

The factors affecting demand for commercial paper as a short term source of finance for publicly quoted companies

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Abstract:

Critical to optimal financing decisions is the identification of the sources of financing both long and short term source of financing both long and short term. Sources of finance may include; share capital whose cost is the dividends to be paid out to shareholders. Long-term bank loans whose cost is the interest charged on the long per year's long-term debentures whose cost is the coupon rate of interest. Short-term sources may include bank overdrafts with the overdraft rate of interest at its associated cost, short-term bank loans and Commercial paper whose cost is the interest rate charged. Cost on the mostly available source of finance for both long and short term needs have been on the higher side during the period under the study. Commercial paper (C.P) came in as a remedy to the high cost of credit especially short term. This study was aimed at the identification of the factors critical to the development of the C.P market and whether the companies issuing C.P achieved the cost minimization strategy. Study results indicate that company's cash flow, interest on Bank Overdraft (O,D) and the treasury bill rate (T.P) significantly affect the demand for C.P on the other hand, T.B demand while Bank O.D rate was found to have a negative relationship with the Demand of C.P. The researcher also indicate that the cost of borrowing of all companies studied decreased after engaging C.P.T.B rate was found to affect the C.P interest rate. In light of the research findings, which Reveal that C.P is a low cost borrowing instruments, it is suggested that companies with a good credit rating or companies with a strong financial base should engage it to reduce the level of its domestic borrowing (which indirectly makes credit expensive in order to allow companies access to cheap credit from banks and stop the private sector crowding out.