

Title: Assessment of factors affecting development of emerging capital markets: a case of the Kenya capital market

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Abstract: The study looks at the institutional (including legal and regulatory) factors that affect the development of Kenyan capital market. Additionally the study seeks to establish major factors that hinder growth and development of Nairobi stock exchange (NSE). The study establishes that the institutional factors particularly the legal and regulatory framework that ensures protection and security of investors are in place and that the call-over systems of transactions are fairly transparent. The study finds out that the stockbrokers perform the delivery and settlement of transactions satisfactorily, however the introduction of a centralized depository system CDS will significantly improve upon the clearing and settlement procedures and cut down the transaction costs. The study further establishes that the entry into and exit from the Nairobi stock exchange (NSE) are with some restriction. Analysis of the structure of the NSE show among other things that many of the local investors can be described as low-income investors. A sizeable percentage of whom have no or poor formal education and knowledge about the capital markets. The study recommends a vigorous campaign to educate the Kenyan public about the activities of the NSE and to promote investment in general. There is need for the government to give more incentives in form of taxation in favour of listed companies and pursue prudent macroeconomic policies, particularly in the area of inflation management. A regular review of the legal and the regulatory framework within which the investment laws operate is necessary to boost the confidence of the investors.