also failed as a catalyst in development of local capital market in Kenya.

The poor performance of DFIs and the dwindling external flows created a huge resource gap, necessitating a search for alternative vehicles for mobilising financial resources. For example, in the 1974/78 Development Plan the government admitted that the financial sector was not playing its role effectively in the development process. Further, in the 1984/88 Development Plan the government adopted mobilisation of domestic resources as its theme in an effort to promote the role of the financial sector in financing growth. Moreover, as the government embarked on the reform process in 1984 after failing to make great achievement with the first phase of the reforms, IFC/CBK conducted a survey in 1984 to look into ways of facilitating growth of the capital market. The recommendations of this study became the blueprint in the revitalisation of the stock market as an alternative channel for mobilising long-term capital.

2.1 Trends in the number of companies listed

Before independence, the stock market experienced tremendous growth in the number of firms listed. For example, the Nairobi Stock Exchange (NSE) had 46 listed companies by 1954, increasing to 50 in 1956. By 1959, the market had a total of 13 new listings and four delistings

(Lehmanns, Ngiga, Lowis and East Africa Match), but there was no listing of firms from the financial sector. In the 1960s, the number of new listings increased to 19 while the number of delistings rose to 11, such that the total number of listed companies increased from 56 in 1960 to 63 in 1969. During the period, the first firm from the financial sector was listed and locally controlled companies made a significant entry. As noted in the 1967 Economic Survey, the new issues helped to increase availability of sound equity investments in which local people were able to invest their savings, increasing both their activity in the market and holding shares in these companies. The government, which was enthusiastic about the gains of political independence, took deliberate efforts to encourage the financial system (predominantly the banking sector) to provide credit facilities to those wishing to purchase shares both in the primary and secondary markets. As a result, most of the initial public offers (IPOs) were heavily over-subscribed.

Available data indicate that between the period 1966-1970, twelve public offers were made with a value of Ksh 46.1 million. The industrial sector dominated with 42% of the total number of issues made and 74% of the total value raised. The period following the establishment of CIC saw a high number of delistings (11) compared to new listings (7), such that the total number of firms listed declined from 64 in 1970 to 57 in 1979; two of the delisted firms followed the breakup of the East African Community (EAC). Two companies were taken over (Benbros was taken over by CMC and Buret Tea by Brooke Bond), two voluntarily wound-up (Grosvenor Properties and English Press), and one reduced capital (Town Properties). Data on the amount of capital raised with new issues is not systematically available. For example, data from IFC/CBK (1984) indicate that for the period 1971-1980, eleven issues worth Ksh 243.6 million were made. However, it is not clear which among these were new issues. The total value of public issues was Ksh 182.952 million in 1971, with the industrial sector sharing 53% and banking sector 39%.

During the period 1980-1989, only three initial public offers (IPOs) were made as indicated in Table 1. The three IPOs were mainly made by financial institutions and one of them was a divestiture of government shares. Other issues made were two rights issues, one debenture, two loan options and two private placements. These IPOs raised an equivalent of 0.313% (1986), 0.39% (1988), and 0.718% (1989) of the gross investment. As a ratio to gross investment, the debenture accounted for 0.127% while the loan options accounted for 0.068% (1982) and 0.391% (1986). Growth in the number of listed companies, however, was very marginal mainly because of the minimal number of new IPOs issued and the de-listing of companies. The total number of listed firms was therefore 57 in 1989, similar to the level in 1980. Due to the delistings, the reform period had a generation of new companies to replace the companies originally listed when the market opened its doors and an increased proportion of locally controlled companies.

In the reform period 1990-1999, nine (9) new public offers were made of which four (4) were part of the on-going privatization process of government parastatals. For example, the National Bank of Kenya (NBK) made its first public offer in 1994, which saw the government floating 20% of its issued equity, while the 1996 offer saw the government reduce its stake in the bank to 22.5%. Kenya Commercial Bank (KCB) made its first public offer in 1988, which saw the government shareholding decline by 20% to 80%. Another offer was made in 1990, reducing government shareholding by 10% to 70% while the 1996 offer reduced government shareholding by 10% to 60%. The fourth public offer of 1998 reduced further government shares to 35% such that public shareholding went up to 65%. Among the hailed successful stories in the privatization process is Kenya Airways, which saw the structure of shareholding change with KLM Royal Dutch Airlines holding 25%, the government 23%, the Airways staff 3%, the Kenyan public 34% and foreign investors 14%. For Uchumi, it was expected that with the offer

Table 1: Trends in issues of ordinary shares

Period	IPO/GDP	IPOs		Other public offers		Private placements		Privatization	
		No.	Ksh (millions)	No.	Ksh (millions)	No.	Ksh (millions)	IPOs	Others
1980				1	60.62	1	20		
1983				1	10.06				
1984				1	11.6				
1986	.0681	1	80						
1987						1	29.6		
1988	.1004	1	150	1	28.75	1	49.275	1(150)	
1989	.1784	1	304						
1990				1	297				1(297)
1991	.0214	1	40.8						
1992	.1684	2	370	1	126			1(232)	
1993				2	62.08				
1994	.4542	2	542	1	718			1(400)	
1995		1	22			1	102	1(22)	
1996	.5197	2	2748	2	1160			1(2264)	2(1160)
1997	.0721	2	449.359					1(167.09)	
1998				2	1840				1(1820)
2000	.0475	1	378						
2001	.1257	1	1125			1	331.208	1(1125)	

Source: NSE information desk, NSE annual reports, and monthly reviews and CMA annual reports

in 1992, the public, companies, trusts, pension funds, and cooperatives would hold effectively slightly more than 53% of the enlarged ordinary share capital of the company. The issues made during the period were over-subscribed while seasoned offers recorded a lower subscription rate. By 1998, the market had 58 companies and 69 securities listed on the stock exchange; the last IPO was offered in 1997. 78% of the listed securities were ordinary shares, 17% were preference shares, and 4% were loan stocks. Of the total listed companies, 72% were locally controlled while the industrial and allied sector took the highest percentage (30%) of the total listed companies. Only 35% of the total listed firms were included in the calculation of the NSE index[1]. The minimal number of new listings indicates that the implemented reforms did not achieve much in attracting listing of private companies.

The period from the year 2000 witnessed listing of the first information technology firm (African Lakes) and sugar firm (Mumias Sugar Company). The two issues fetched about Ksh 1,500 million but unlike the previous offers they were under-subscribed, signaling a growing listing risk. Under-subscription was attributed to the depressed market and declining individual disposable income following the economic downturn, coupled with an investment mood that seemed to favour secure high yielding government securities. In addition, three companies were delisted from the year 2000, two of them for failure to comply with the listing requirements—especially failure to comply with the continuing reporting obligations—while one wound up following group re-organization. Presently, the market has 50 active listed companies of which 20% are listed on the Alternative Investment Market Segment (AIMS) board. The industrial and allied sector has the highest share of listed firms (36%) while the agricultural sector has the least (14%).

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[1] This is a geometric mean and does not take into consideration the market participation level (volume of shares).

Table 1 column 2 provides data on the proportionate contribution of the IPOs in the mobilization of resources. Listed firms, through the privatization process, raised more funds as compared to private firms. However, the contributions are minimal compared to those made in developed markets.

The reform process has also seen cross-border listings at the Uganda Stock Exchange although the listing did not involve the making of public offer or sale of new shares. The first two companies to list across the border are the East Africa Breweries Ltd (EABL) in March 2001 and the Kenya Airways in March 2002. Listing of EABL at the Uganda Stock Exchange offered shareholders of Uganda Breweries opportunity to exchange their shares with those of EABL. Similarly, listing of Kenya Airways allowed investors to buy and sell their Kenya Airways shares directly on the Uganda Stock Exchange.

2.2 Listing of other securities

a) Preferential shares and loan stocks

Preferential shares and loan stocks as instruments for mobilizing financial resources are not popular. For example, in 1954 two companies issued loan stocks worth Ksh 7.48 million as compared to 28 companies offering preferential shares worth Ksh 90 million. In 1963, three companies issued loan stocks worth Ksh 4.68 million while 22 companies issued preferential shares worth Ksh 97 million. In 1968, 17 companies issued loan stocks worth Ksh 10.65 million while 22 companies issued preferential shares worth Ksh 112.5 million. By 1997, out of the 56 listed companies only nine issued preferential shares while two companies issued, in addition, loan stocks. The number of preferential shares has gone down tremendously such that by June 2002, only three preferential shares were offered by two companies and no company offered any

loan stock. For example, preferential shares for African Tours and Hotels were delisted from the NSE in November 1998, while Motor Mart shares (later in 1996 changed its name to Lonrho Motors) were delisted in 1999. The year 2002 saw majority of the preferential shares cease trading at the NSE except for the Kenya Power and Lighting 4% and 7% and Kenya Hotels 6%. The main reason for the delistings was that most of them had remained dormant on the trading boards for a significant period of time and their presence on the market was not of much value to their holders. For the loan stocks, Kenya Planters and Cooperative Union (KPCU) 10% unsecured stock 1996/2000 + A180 started trading in 1998 and was delisted two years later. In addition, KPCU 10% unsecured loan 1991/95 was delisted in October 1995, while KPCU 10% unsecured stock 1996/2000 was delisted in 1999. By the second half of 2000, only Ken Stock deferred 12.5% and Ken Stock Pref 12.5% were trading.

b) Commercial paper

Commercial paper was also explored as an alternative for short-term working capital, initially targeting companies listed at the NSE. The guidelines for issuance of commercial paper were finalized in 1997. Commercial paper has continued to provide a major source of short term financing for working capital through the capital market by eligible corporate issuers as indicated in Table 2. Industrial companies (84%) and commercial companies (16%) dominate the commercial paper programme. Further, among those having outstanding commercial paper issues by the end of 2001, 60% were not listed on the NSE.

c) Government stocks

Until 1954, government issues were made on the London Stock Exchange. Government stocks increased from Ksh 84.88 million in 1953 to Ksh 95.5 million in 1954 following a listing of 12 public sector stocks and Ksh 295.5 million in 1959. When the NSE was formalized in 1954, only 5.4% of government stocks were listed in the NSE; the rest had

Table 2: Trends in commercial paper

Period	New issues approved commercial paper	Face value (Ksh M)	Medium term notes Approved	Face value (Ksh M)
1997	1	500	0	0
1998	2	450	0	0
1999	19	10,650	1	1,200
2000	4	600	1	350
2001	2	800	2	6,000

Outstanding commarcial paper issue December 2001

Company	Renewal appovals	Maximum face value	Renewal (R)/New Programme (NP)
Nation Media Group	Jan-01	500	R
Kenya Oil Company	Feb-01	500	NP
General Motors	May-01	1,000	R
Caltex Kenya	April-01	1,800	R
Bidco Ltd	May-01	200	NP
Shell Kenya	May-01	200	NP
Crown Berger	Jun-01	150	R
Panpare Mills	July-01	350	R
Total Kenya	July-01	100	R
Mabati Rolling Mills	Sep-01	500	R
TPS Serena	Sep-01	50	NP
CMC Holdings	Sep-01	150	NP
Ecta Kenya	Oct-01	1,500	R
Kenya Hotels Prop.	Oct-01	50	R
Unilever	Nov-01	500	R

Source: NSE information desk

listing in the London Stock Exchange (LSE). However, by 1959 the proportion increased to 13% and in 1969 all government stocks were listed in the NSE. This followed the takeover by the Central Bank of Kenya of the administration of the local register of Kenya government stocks in July 1968, including the Nairobi register of stocks issued on the London stock market. By 1968, the number of listed public sector stocks was 66, of which 45% were government of Kenya, 23% for Tanzania government and 11% Uganda government. By 1969, the amount of London-issued stock on the Nairobi register was Ksh 3 million as compared to Ksh 1.4 million in 1963, indicating a shift of Ksh 1.8

million of which Ksh 0.8 million was due to imposition of exchange controls against sterling area in 1965. For the period 1966-1970, nine government stock issues were made, valued at Ksh 594.41 million, such that public issues were 7.76% of the government stock issues. The Central Bank of Kenya managed the issue of loan stocks on behalf of the government and was assisted in the distribution by stock brokerage firms.

Government stocks, however, attracted very low returns and were unpopular in the private sector. For example, in 1954 they attracted 2.5% - 3% interest rates, increasing to 6.5% in 1965 and remained almost constant at 6% for the period 1967-1973. The period of maturity increased over time where for example in 1965 it ranged between 5 and 10 years, while in 1967 it ranged between 6 and 18 years while in 1970 it was over 20 years, showing a shift to long term funding. Most of the stocks were taken up by agencies controlled by the government and those directed by the government to invest in these securities. For example, there was an increase in holding of government stocks by insurance companies in 1965. This followed government policy of encouraging more insurance funds to be invested locally, therefore covering local liabilities with local assets. This was also enhanced by the introduction of foreign exchange controls, which prohibited the transfer of life insurance premium abroad (Economic Survey, 1969). The National Social Security Fund (NSSF), which was established in 1966, became a major holder of government stocks and dominated the market since 1969.

Sale of government stocks was suspended in 1986 while there are on-going redemptions in line with the policy of gradually phasing out the stocks by the year 2010. By June 2002, outstanding government stocks were 1.5 billion of which 0.8 billion were held by the NSSF and 0.7 billion by non-bank investors.

d) Bonds market

Securities listed on the NSE diversified in the reform period to include corporate and government bonds. However, Table 3 shows that the government, with minimal participation of private firms, has generally dominated the bonds market. In addition, the participating firms are not listed at the Nairobi Stock Exchange, which raises the question whether the listed firms are restricted from diversifying their sourcing for funds. Further, it is possible that the dominating role that government bonds are taking may crowd out the private sector in mobilization of long term funds at the stock market as it did in the banking sector. Moreover, with the attractive yields reaped from Treasury bonds, this may reduce activities in the share market as investors shift their priorities mainly to Treasury bonds.

Corporate bonds[2] were introduced into the market on 22 November 1996 when the East Africa Development Bank (EADB) bond was issued at a price of 99%, raising Ksh 600 million. The bond was traded in denominations of Ksh 1 million with an interest of 1.2% points above the prevailing 91-day Treasury bill rate. Further, the EADB launched a Ksh 2 billion medium term note, which was listed on the NSE Fixed Income securities market segment on 2 May 2001, and was viewed as a break from the long-term debt instruments. Proceeds from the issue

[2] Corporate bonds were targeted to provide long-term financing requirement. For a company to issue bond and commercial paper, it had to have a paid up share capital and reserve of not less than Ksh 50 million and would be retained at the level during the period the bond was outstanding. If the minimum paid up share capital was not met, then the issuer should obtain from a bank or any other approved institution a financial guarantee to support the issue. The issuer should have made profit at least two of the last three financial periods preceding the application for the issue. The total indebtedness including the new issue of bond would not exceed 400% of the company net worth (gearing ratio 4:1 at the date of the latest balance sheet). The funds from operations to total debt for three trading periods preceding the issue should be maintained at a weighted average of 40% or more. The minimum size of bond issue was Ksh 50 million and the minimum issuing lots Ksh 100,000-offer period in maximum 10 days, while commercial paper was Ksh 1 million.

Table 3: Bonds market issues

Treasury bonds																								
	Floating rate (FR)						FR (Discounted)		Fixed rate						Fixed rate (discounted)				Special issues			Others		
Period	*Yr1*	*Yr2*	*Yr3*	*Yr4*	*Yr5*	*Yr6*	*Yr3*	*Yr4*	*18 months*	*Yr1*	*Yr2*	*Yr3*	*Yr4*	*Yr5*	*Yr1*	*Yr2*	*Yr4*	*Yr5*	*Yr1*	*Yr2*	*Yr3*	*Yr5/fr Ar*	*Yr1fxtBB*	*Yr2*
1996																								
1997	3																							
1998	4	5																					1	
1999	4	3	2																4	4	3			1
2000	7	7																	4	4	5			
2001	5	1	3			1		1	2	1	2								7	7	7	1		1
2002										[illegible]	2	2	1	1	1	2	1	3	1	1	1			
Corporate bonds																								
(a) EADB																								
1996			1																					
1999				1																				
2001					1																			
2004		1																						
(b) Shelter Afrique																								
2000 Medium term floating rate notes																								
(c) Safaricom																								
2001 Medium term floating rate secured notes due 2003- 2006																								
(d) Mabati Rolling Mills																								
2002					1																			
(e) Faulu Kenya																								
2005					1																			

were intended for mobilization and lending in local currencies and for the development of a sustainable tool for alleviating the exchange risk associated with long and medium term borrowing in foreign currencies. The Shelter Afrique made a medium term note of Ksh 350 million to be issued in three trances, with the first issued on 8 December 2000 through a private placement to institutional investors. Proceeds from the sale were used for housing development in Kenya. The first locally-controlled firm to offer bond was Safaricom, whose proceeds were to be used to expand Safaricom and network coverage and capacity, aiming to improve both the availability and reliability of their networks.

The government initially went for short maturity bonds issuing one-year floating bonds, with the first issue made in April 1997. The bond was lowly subscribed, with a subscription of 2.6 billion out of the Ksh 5 billion tendered. Low subscription was attributed to failure by the Central Bank of Kenya to give sufficient notice for proper placement of the bond. The nominal annual yield was indexed 2.5 basis points above the 12-week moving average of the 91-day Treasury bill yield and reset quarterly. The government issued floating rate Treasury bonds in September 1998 for one and two-year maturity expected to raise Ksh 5 billion, but subscription was low, with Ksh 2.8 billion and Ksh 0.5 billion worth, respectively. The low subscription was attributed to the liquidity crises among the few small banks during the month. These issues were part of the objective to shift the short-term debt consisting mainly of Treasury bills to long term debt and also help address the inverse yield curve. Further, as indicated in the 1998/99 budget speech, the government issued tax amnesty bond to encourage compliance with the Income Tax Act. A special bond to cover outstanding payments to government contractors and suppliers was issued. At the same time, it was made a requirement that insurance companies invest a minimum of 25% of their gross premiums in government securities to provide liquidity to the bonds market. Further, five and six year floating bonds

were issued in the restructuring programme of domestic debt and in an effort to develop the yield curve so that the structure of domestic interest rates reflects better the maturity profile of various debt instruments. Part of the proceeds went to finance redemption of Treasury bills.

e) Funds

The period 1996/97 saw the launch of investment funds and venture capital funds, including the Regent Undervalued Assets Africa Fund, which applied for listing in Kenya, Bostwana and Ireland. This was an offshore investment fund and it was listed in the NSE in 1997. The fund offered 10 million shares out of which Kenya was allocated 10.2% to subscribe for with minimum subscription per investor fixed at US$ 100,000. Simba Fund was set up by Barring Asset Management as a regional investment fund for Africa with a resource pool of US$ 120 million. The fund was invested in seven sub-Saharan African countries with favourable GDP growth rate. The Acacia Fund Limited was the first Kenya's venture capital fund. The fund is promoted by the Commonwealth Development Corporation with a capitalization of Ksh 1 billion. The fund was launched as a ten-year close-ended fund that would make equity investments in medium-sized companies, which have the potential of being listed at the NSE. There were also efforts to help mortgage finance companies to issue asset-backed securities in an effort to facilitate increased savings in financial assets and at the same time develop alternative financial market instruments to raise capital. The main aim was to facilitate the raising of additional long-term capital, which would contribute towards the development of the housing sector. Regent Undervalued Assets Africa Fund was delisted in 2001 after failing to comply with the listing requirements.

3. Factors Influencing Growth of the Primary Market

Development of the primary market may be attributed to institutional factors, policy issues, market scope and motivation factors at the firm level. For example, institutional factors such as the legal and regulatory framework, listing procedures and requirements, intermediaries and listing cost structure influence primary issues through their impact on the ease of access to the market. A regulatory system creates an enabling environment to facilitate listing of firms on the stock exchange. It defines the procedures for listing, the listing requirements and negotiates with the government for favourable policy incentives. The macroeconomic policy environment influences growth of the private sector and creates demand for investment financing. For example, Gertler and Rose (1996) argue that economic growth and macroeconomic stability are important as they enhance the creation of a pool of net-worth borrowers, a prerequisite for successful growth of capital markets. The scope of the market eases the financial constraint and exposes firms to wider pool investors. It also facilitates growth of listed firms by extending listing to firms outside the country. We analyze the growth pattern of the Nairobi Stock Exchange in relation to the market, policy and institutional environments.

3.1 Period 1954-1962

As indicated above, this period saw the number of listed firms increase from 46 to 57 with 13 new listings and two delistings. This is a period following the formalization of the stock exchange and when market activities were dominated by foreign investors. During the period, firms intending to list required a minimum of Ksh 2.9 million issued and paid-up capital and to make a public offer of not less than 20% of the authorized capital, or shares with a nominal value of Ksh 1.0 million, whichever was less. In addition, the listing firm was expected to provide

audited financial statements for the preceding five years, or since the company's inception if the company is less than five years, and detailed information on the intended distribution of the ordinary share capital with regard to the source of control. As the stock market activities were managed by a self-regulation system embodied in the *"Rules and Regulations of NSE 1954"*, the listing firm only needed the approval of the NSE Committee.

By this time also, the NSE operated as a regional market in East Africa where public sector securities included issues by the governments of Tanzania and Uganda. In addition, a few of the listed industrial shares were those of companies registered in Tanzania and Uganda. This was facilitated by maintenance of a common market with free movement of capital, and maintenance of common exchange regulations regarding capital movements to countries outside East Africa (Aworolo, 1971).

Listed firms were mainly foreign-controlled while the investors, who were also foreigners, were better informed on the operations of the stock market. In addition, private investors had a common need to raise capital to finance investment. This motivation was emphasized in the quest for a formal market. Munga (1974) notes that the desire to establish a formal market was to facilitate access of private enterprises to long-term capital. In addition, the Minister of Finance saw the formal market as a channel to facilitate government borrowing from the local non-banking sources. As a result, the primary market witnessed a booming period with more private firms seeking for investment funds from the market and government stocks actively trading in the market. Further, as indicated above, sources of long-term capital were minimal, with a financial sector at infancy stage and mainly dominated by commercial banks that offered short-term capital. Therefore, the motivation to list was well founded especially because the newly formalized market had to demonstrate its ability to meet the objectives set for the market.

3.2 Period 1963-1970

This was a transition period in the political environment, both locally and in the East African region in general. The political change that saw a new government come in saw various policy changes implemented, which were aimed at expanding the market to the investors previously denied participation in the stock market. Therefore, the motivation to participate in the market was not in-built and therefore there was no challenge to prove market success.

Political change in the region threatened the market scope for the NSE, which had operated as a regional market. The number of listed firms increased from 55 to 63 with 9 new listings, with one delisting. Partially, this could be attributed to the remarkable economic performance and the policies adopted by the new government. Immediately after independence, the new government implemented the Kenyanisation policy with a primary goal to transfer economic and social control to citizens by ensuring majority of business ownership was in the hands of citizens, except where some overriding national advantage was otherwise demonstrated. This saw a change in ownership structure of various businesses. Kenyanisation of business involved transfer of existing firms to citizens and creation of new enterprises in the hands of citizens. Foreigners only held majority interest in companies if sufficient capital was not available from domestic sources or so long as other advantages to country, such as technology and skills, could only be obtained this way. This was achieved through the operation of the Trade Licensing Act under which lists were published periodically of businesses owned by non-Kenyans and required to be transferred to Kenyans within a specified period by sale of such businesses. Kenyans able to take over such businesses were provided with loan assistance by the government. There was also change in control of the stock exchange where brokerage activities saw entry of the first African

brokerage firm in 1964. There was also a shift in leadership with the appointment of the first African Chairman, Mr Francis Thuo, in 1968.

In the East African region, change in political regimes among the members of the East African Community called for the need to formalize arrangements governing the relations among members in the East Africa Common Market. A first attempt was made in 1964 with the signing of the Kampala Agreement but little was achieved. The East Africa Community Treaty was signed on 1 December 1967 and covered trading arrangements not implemented within the Kampala Agreement of 1964. However, the nationalization measures undertaken by Tanzania in February 1967 and the unilateral decision by Uganda and Tanzania to be excluded from the Scheduled Territories for Exchange Control created uncertainties.[3] As a result, transactions between Kenya and the two countries were subjected to the normal exchange control regulation, which curtailed free movement and squeezed the scope of the stock market.[4] It also meant delisting of companies listed in the Nairobi Stock Exchange originating from Uganda and Tanzania. Despite the efforts made to promote the EAC, Uganda imposed exchange controls on Tanzania and Kenya in 1970. This meant that payment to residents required authorization from the Bank of Uganda and Uganda notes were not to be exported, therefore hindering intra-trade in East Africa.

[3] The Scheduled Territories of Exchange Control consisted of Kenya, Tanzania and Uganda as members of the East African Community. It was based on arrangement that currencies of the three countries would be exchanged freely at par within these countries.

[4] For example, the Economic Survey 1968 indicates that for a short period, the Tanzania government imposed exchange control restrictions against Kenya and Uganda, which meant evolving new procedures for making and receiving payments. To restrict capital flight, the Bank of Tanzania suspended the arrangement where Tanzania notes were not redeemable in Kenya and Uganda. With nationalization, Kenyan banks were left without correspondent in Tanzania and therefore with no channel of remitting funds or sending cheques and bills for collection in Tanzania.

3.3 Period 1971-1976

This period witnessed the collapse of the EAC in 1975, necessitating the Ugandan government to compulsorily nationalize companies, which were either quoted, or subsidiaries of listed companies. It also saw the Kenya government adopt the controlled policy regime following macroeconomic instability, which adversely affected the development of capital market. Further, the period saw the Kenya government make a first attempt in influencing the primary market operations in 1971 with the establishment of Capital Issues Committee (CIC) under the Ministry of Finance.[5] These changes served to slow down the growth of the stock market.

The establishment of the CIC was in response to the practice adopted by foreigners where sale of shares to local people was accompanied by request to remit the amount realized overseas. The government did not permit this unless the measure of participation was intended to lead to local control of the company or the investment had an approved status as defined by the Foreign Investment Protection Act of 1964. This, it was felt, denied the economy long-term benefits and caused a significant loss of short-term balance of payment. The government, however, welcomed the idea of Kenyan capital going into partnership with foreign

[5] In the Development Plan (1970/74), the government indicated its intention to introduce legislation aimed to safeguard the interest of the investing public. The legislation was to oversee licensing of all stockbrokers and create a deposit or guarantee acceptable to the government by a stockbroker with Treasury to be used for compensating investors if the stockbrokers failed to meet their obligation. It was also expected to establish a committee representative of the government and stockbrokers to control and approve new issues of company shares to the public. The proposed committee was to operate as a capital issue committee screening issues before being presented to the public. The screening exercise was to involve receiving details on how funds raised by the issue would be used and the amount the company wished to repatriate after the issue had been completed. The committee was also to deal with applications from non-resident owned companies wishing to have more than the present allowed credit facilities.

capital to finance further development of enterprises in Kenya. Therefore, in the 1971/72 fiscal year, the government indicated its support to local companies raising cash for capital development using the NSE but it was not ready to allow the local limited capital facilities to be used simply to finance repatriation of capital. The Committee was charged with the responsibility of controlling the issue of new equity and debt securities by business firms in Kenya (NSE, 1997). It consisted of representatives of the Treasury, the Ministry of Commerce and Industry and the Central Bank of Kenya. The key responsibility of the committee was to advise the Ministry of Finance on terms, priority and timing of all new public issues of equity, rights issues to existing shareholders in publicly-traded companies, debentures and loan issues. The Committee also had the responsibility to approve the price of issues, timing of sales and allotment of the issues between institutions and individuals and also between residents and non- residents. However, there were no clear criteria on basis of which decisions, especially pricing of shares, were made. This lack of information on the operations of the CIC adversely affected firms' participation in the stock market. For example, for the first five years since the establishment of the CIC, only two listings were witnessed as compared to the period from 1964-1970 when the self-regulatory system was in place. The procedure for company listing also changed as the government increased its involvement in the primary market activities, such that a listing firm had to receive the approval of the CIC in addition to approval by the NSE committee.

During the period, the economy experienced macroeconomic instability especially following the first oil crises. The government adopted a controlled policy regime, which was not conducive to stock market development. For example, taxation policy changes adopted during the period adversely affected returns on share trading and listing of new issues. For example, dividend income was double taxed and because

dividends were not deductible expenses, corporate earnings distributed as dividends had a high effective tax rate. This made it more expensive for corporations to provide adequate after-tax-return on equity and therefore the preference for debt financing. In addition, corporations were not allowed to deduct expenses of raising share capital of debenture issues from taxable income. As such, the high expenses of raising finance and the non-deductibility of these expenses were clear disincentives for raising equity through public issues. Further, for the prospective investors the government controlled movement of funds outside the country by imposing a 12.5% tax on dividends and interest paid by corporation to residents and non-residents. In addition, a 20% tax on all fees and royalties payable to non-residents was imposed. Further, during the 1973/74 fiscal year, stamp duty was raised to 3%, therefore increasing the cost of owning shares as financial assets. In June 1975, a capital gain tax was introduced and set at 36%; it was progressively reduced by 50% in 1981 and consequently by 25% in 1982.[6] The capital gain tax was aimed at generating additional revenue and curb excessive speculation. Further, in the 1974/75 fiscal year the rate of tax on dividends paid to non-residents was raised from 12.5% to 15% and 20%. The rate of withholding taxes on resident dividends also went up to 15%.

3.4 Period 1977-1989

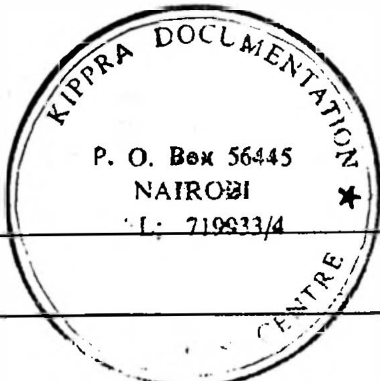
This is the period following the breakup of the EAC and before the implementation of the reforms when the number of listed firms declined from 61 to 55 in 1988. It is a period when the economy faced sharp ups

[6] The 1981/82 adjustments made on the capital gain tax saw only 50% of the net gains subjected to corporation tax, such that with a corporation tax of 45% company paid only 22.5% of net gains as tax. For individuals, tax on gain was progressive for 10% up to 35%. In addition, withholding tax on investment shares was reduced from 35% to 15% aiming to boost the stock exchange.

and downs especially with the aftermaths of the coffee boom, the second oil crises, the drought conditions and the stabilization efforts. This period saw the first phase in the reform process, which culminated into the

Table 4: Financial obligations for new listings

	1954	1989	1997
Minimum issued and fully paid capital	At least Ksh 2 million and shares to have a nominal value of Ksh 5	Ksh 2 million	Ksh 20 million
Amount of issued capital	Amount issued not less than 20% of the authorized capital or shares to the nominal value of Ksh 1 million whichever is less	Not less than 20% or nominal value of Ksh 1 million which is less	Not less than 20% of its paid-up share capital held by not less than 300 shareholders.
Hearing fee	Ksh 1,000 payable for the 1st issue when application is submitted by the sponsoring broker	0.1% of the issue nominal value of securities to be listed subject to a minimum fee of Ksh 50, 000 and max fee of Ksh 500,000	0.2% of the value of securities to be listed minimum Ksh 200,000 and maximum Ksh 2.5 million
Fees	Ksh 1,000 for each class of shares or debentures paid to exchange within 30 days of quotation being granted	0.025% of the value of each class or debentures minimum Ksh 3,000	
Addition quotation	Ksh 1,000	0.05% of the issue nominal value of securities to be listed subject to a minimum fee of Ksh 25,000 and maximum fee of Ksh 100,000	0.1% of the market value minimum Ksh 100,000 and maximum 1 million
Annual quotation fee	Less Ksh 1m -1,000 1m to 2m -1,400 2m to 3m -1,800 3m to 4m -2,200 4m to 5m -2,600 5m to 7.5m -3,200 7.5m to 10m -4,000 Over 10m -6,000	0.01% of the total market value of the quoted securities subject to a minimum fee of Ksh 30,000	0.05% of the market capitalization of listed securities minimum Ksh 200,000 and maximum 2 million
			Offer for sale fees payable by a holder of large block of securities in a listed company offering to sell the block to public investors. 0.15% of the market value of the securities being sold subject to a minimum 200,000 and maximum One million



achievement of macroeconomic stability in the late 1980s. During this period, the IFC and the Central Bank of Kenya undertook a market survey to define the necessary actions to revive the growth of the stock market. In addition, the market lost delisting of firms following the break up of the EAC.

3.5 Period 1990-2002

This is the reform period when the market witnessed various changes at both policy and institutional level. The market also faced various challenges, with deteriorating government-donor relationship and declining economic growth. With the changes in the institutional reforms, listing requirements and procedures, for example, paid-up capital increased to Ksh 20 million as indicated in Table 4. However, efforts were made to reduce listing costs where costs of initial public offerings for shares, debentures, and bonds were made tax-deductible expenses, as announced during the 1991/92 fiscal year. Further, during the 1997/98-budget speech, all the costs incurred by companies in the process of acquiring international credit rating were made tax-deductible. The aim was to enable firms to access cheaper funds from foreign capital markets by, for instance, floating debt securities offshore. However, part of these benefits was crowded by the costs charged by the CMA on market participants. Consequently, this together with other listing requirements, failed to cut down significantly on the entry barrier for new companies. Further reforms in 2000/2001 introduced tax concessions of 50% for newly listed companies for five years provided the firm listed a minimum of 30% of its full issued and authorized share capital on the NSE, such that the newly listed companies paid a corporate tax of 25% as compared to 30% for the unlisted firms. Also, new and expanded share capital by listed companies for those seeking listing was exempted from stamp duty. In addition, expenses incurred

by companies in having their financial instruments rated by an independent rating agency were made tax deductible. Further, in 2001 there were fundamental changes in the capital market, which reorganized the market into four segments to cater for different categories of firms.

Tax reforms were also targeted to encourage investors' participation. For example, in the 1990/91 fiscal year, stamp duty payable for retail share transfer transaction on quoted securities was abolished. In addition, withholding tax rate of 15% on dividend income paid to residents was made final tax in order to reduce incidence of double taxation on corporate dividends and incomes to individuals arising from investment in securities. All dividend and interest income to unit trusts were made subject to withholding taxes of 15% and 10%, respectively, such that this was a final tax not subject to further corporate or personal tax. Further, in 1992/93 the withholding tax on dividend income was reduced to 10% and rationalized with the rate applicable to interest income. In the 1996/97 fiscal year, withholding tax on dividend income was lowered from 10% to 5% for local investors, while it went down to 7.5% for non-residents. Withholding tax on interest income was raised from 10% to 15%, while withholding taxes on bearer instruments and certificate of deposit was raised from 10% to 20%, and in both cases it was the final tax.

Further fiscal reforms were made in the 1997/98 period when gains that insurance companies were making from trading at the stock market and which were previously taxable at the normal corporation tax level were made tax-exempt. The aim was to release for trading large stockholdings, which were in the custody of insurance companies, to boost the supply of securities in the market. The measure was also aimed at releasing funds held by insurance companies for investment in listed securities, therefore boosting demand in the market. In addition, to

encourage equity in medium-sized companies with growth prospects, venture capital funds were allowed to enjoy a 10-year tax holiday on their dividend incomes.[7]

With the establishment of a statutory regulatory framework, the listing firms have in addition to adhere to the requirements of the Capital Market Authority. However, because of an inactive primary market and over-subscription of new issues that signed low listing uncertainty, there was lagged development of investment banks specialized in advising and helping business firms to raise capital through public issues of equity and debt. Similarly, financial intermediaries (banks and non-banks) that could offer underwriting and distribution of securities services were not developed, given the absence of demand for them (see for example, the 1994/95 CMA Annual Report). It is argued that underwriting services reduce the listing risk such that a company is assured of raising the desired amount of capital. However, the recent experience with the IPOs showing less than 100% subscription rate indicates possible listing risk the market may face and the need to speed up underwriting services.

The reform period also saw an opportunity to increase the number of listed firms through the privatization programme. The government announced its intention to divest its interest in 139 corporations on 1 July 1991. The main aim with the privatization process was to enhance the role of the private sector while restructuring government portfolio towards greater efficiency and productivity. Divestiture through public issue of shares is seen to have a distributional advantage of avoiding concentrating ownership rights in a few hands, though this may no be

[7] There was also an attempt to boost the market in government bonds. The government floated a Eurobond in 1998 in order to reduce domestic government borrowing. In addition, all outstanding government overdrafts with the Central Bank of Kenya were converted into marketable securities.

sustained in the long run. In a decade, the market had listed seven IPOs through the privatization programme, which was 58% of the total initial public offers made during the period.

In conclusion, the growth pattern of the primary market reflects institutional, policy and political changes. However, there was sluggish response to the policy incentives and institutional changes implemented during the reform period. Partially, this may be explained by the motivation to listing firms. As noted, when the NSE was established there was a clearly identified need of having the market in place. However, with the establishment of DFIs and somewhat sufficient inflows in foreign savings, the demand for stock marketservices seemed to have dwindled. Even when the two seemed not to close the long-term resource gap, the changing behavior of investors was not immediate. It may also be that there was a lag in nurturing the benefits of share trading among prospective investors. Growth of the economy could also explain the pattern, especially if deteriorated economic performance denied growth of the private sector or constrained graduation of the small enterprises. It is also possible that the tax incentives explain very little of the firm's capital structure, such that they are inelastic to changes in taxes. It also raises the question whether the stock market is what the investors in this economy really see as a channel for long-term capital especially with the opening of capital accounts that allow external financing at lower costs. Is it possible that the securities traded are not attractive even to the listed firms? For example, it is indicated that use of commercial paper and corporate bond is popular among the non-listed firms. In the next section we look at the motivating factors to listing among the listed firms.

4. Why Do Firms Go Public?

4.1 Factors that influence going public

Ritter and Welch (2002) argue that the primary reason for going public is the desire to raise equity capital for the firm and to create a public market in which the founders and other shareholders can convert some of their wealth into cash at a future date. By going public, firms relax their financial constraints, especially those that have large current and future investments, high leverage, and high growth. Following the listing, we would expect that the investment-financing constraint is relaxed and investment growth is accelerated. In addition to raising equity, firms going public reduce their costs of credit due to reduced information asymmetry associated with the disclosure of information. It is also possible that firms go public to rebalance their capital structure after implementing substantial investment plans, such that IPO activities follow high investment and growth and not vice versa (Pagano *et al,* 1998). The lifecycle theories, however, predict that at early stages of growth a firm remains private but as it grows sufficiently it becomes optimal to go public. Therefore, we expect that firms going public would be old or large in terms of sales and have high growth opportunities. For example, Subrahmanyam and Titman (1999) and Pagano *et al* (1998) observe that young and small firms face higher information symmetry costs that constrain them from going public. In addition, the information asymmetry theory argues that older or large companies have lower information asymmetry and therefore fetch better prices, such that information asymmetry costs (adverse selection) tend to be an obstacle for the listing of small and young firms. Also, Chemmanur and Fulghieri (1999) observe that the costs of going public seem to favour larger firms rather than smaller firms. The costs of going public to the issuer include the indirect costs of under-pricing and the direct costs of underwriting fees, registration fees and the annual layouts on auditing, certifications, and dissemination of accounting information, and stock exchange fees.

For example, information asymmetry between the issuers and the investors affects the average quality of the company going public and the price at which the shares can be sold (the magnitude of under-pricing). Further, Pagano *et al* (1998), using a sample of Italian firms, find that firms going public tend to have a higher market to book ratios. Also, when investors are over-optimistic, firms tend to issue equity as a window of opportunity. They will take advantage of mis-pricing where firm shares are overvalued and postpone their issuing until a time when their shares are undervalued. In support of this argument, Baker and Wurgler (2000) find that firms issuing a higher fraction of equity tend to have lower overall market return following the listing. Firms may list also in an effort to gain competitive angle in the market given that firm value is raised by public trading as it inspires more faith from other investors, customers, creditors and suppliers. For example, many Internet firms that went public in the 1990s pursued an aggressive acquisition strategy, which they interpret as an attempt to pre-empt competitors.

4.2 Empirical evidence

The study uses balance sheet and income statements posted by firms in prospectus for those preparing to go public and annual reports that listed firms are mandated to produce by the NSE. The information from prospectus allowed collecting information on the performance of the firm for the period before the listing. However, these were only available for 12 companies. In some cases, information on past performance was obtained from annual reports in the first year of listing. The annual reports provided information on the performance of the firm in the post-listing period, where we concentrated on the first five years after the listing. Daily transactions data was colleted from the NSE information desk. However, quality data is only available from 1996, while data for

the period 1990-1995 has several gaps. Data for the earlier period is non-existent.

The study uses a sample of 20 companies out of the 22 companies that made public offers in the period 1980-2002. Two companies were dropped because they did not have the necessary information. Appendix Table 1 provides a list of the public offers made during the period. There are variations in sample size used to test individual hypothesis depending on data demands for each hypotheses. For example, for some of the firms in the sample, the date on the day of first trading and the closing prices are not available to test for under-pricing.

Table 5 reports the main characteristics of the sample. The sample has minimal representation of firms in the agricultural sector, but is equally distributed for firms in the other sectors. Of the sampled firms, 37% are foreign-controlled while majority were listed when they were more than 10 years since incorporation. The old age of the firms may be in support of the lifecycle hypothesis. Six of the companies were listed through the privatisation programme and three of them have made more than one public offer, implying a gradual dilution of the government shareholding (it also fails to reject the signal model hypothesis). The proportionate number of shares offered to those issued or authorised is highest among the firms listed under the privatisation programme.

Table 6 reports various factors indicated by the companies for going public. For example, although in the US market one may argue that going public makes it easier for a potential acquirer to spot a potential takeover, such that entrepreneurs facilitate the acquisition of their company for higher value than what they would get in outright sale (Zingales, 1995), the number of takeovers for firms listed at the NSE is negligible and therefore the market may be serving a minimal role in this respect. Some of the firms were listed in the NSE as a response to the privatisation process in the wake of the parastatal reform programme. In addition to allowing competitiveness, the privatisation

Table 5: Sample characteristics

Firm	Date of issue	When incorporated	Control local (L) or foreign (F)	Privatization programme	Proportion of shares offered to authorized	Proportion of shares offered to issued	Number of public issues made	Par value	Issue price	Sector
ALAKES	2000	1878	F	N	2.8	4.4	1	5	94.5	S
ARM	1997	1973	L	N	30.3	30.7	1	5	12.25	I
BBK	1986	1978	F	N			1	10	16	F
BERGER	1992	1958	F	N			1	5	16	I
BOC	1993	1940	F	N			1	5	26.5	I
FIRE	1994	1969	L	N	20	21.6	1	5	33.5	I
HFCK	1992	1965	L	Y	39.1	64.3	2	5	7	F
KAIR	1996	1946	L	Y	50.9	51.0	1	5	11.25	S
KCB	1988	1970	L	Y	2	75	4	10	20	S
KFC	1991	1977	L	N	27.5	57.9	1	10	12.5	F
MUM	2001	1971	L	Y	55	58.8	1	2	6.25	I
NBK	1994	1968	L	Y	20	20	2	5	10	F
NIC	1994	1959	L	N			1	5	52	F
NNP	1988	1962	L	N			1	5	11.5	S
REA	1996	1995	F	N	14.3	16.7	1	5	10.5	A
SCBK	1989	1853	F	N	21	21	1	5	14.5	F
TOT	1988	1955	F	N			1	5	18.25	I
TPS	1997		L	N			1	5	13	S
UCHU	1992	1975	L	Y	26.7	66.7	1	5	14.5	S

Source: NSE yearbooks, firms' annual reports and NSE information desk

ALAKES-African Lakes; ARM-Athi River Mining; BBK-Barclays Bank of Kenya; BERGER-Crown Berger; BOC-British Oxygen Co.; FIRE-Firestone Co.; HFCK-Housing Finance Company of Kenya; KAIR-Kenya Airways; KCB-Kenya Commercial Bank; KFC-Kenya Finance Corporation; MUM-Mumias Sugar Company; NBK-National Bank of Kenya; NIC-National Industrial Corporation; NNP-National Mills Corporation; REA-Rea Vipingo; SCBK-Standard Chartered Bank of Kenya; TOT-Total; TPS-Tourism Promotion Services; UCHU-Uchumi Supermarket

method was expected to contribute significantly in growth of the stock market (Ngugi, 2000). For example, the Housing Finance Company of Kenya (HFCK) mentions its potential to contribute to development of the capital market as part of its objective in listing at the NSE. Some firms may have been seeking a competitive angle in the market while others were seeking to raise equity to finance growth of the company. The African Lakes, for example, points that its main objective in going public was to expand its geographical expansion. Also, four financing firms in the sample targeted to expand their capital base to facilitate mobilisation of more deposits as a major factor influencing their listing (Table 6). Today, they command a competitive hold in the banking sector. Athi River Mining (ARM) Company indicates that public participation in ownership of the company enhances its stand as a leading mining and industrial company in Kenya. Further, it indicates the future growth prospects as a priority objective in listing. For example, the company observes that listing would facilitate investment in new production technology and product innovation that would shape the future growth of the company. Similarly, Rea Vipingo observes that the future of sisal operations in East Africa depends on continuing improvement in productivity at estate level and increased downstream integration. For this to happen, it requires investment in agriculture and processing plant and equipment in planting and manpower training. Therefore, the main drive to listing as indicated by the firms was to enhance competitiveness with a wider majority holding and access equity capital to finance investment especially for the planned future growth of the company.

Table 7 provides statistics comparing the period of listing and the average values in the first five years after the listings. Overall, a comparison of the period before and after the listing shows significant gains in the post-listing period, especially in terms of profitability, growth of assets, investment and financing (see Panel 1). Profitability increased significantly after the listing (t-ratio = 1.683(.095)), although

three companies (Kenya Commercial Bank, National Bank and Rea Vipingo) indicate losses in the post-listing period. One of the companies reporting losses may have been affected by the weather condition in the post-listing period given that it is in the agricultural sector. Athis

Table 6: Reasons for going public

Company	Reasons
Kenya Commercial Bank	• To enhance the banks capital base to support higher deposit • Government policy of privatization
Housing Finance of Kenya	• To broaden the shareholder base of the company • Contribution to the development of capital market • Strengthen the capital base of the company
Kenya Finance Company	• To enable more members of the public to participate in the share capital • Increase paid up capital so as to increase deposit taking capacity of the company • Strengthen the capital base • Maintain growth and allow future expansion
Athi River Mining	• Capacity expansion of cement plant • Facilitating in acquisition of new production technology and product innovation
Uchumi Supermarket	• Part of the privatization programme • Facilitate the expansion and develop activities of the company
African Lakes	• To extend geographical coverage of Internet services • Provide resources for the continued development of the groups' information technology and automotive sector in Africa
Rea Vipingo	• To improve productivity at estate level by increasing capital investment • Facilitate down stream integration
Kenya Airways	• Part of the privatization process
National Bank of Kenya	• Part of the privatization process • To enhance the bank's capital base
Standard Chartered Bank of Kenya	• To strengthen the capital base of the bank Support future expansion of activities and services to meet the needs of the expanding Kenyan economy

Source: Prospectus of individual firms

River mining reported a decline in profitability, which is attributed to slow growth in the economy especially in the construction sector. One of the privatization cases indicates positive profits in the period following the first and second offers, but declining profitability after the subsequent public offers. Generally, private firms indicate higher growths in profitability than the firms listed under the privatisation programme. Trends in the post-listing period, however, do not portray a consistent pattern although a significant drop in profitability is indicated in the period immediately following the listing.

There are two hypotheses made in relation to the trends in the profitability in the period following the IPO. A decline in profitability may imply firms go public when they know their profitability is about to go down permanently (adverse selection) or when the controlling shareholders have a greater incentive to extract private benefits at the expense of the minority shareholders (moral hazard). The other argument is that drop in profitability has to do with the accounting changes brought about by the decision to go public, such that the fall in profitability is larger for firms with original owners retaining less equity where lower equity retention is a signal for bad quality and heightens the agency problem. However, this does not seem to explain the results observed. We find that firms reporting losses had their proportionate shares floated ranging between 17% and 31% of the issued amount while some with 66% floated show positive gains in profitability.

To test whether financial constraint or rebalancing of capital structure is an issue for the firms going public, the study looks at the investment and financing pattern for the period before and after the listing. It also considers whether firms are driven to list because of the growth opportunities in the future or in the current period. Investment financing is considered a major driving force in listing given that one of the factors indicated to influence listing is the urge to expand the operations of the

Table 7: Performance of the firms before and after the listing

Firm	Assets	Turnover	Debt ratio	Profit before tax	PBT	Tax	Investment	Earning/share	YIELD	Market bk value
Panel 1: Comparing the period before and after the listing										
Before	3400		.2602	.2842	94	.4769	.014	3.6588	8.8357	4.2
After	10274		.4515	.3854	396	.3210	.048	4.9832	8.5324	5.6
t-ratio	2.349(.021)		1.681(.097)	1.813(.073)	1.683(.095)	2.137(.035)	3.193(.002)	.904(.368)	.154(.878)	.791(.431)
Panel 2: Trends in post listing period										
1	5801		.4880	.4552	205	.4276				
2	10564		.4226	.3741	362	.3734				
3	12053		.4073	.3620	503	.3382				
4	10953		.4846	.3733	411	.2726				
5	12392		.4680	.3614	521	.1714				
Panel 3: Average change for the period of listing and the post listing period										
FIRE	0.62	0.13	0.92	0.40	0.10	-0.39	0.57	-1.05	3.19	-0.35
TPS	0.59	0.10	0.77	0.48	0.22	-0.23	2.61	0.70	-0.40	0.11
UCHU	0.47	1.02	0.72	0.24	0.41	1.80	5.22	0.91	-8.52	1.05
ARM	0.15	0.38	0.54	0.18	-0.05		0.20	-0.12	5.22	0.29
BOC	0.18		-0.02	0.23	0.90	0.88	-0.06	0.96	-2.20	0.66
BERG	0.29	0.61	0.20	0.33	0.07	0.22	-0.55	0.41	-4.57	0.22
CMC	0.94	0.85	1.77	0.44	3.08	2.56	1.32	6.74	-5.29	2.77
TOT	0.81	0.83		0.38	2.97	1.91	0.39	9.61	18.46	
BBK	0.73			0.91	0.76	0.71	1.47	9.59	9.85	0.42
HFCK	0.57		14.78	0.44	1.49	1.58	2.10	3.19	7.35	0.26
KAIR	0.63	0.42	11.32	0.19	0.09	0.48	16.02	0.20	13.98	-0.11
KCB	0.26		-0.06	0.09	0.42	0.42	2.28	4.14	0.00	-0.11
KCB	1.03		1.25	0.82	2.79	1.76	1.04	9.73	8.61	0.70
KCB	0.08		0.01	0.20	0.02	0.01	0.16	-2.60	0.67	0.07
KCB	-0.37			-0.18	-1.62	-1.67	0.56	-8.15	-9.72	-0.60
NBK	0.37			0.09	-2.52	1.76	1.81	-4.07	0.00	-0.32
NIC	0.52			1.52	0.45	0.08	7.20	0.89	1.47	-0.22
NNP	0.52	0.41	0.45	1.03	0.43	0.24	1.13	4.02	13.25	0.13
REA	0.19	0.03	0.42	0.06	-0.72	-0.28	0.09	-0.98	0.00	-0.42
SCBK	0.85			2.33	1.34	0.86	0.61	2.04	7.26	0.60

firm and even to improve the production technology. Considering the period before and after the listing, we find a significant increase in investment rate (t=3.193(.002)). Kenya Airways reports the highest investment rate in the post-listing period, a move that may facilitate meeting the main listing objective. Trend over time shows an increase in investment rate in the first three years and a declining trend in the fourth and fifth years. Considering the market to book value (MBV), which proxies for grow opportunities, a rise is indicated in the period following the listing, a factor that conforms to the reasons given above for listing. The period after the listing shows a gradual increase in growth opportunities. However, across the firms, we find evidence of a decline in growth opportunities following the listing even for some of the firms indicating high investment rates. For firms listed under the privatisation process, only one shows increasing growth opportunities in the post-listing period. Relating the MBV with investment rate, we find a negative correlation while there is a positive correlation with the profitability. The latter may indicate that the more prospective the firm and the higher the level of internal funds generated, the more the growth opportunities for the firms. Growth opportunities are financed either by internal funding or equity as debt may be very costly.

Considering the equity and debt ratios, results show that both ratios increase in the period following the listing, moving from 0.2602 to 0.4515 for debt and 0.2842 to 0.3854 for the equity. Although there is no clear pattern indicated by the two ratios over the first five years, there is a decline in equity ratio after the initial period while the debt ratio takes an upward trend. This may reflect either financial constraint or rebalancing attempts. Testing for the correlation between the debt ratio and the equity ratio, we find negative but insignificant correlation, such that the rebalancing argument may not be rejected. Considering the relationship between the financing ratios and investment, results indicate a positive and significant correlation with the equity, but

positive and insignificant correlation with the debt ratio. This implies that a lot of the capital raised is used to finance investment or to reduce the financial constraint. Although we would expect that there is a positive correlation between the MBV and equity, our results show a negative correlation, which implies that growth opportunities are not necessarily a driving factor in firm listing, while the rise in MBV in the period following may be an indication of growing opportunities as the firms go public.

Using the PBT as a proxy for financial flows for the firm, we find positive and significant correlation with the MBV, DEBT, EQUITY and INVEST. This implies that firms with more profit are able to attract more external funding, may be due to the cost of financing with external funds. Some firms still prefer to use internal funding, especially in situations where interest rates are taking an upward trend and the government is taking a dominant role in sourcing for financing. Therefore, the financial constraint argument and also the rebalancing hypothesis seem acceptable.

To capture the indirect cost of listing, the study considered the under-pricing issue. There are different theories that explain under-pricing, including the principal-agent conflict (Baron, 1982), winner's curse (Rock, 1986), legal liability (Tinic, 1988) reputation and reissuing or signalling model (Allen and Faulhaber, 1989), Grinblatt and Hwang (1989) and Welch (1989)), and the preselling or book-building (Benvensite and Spindt, 1989). The information asymmetry theory by Baron (1982) is based on the argument that the underwriters are better informed than the issuers because they possess better information about investors' demands for securities. The less certain the issuer is about the equilibrium price of securities, the greater the demand for an investment banks' pricing advice. The underwriters have incentive to recommend a lower price than the market clearing in order to reduce the effort necessary to sell the issue and reduce the probability that the

underwriters will have to absorb unsold shares. Therefore, the model predicts a larger under-pricing for IPOs that face greater uncertainty about their market clearing prices. If the underwriter and the issuer are the same, we expect less under-pricing than when the two are different. Rock (1986) observes that there is information asymmetry between the informed and uniformed investors. Uninformed bidders face adverse selection problems, while relatively better informed investors do not bid based on their superior information as they consider the offering to be overpriced. Therefore, if shares are allocated *prorata* based on the amount of bid by each investor, the uninformed investors receive a larger allocation of lemons and smaller allocation of peaches. Therefore, the informed investors crowd out the uninformed investors for allocations of profitable issues because quantity rationing occurs instead of the price adjustment when there is excess demand for shares. The allocations to the uninformed are biased towards less profitable issues and therefore, to induce the uninformed to participate in the IPOs market, then firms must under-price their IPOs to compensate the uninformed investors for this adverse selection costs. However, it may not be obvious for issuers to attract uninformed investors by under-pricing. It is expensive to keep the uninformed investors because it rewards the informed investors as well, such that a more efficient way of compensating the uniformed is necessary. For example, under-pricing to attract investors is not necessary during over-subscriptions, although it can be agued that the over-subscription occurs due to under-pricing. Benvensite and Spindt (1989) argue that information asymmetry can be reduced by rewarding investors who provide strong indications of their interest during the book-building with a relatively large allocation of under-priced shares. However, this creates information asymmetry between the underwriters and the investors because the information is contained in the book. Underwriters may have the incentive to overstate overall investors' interest prior to pricing and allocation of the issue. This incentive problem is mitigated if the underwriter is committed to

stabilize the price in after-market trading. Allen and Faulhaber (1989), Grinblatt and Hwang (1989) and Welch (1989) propose a class of signalling models in which IPO under-pricing is an equilibrium outcome when issuers possess superior information relative to investors. This results to separating equilibrium where high-value issuers signal their quality by retaining a portion of shares and under-pricing initial offerings while low-value issuers sell all of their shares and do not under-price. However, no signal occurs in pool equilibrium but high quality firms will be observed to under-price. Therefore, we expect that the higher the level of under-pricing in an industry, the lower the listing as firms fear listing when their shares are undervalued. It is observed that for the seasoned equity offering, the under-pricing goes down as the firm recoups their under-pricing costs. Under-pricing may also reflect shortage of IPO shares, which are allocated to the politicians and bureaucrats in exchange of favours.

Information asymmetry arises because of uncertainty about the value of the firm. Because public firms are generally bigger than private firms, it is hypothesized that they tend to have initial lower returns than private firms. Information asymmetry is also indicated in parastatal firms between the government and the public. For example, Perotti (1995) assuming information asymmetry between the privatising government and the investors argues that a market-oriented government will privatize parastatals and irreversibly and seriously. However, privatization retains rather that eliminate public interference, just like transferring value from shareholders to other groups by policy changes through regulation or taxation. A committed government will not use this but the less committed or popularistic government will. During the initial period of privatisation, there is more political uncertainty and to gain popularity, a high proportion of shares is issued and under-valued. Over time, uncertainty goes and a reputation is build up and the level of under-pricing is lowered. It is also hypothesized

that the government may want to gain support with the public by offering more shares to the middle class investors.

To test the under-pricing theory, initial returns are defined as follows (Aussenegg, 2000):

$$IR = (P_{it} - P_{io})/P_{io}$$

where P_{io} is the issue price and the P_{i1} is the closing price on the first day of IPO trading:

The market adjusted return is defined as:

$$IRA = IR - RMI$$

where *IRA* is initial market-adjusted return of IPOs. *RMI* is corresponding return on the market index. Given the small sample size, we used descriptive statistics for analysis. Table 8 (column 3) reports the stock returns in the first day of trading, indicating under-pricing for all firms. Across the sectors, financial sector firms show higher under-pricing, maybe to signal their quality, as compared to the industrial sector, which shows a lower level of under-pricing (F = .4063; I = .0257; S = .1895).

Considering firms that have listed more than once, results show that the signalling hypothesis is not rejected as the level of under-pricing goes down for subsequent public offers. For example, HFCK experienced a drop from .4055 to .0351 in the second listing, which KCB reduced from .5878 to .4055 and .0741 with the third and fourth offering. The same is portrayed by NBK where the return reduces from .9555 to .0953. Further, comparing the parastatal reform firms and other firms shows that public firms have higher initial return (.3767) than private firms (.1859). This may be true given that the country is still at the initial stage with the privatization reforms. However, when we consider the subsequent issues for public firms we find that they have less initial return (.1575) than private firms, which may be an indication that they

Table 8: Test results for under-pricing

Company	Issue price	Closing price	Return	Return2	One month	Three months	Six months	One year	Two years	Three years
ALAKES	94.5	128	0.3034	0.3545	0	-0.2773	-0.6700	-1.4180		
ARM	12.25	12.6	0.0282	0.0286	-0.1542	-0.3037	-0.2824	-0.6391	-0.8289	
BBK	16	24.75	0.4362	0.5469						
CBERG	16	16.5	0.0308	0.0313						
FIRE	33.5	35	0.0438	0.0448		-0.0438	-0.2595	-0.2973	-0.2973	-0.4418
HFCK	7	10.5	0.4055	0.5000						
HFCK	14	14.5	0.0351	0.0357						
JUB	14.4	18	0.2231	0.2500						
KAIR	11.25	12.55	0.1094	0.1156	-0.0448	-0.1831	-0.3437	-0.4195	-0.5767	-0.4256
KCB	20	36	0.5878	0.8000						
KCB	33	33	0.0000	0.0000						
KCB	50	75	0.4055	0.5000						
KCB	65	70	0.0741	0.0769						
KFC	13	25.75	0.6835	0.9808						
KFC	12.5	12.5	0.0000	0.0000						
MUM	6.25	6.25	0.0000	0.0000	0	-0.1555	-0.7340			
NBK	10	26	0.9555	1.6000		-0.1558	-0.2624	-0.1900	-0.6855	-0.7649
NBK	15	16.5	0.0953	0.1000						
NIC	52	56	0.0741	0.0769						
NPP	11.5	12	0.0426	0.0435						
REA	10.5	12	0.1335	0.1429	0	-0.0780	-0.0870	-0.3102	-0.5828	-1.0986
SCBK	14.5	28	0.6581	0.9310				-0.0072	-0.2187	-0.2412
TPS	13	16.8	0.2564	0.2923	-0.0180	0.0118	-0.1967	-0.1931	-0.2113	-0.0364
UCHU	14.5	17.75	0.2022	0.2241	0.0811	0.1193	0.0548	0.8613	1.1754	0.8125

have lower information asymmetry with the seasoned offer and also an attempt to recoup the under-pricing costs of initial offering by reducing the under-pricing of subsequent offers. Considering the relationship between the proportionate shares sold, there is a positive correlation between the proportionate shares sold and the level of under-pricing as indicated in Figure 1. It shows that the higher the level of initial returns, the higher the proportion of shares sold. Therefore, again we cannot reject the signalling factor in under-pricing. Also, there is a positive correlation between the subscription level and the under-pricing (Figure 2) but a negative correlation between the issue price and under-pricing. Although it was not possible to test for Granger causality between the subscription rate and the under-pricing, we can argue that in presence of uninformed investors, under-pricing results explain the over-subscription, which supports compensation of the uninformed with under-pricing. Therefore, we cannot rule out information asymmetry as a major factor determining the under-pricing.

The performance of the firm in the period following the listing may also provide a hint to the motivating factor in the listing of firms. For example, it is hypothesised that over-optimistic firms will sell a large proportion of their shares and also list a high proportion of their shares but they may face a declining performance immediately after. It is also argued that public and private sector firms do not portray similar performance following the listing. Private firms experience negative returns over the first 3-5 years after market trading compared to public firms, especially when the government is committed (Megginson *et al*, 2000). We consider the performance in the first three years including one month, three months, six months, one year, two year and three years calculating the IRs (Table 8). We find a consistent decline in returns in the first three years for all firms except one. However, the declining level is more pronounced for private firms than public firms.

Figure 1: Relationship between the proportion sold and the initial returns

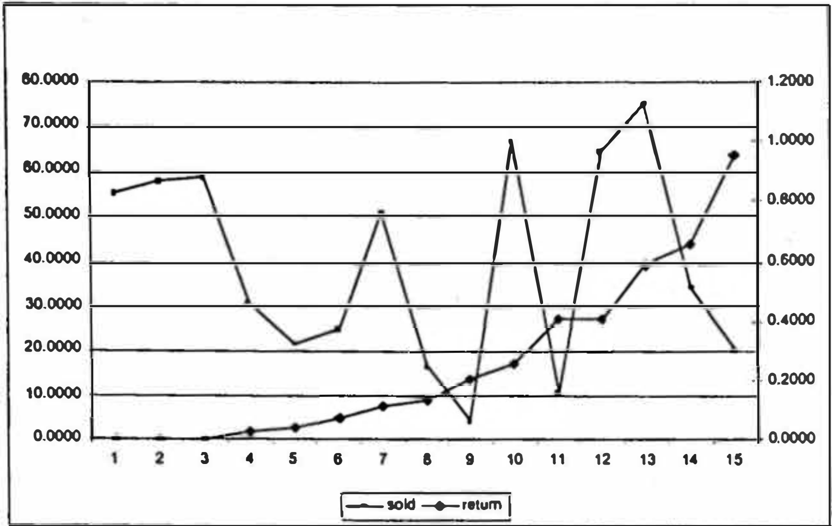
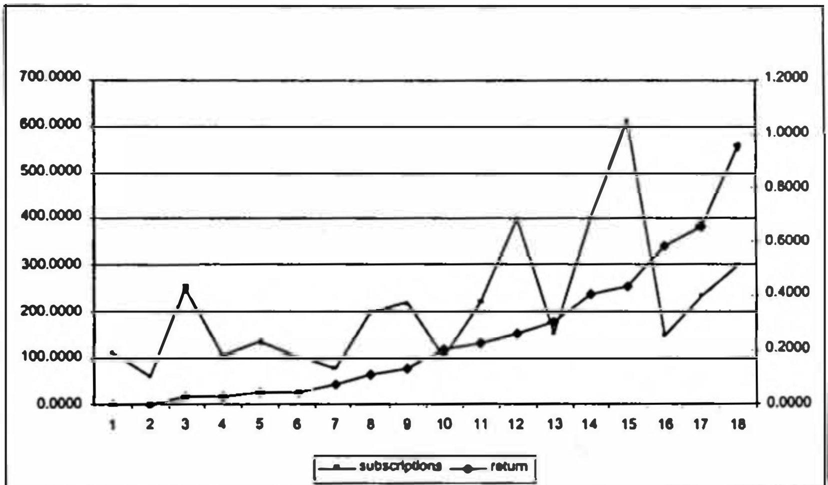


Figure 2: Relationship between the subsciption and the initial return



5. Conclusions and Policy Implications

This study is an attempt to highlight factors that constrain growth of the primary market. While a survey of the non-listed firms may provide completeness in identifying the key issues of major concern to the listing of private firms, this study examines the growth pattern of the market for IPO against the background of changing policy and institutional environment. The study also analyses factors that motivate firms to make public offers.

First, political change in Kenya and in the East African region has played a significant role in shaping the growth of the IPO market. For example, the Kenyanisation policy introduced by the new government at independence led to change in membership and leadership of the stock exchange. This adversely affected foreign investors and was also a challenge to the local citizens who had been denied participation in the stock market activities. The market, all over sudden, saw a pool of uniformed local investors while the foreigners who dominated the market in pre-independence period had wide knowledge in share trading and had established a common interest that saw the IPO market thrive. The post-independence period was characterised by uninformed investors and the market was denied the enthusiasm that was there at the initial point. For the stock market to regain its growth, therefore, a deliberate effort must be made to educate the business community on the role of external equity in business growth.

Second, the break up of the East African Community reduced the market scope for the NSE with the delisting of firms incorporated in Uganda and Tanzania. It also squeezed the market for government stocks. Therefore, present attempts to revive the East African Community and integrate the stock market will facilitate the expansion of the market, especially with cross-border listings from the region.

Third, although efforts have been made to create a conducive policy environment, for example in terms of tax incentives and also tightening the institutional infrastructure, little has been achieved in terms of attracting the private sector to use the market to raise long term capital. This raises the question whether investment financing or capital structure is influenced by tax incentives. It is possible that firms find other listing costs more substantial than those related to taxation. Therefore, it is important to look at the explicit and implicit costs of listing to ensure that a comprehensive approach to reducing the listing barriers is dealt with. It is also important to understand the factors that define the capital structure of private firms to be able to make concrete and precise proposals.

Fourth, firms indicate financial constraint to finance expansion and growth as a major motivating factor to public offering. In the pos- listing period, most of the listed firms indicated improved performance, which implies that the listed firms tend to meet their targeted development goals. Given these remarkable results, the main issue is to evaluate the reason why other firms have not taken the advantage.

It is important to understand the nature of the private sector and the characteristics of private firms in terms of their growth orientation and transformation. The Kenyan economy has a huge size of micro, small and medium enterprises that do not show dynamic transformation in terms of growth. This category of firms, at the same time, is not eligible for listing because they cannot meet the minimum requirements. Therefore, for them to reap the advantages that listed firms are enjoying, it may be a good idea to operate a two-tier market and encourage business groups as is the practice for example in India.

Fifth, under-pricing is a cost that firms face when they decide to go public, which is mainly related to the problem of information asymmetry, and also signalling effect. This points to weaknesses in the

regulatory framework. Although this study did not look into the proportionate contribution of this cost to total costs, we are of the view that reducing information asymmetry is very crucial in reducing listing costs. This can be achieved by setting up credit rating bureaus and allowing the entry of underwriters. It is also important to carry out mass education to enhance participation in the market.

Sixth, the performance of public IPOs indicates that government commitment to privatization is a boosting factor to the market. Therefore, encouraging divestiture through the stock market and especially for the strategic firms would have a significant contribution to growth of the primary market.

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Appendix Table 1: Public issues made between 1980-2001

Year	Firm	Type of issue	Number of shares	Issue price	Dividend yield (%)	Subscription open	Subscription rate (%)	Amount raised (million Ksh)	Date of first trading
1980	BAMB	Public						60.62	
1980	PAN	Private placement						20	
1983	DTK	Public						10.06	
1984	JUB	Public	1	14.4	12.07	28/5 - 13/6 1984	220	11.6	
1986	BBK	Public	5	16	15.6	7/4 - 21/4 1987	613	80	
1987	KFC	Private placement	2	13	11.5	9/6 - 31/7 1987	103	29.6	Jan-88
1988	KCB	IPO	7.5	20	15	28/6 -19/7 1988	327	150	°
1988	TOT	Private placement	2.7	18.25	15.6	26/9 - 2/11 1988	106	49.275	
1988	NNP	Public	2.5	11.5	9.6	7/11 - 30/11 1988	133	28.75	
1989	SCBK	Public	21	14.5	12.07	16/10 - 8/11 1989	233	304	12/4/1989
1990	KCB	Second public issue	9	33	12.12	10/9 - 2/10 1990	147	297	
1991	KFC	IPO	3	12.5	16	22/10 - 11/11 1991	110	40.8	
1992	UCHU	IPO	16	14.5	15.52	17/11 - 8/12 1992	103.2	232	2/1/1993
1992	CBERGER	IPO	8.64	16	14.06	9/11 - 1/12 1992	104	138	
1992	HFCK	Public	18	7	14.28	7/10 - 4/11 1992	400	126	
1993	CMC	Public	2	10			100	20.08	
1993	BOC	Public	1.6	26.5			100	42	
1994	FIRE	IPO	40	33.5	5.2	19/9 - 12/10 1994	101	142	11/21/1994
1994	NBK	IPO	40	10	15	4/10 - 2/11 1994	300	400	11/28/1994
1994	NIC	Secondary offering	18	52	3.37	15/8 - 14/9 1994	77	718	
1995	REA	Private placement	1.2	8.5	20	5/5 - 31/5 1995	100	102	4/17/1996
1995	UCHU	Public	°					22	
1996	REA	IPO	8	10.5	16	4/3 - 20/3 1996	216	84	4/17/1996
1996	KAIR	IPO	235	11.25	8.4	25/3 - 19/4 1996	194.6	2664	6/3/1996
1996	NBK	Second public issue	40	15	10	20/5 - 18/6 1996	275	600	
1996	KCB	Third public offer	11.88	50	12	16/10 - 15/11 1996	150	560	
1997	TPS	IPO	12.893	13	°	12/5 -	400	167.609	
1997	ARM	IPO	23	12.25	9.8	10/7 - 23/7 1997	250	281.75	8/15/1997
1998	CMC	Public	2					20	
1998	KCB	Fourth public issue	28.05	65	12.31	24/4 - 15/5 1998		1820	
1999	HFCK	Second public issue	30	14		1/3 - 15/3 1999	100		
2000	ALAKES	IPO	4	94.5		16/2 - 29/2 2000	150	378	3/21/2000
2001	MUM	IPO	300	6.25	11.36	24/9 - 19/10 2001	60	1,125	11/14/2001
2001	ICDC	Private placement	8.95	38.5		29/10 - 16/11 2001	64	331.21	