EFFECTS OF NON-BANK FINANCIAL DEVELOPMENT ON PRIVATE INVESTMENT IN KENYA (1980-2014)

KURGAT STELLAH CHEBET

A Research Project Submitted to the School of Business and Economics in Partial Fulfillment of the Requirement for the Award of the Degree of Master of Business Administration (Finance Option), Kabarak University

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DECLARATION AND RECOMMENDATION

DECLARATION

I would like to declare that, this project is my original work and has not been presented for a degree in any other University or institution of higher learning and this is to the best of my knowledge.

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KURGAT STELLAH CHEBET DATE

GMB/NE/0203/01/14

RECOMMENDATION

This research project has been submitted for examination with our approval as the University supervisors.

Signature _____ Date _____

DR. SYMON K. KIPROP

Lecturer, Department of Economics, Egerton University

Signature _____ Date _____

MR. KIBET KIRUI

Lecturer, School of Business and Economics, Kabarak University

DEDICATION

I dedicate this project first and foremost to my loving parents Mr John Kurgat and Mrs Selinah Kurgat for their unwavering support and everlasting inspiration throughout the academic period. I would like also to dedicate it to my brothers and sisters, who offered me comfort and intellectual simulation throughout my studies which made life bearable. Indeed I am and will forever be thankful.

I love you all!

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ABSTRACT

Over the past five years, development in Non-Bank Financial Institutions (NBFIs) has assumed high preposition in Kenya. The trend could be attributed to: their renewed provision of products and services that banks either cannot or may not offer, also their potential to deliver other savings, investments and risk management tools. However, a number of empirical studies paid attention to the commercial banks development on economic growth and minimal studies had been carried out on the effects of NBFIs on private investment in Kenya. This study therefore sought to explore the effects of NBFIs development on private investment in Kenya. Using econometric techniques on dataset for Kenya over the period 1980-2014, Philip-Peron test was used to check for unit root, and the results showed that economic growth, public investment and inflation were stationary while NBFIs credit was non-stationary at levels; first difference was conducted to make it stationary. Heteroscedasticity was corrected using Robust Standard Error. Variable Inflation Factor of 1.14 indicated that there was no multi-collinearity. The value of Durbin-Watson statistic was 1.90452 which showed that there was no autocorrelation since the value was close to 2. The empirical results showed that NBFIs credit had a positive sign which is statistically significant at 10 percent. It shows that a 1 percent increase in credit leads to 0.018525 percent increase in private investment. Economic growth had a positive sign, and statistically significant at 5 percent, the results showed that when economic growth increase by 1 percent then private investment increases by 0.0082634 percent. Inflation had a positive sign, and statistically significant at 10 percent, the results indicated that a 1 percent increase in inflation, leads to 0.119548 percent increase in private investment. On the other hand, public investment had negative impact on private investment; the results show that when public investment increase by 1 percent, similarly private investment decrease by 0.4595379 percent. The research findings showed that higher amount of NBFIs credit, rising economic growth, higher inflation rates and low levels of total expenditure on public investment would boost private investment in Kenya. This study therefore recommended the use of efficient and modern technologies in the manufacturing and agricultural sector to increase private investment in Kenya, more NBFIs credit to the private sector and last but not least to reduce the government expenditure on public investment in order to avoid crowding out effect, was suggested to boost private investment in Kenya. The study is influential to the policy makers since the findings suggested areas that would enable the country to increase private investment, and ultimately the economic growth of the country would be felt. Also the study is beneficial to the future scholars since further studies have been recommended as per the findings. Future studies should corporate other non-quantifiable variables such as insecurity that would affect private investment in the country.

Key words*: Private Investment, Non-Bank Financial Institutions development, Credit creation, Gross Domestic Product.*

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYNMS AND ABBREVIATIONS

CBK	Central Bank of Kenya
CPI	Consumer Price Index
DFIs	Development Financial
DCs	Developed Countries
EPC	Export Promotion Council
EPZ	Export Processing Zone
ESP	Economic Stimulus Package
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
ICAP	Investment Climate Action Plan
IPC	Investment Promotion Centre
KIPPRA	Kenya Institute for Public Policy, Research and Analysis
KNBS	Kenya National Bureau of Statistics
KSH	Kenya Shillings
LDCs	Less Developed Countries
MFIs	Micro Finance Institutions
MPT	Modern Portfolio Theory
MRPs	Money Remittance Providers
NBFIs	Non-Bank Financial Institutions.
OLS	Ordinary Least Squares

POSB	Post Office Saving Bank
PP	Philips-Perron
PSDS	Private Sector Development Strategy
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on Investment
SAPs	Structural Adjustment Programs
SMEs	Small and Medium Enterprises
VIF	Variable Inflation Factor
WB	World Bank

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The Kenyan financial system is quite diverse and active, it is clearly evident that the banking sector is indeed a crucial one in the Kenyan economy and hence merits serious attention. Apart from commercial banks being the most popular financial institutions in Kenya, non-bank financial institutions (NBFIs) have also competed favorably to offer credit and saving services to the public. This favorable competition between commercial banks and NBFIs has led to their growth. In the wake of Kenya's vision 2030, financial services are identified as one of the six sectors that are the key driver of the economy. The Vision aims to create "a vibrant and globally competitive financial sector that will create jobs and also promote high levels of savings to finance Kenya's overall investment needs" (KIPPRA, 2013).

It is therefore imperative to note that, a developed financial system tends to broaden access to funds, unlike the case of an underdeveloped financial system, where access to funds is limited and people are constrained by the ability of their own funds and have to resort to high cost informal sources such as money lenders and shylocks. These therefore would result into scarce economic activities that would have spurred growth in the country. Thus in underdeveloped financial system, economic growth is restricted to the expansion potential of incumbents. In a more mature financial system, financial institutions develop appraisal techniques, and information gathering and sharing mechanisms, which therefore enable banks to fund those firms that are at the margin, thereby leading to their growth-inducing productive activities in addition to incumbents. In the recent past, Kenya's financial system has experienced remarkable financial innovations (Misati, Lucas, Anne, & Shem, 2010).

Globally, NBFIs were initially established in the USA to get around interstate banking restrictions and restrictions on non-bank ownership of bank imposed under the 1927 McFadden and the 1956 Bank Holding Company Acts. Because these NBFIs operate without a banking license, in some countries their activities are largely unsupervised, both by government

regulators and credit reporting agencies. Thus, a large NBFI market share of total financial assets can easily destabilize the entire financial system. A prime example would be the 1997 Asian financial crisis, where a lack of NBFI regulation fuelled a credit bubble and asset overheating. When the asset prices collapsed and loan defaults skyrocketed, the resulting credit crunch led to the 1997 Asian financial crisis that left most of Southeast Asia and Japan with devalued currencies and a rise in private debt (WB, 2005)

In Kenya, NBFIs are licensed under the Banking Act and are obligated to comply with all requirements required of Banks subject to any qualifications stipulated for them. NBFIs include: Building Societies, Savings and Credit Cooperative Societies (SACCOs), Insurance Companies, Mortgage Finance Companies, Development Financial Institutions (DFIs), Post Office Savings Bank, Venture Capital companies, National Social Security Fund (NSSF) and Pension funds. The NBFIs have entered into the original domain of banking business hence banks are now facing an array of competitors. Forex bureaus have virtually taken over the foreign exchange cash transactions business from banks while building societies, SACCOs, micro finance institutions (MFIs) and some non-governmental institutions continue to eat into the credit and personal banking markets (Economic Survey, 2002). Policies of NBFIs are also providing investment security for the investors. This has been brought about by the by emerging economies which face population growth, rapid urbanization, and rising expectations from a growing middle class, the need for robust housing finance systems becomes very important. When housing finance systems are strong, families can more readily access comfortable homes, and have another vehicle for accumulating long-term wealth (CBK, 2014).

It is also important to note that, the Credit Reference Bureaus (CRBs) complement the central role played by both banks and other financial intermediaries in extending financial services within an economy. CRBs actually help lenders make faster and more accurate credit decisions, in that they collect, manage and disseminate customer information to lenders within a provided regulatory framework – in Kenya, the Banking (Credit Reference Bureau) Regulations, 2008 which was put in operation effective 2nd February 2009. Credit histories of the borrowers not only provide necessary input for credit underwriting, but also allow borrowers to take their credit history from one financial intermediary to another, thereby making lending markets environment more competitive and attractive, in the end, it also makes it more affordable. Credit bureaus

assist in making credit accessible to more people especially the small medium enterprises and also enabling both lenders and businesses to reduce risks and fraud.

Therefore, it can be noted that NBFIs have grown much higher than the commercial Banks in terms of credit creation. This could be attributed to NBFIs' flexibility in reaching to the poor in the society, through agency banking that are specifically suited for this population by providing banking services at a cheaper cost and conveniently. This plays a very vital role in transfer and reallocation of resources. NBFIs play an important role in promoting inclusive growth in the country, by catering to the diverse financial needs of bank excluded customers. By financing real assets and extending credit to infrastructure projects, NBFIs play a pro-active role in the development process of the country. Also, growth in the NBFIs is attributed to a regulatory framework in which entry requirements were relaxed as a deliberate government effort to promote the growth of locally owned financial institution, which also faced no interest rate restrictions and were therefore able to attract more deposits by charging higher interest rates (Economic Survey, 2007). The development of NBFIs in Kenya has been progressing over the last five years. In the year 2010, Commercial Banks' domestic credit was 812, 275, while in the year 2014 it was 1,198,016 indicating a growth of 385,741. On the other hand, NBFIs' domestic credit in the year 2010 was 455,665, while in the year 2014 it was 939,097 indicating a growth of 483,432 (Economic Survey, 2015).

From the economist side of view, investment refers to the accumulation of newly produced physical entities, such as factories, machinery, houses, and goods inventories. The investment plays an essential and vital role in expanding the productive capacity of the economy and promoting long term economic growth. A good investment climate provides opportunities and incentives for firms to invest productively, create jobs, and expand, therefore promoting economic growth and poverty reduction (World Bank, 2005). Private investment stimulates demand for goods and services according to demand management theories of Keynes (1946) as well as increasing employment opportunities. Private investments are recognized as the catalyst for attaining the twin goals of broad based sustainable economic development and poverty alleviation. It has long known that commercial banks will under-supply long-term finance, and under-serve key sectors, such as agriculture or small and medium enterprises

(SMEs), and that these ‘market failures’ are more acute in Less Developed Countries (LDC) (Spratt, 2013).

Hence private sector plays a critical role in macro-economic development of any country, and since it forms a significant part of the Gross Domestic Product (GDP), it is important to analyze some of the factors that affect private sector which will help to solve some of the economic challenges in the Developing Countries (DCs). Carmichael and Pomerleano (2002) quote Alan Greenspan, a US Federal Reserve Chairman speaking before a World Bank and International Monetary Fund meeting in 1999 where identified the role of NBFIs in strengthening an economy, as they provide "multiple alternatives to transform an economy's savings into capital investment which act as backup facilities should the primary form of intermediation fail. The depth of the financial sector has generally been found to promote economic growth by increasing economic efficiency, investment and growth (Ngugi, Amanja, and Maana, 2005). It is against this background, that this research is carried out.

1.1.1 Overview of Non-Bank Financial Development

Financial development refers to the improvement in the quality, quantity and efficiency of financial intermediary services. According to Ahmed and Chowdhury (2007), the fundamental limitations existed in the banking sector are, in fact, laid down the foundation of the accelerated development process of NBFIs. Firstly, the regulations adopted by the central bank of a country do not allow banks to embrace financial services for all areas of business; secondly, banks always face a mismatch in maturity intermediation since they have to fulfill the long-term financing needs with short-term resources; and finally extending the operational horizon through product innovations is not always possible for banks. These areas create new opportunities for the NBFIs to grab with utmost success. Kenya’s vision 2030 for financial services is to create a successful and globally competitive financial sector capable of promoting high levels of saving and financing for Kenya’s investment needs (Adam, Collier and Ndungu, 2011).

The ultimate goal of any financial institution is the profit making, although they also have other goals such as economic and social objectives, which this intermediaries have to achieve. NBFIs like any other commercial bank exist in order to make profits. In this study, profitability has been taken to imply the development in the sector, hence its credit creation has been used to sum up

the ratios used to measure profitability of which of which Return on Asset (ROA), Return on Equity (ROE) and Net Interest Margin are the major ones (Murthy and Sree, 2003; Alexandru *et al.,* 2008).

Since NBFIs operate just like commercial banks, its performance can be classified into internal and external factors. The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). Internal factors are drawn from individual bank characteristics which affect the banks performance, which are basically influenced by internal decisions of management and the board. On the other hand, external factors are beyond the control of the company and affect the profitability of banks; it could be sector-wide or country-wide. Both trade openness and financial openness appear to promote financial development (Baltagi et al. 2009), and institutional improvement has been found to bring about financial development (Huang 2010).

The NBFIs contribute directly to the economic growth and aggregate economic welfare, through allocation of capital to the right investment and on technological innovation. NBFIs add power to the economy in such a way that enhances the resilience of the financial system to economic crisis (Carmichael & Pomcerleano, 2002). The NBFIs are nowadays treated as an important sub-sector of the financial system, which has been expanding rapidly and attaining importance on a continuous basis due to their ability to meet the diverse financial requirements of business enterprises (Islam & Osman, 2011). Its growth is measured in terms of credit creation. Table 1.1 shows the comparison between Commercial Banks' domestic credit with that of NBFIs'.

Table 1.1: Comparison of Total Domestic Credit

year	Commercial Banks' Domestic Credit Total 'Ksh millions'	NBFIs' Domestic Credit Total 'Ksh millions'
2010	812,275	455,665
2011	917,663	614,388
2012	1,315,063	452,694
2013	1,422,428	584,735
2014	1,198,016	939,097

Source: Kenya National Bureau of Statistics - KNBS (2015), Economic Survey.

1.1.2 Overview of Private Investment in Kenya

Investment has been considered to be the key variable in economic growth of any country. The Kenyan government has put in place several policies to promote investment, since the adoption of Structural Adjustment Programs (SAPs) in 1986. Some of these policies include: tax incentives to local and foreign investors, streamlining of investment code, improvement in the business environment (rules, procedures, and infrastructure), strengthening of Investment Promotion Center (IPC), Export Promotion Council (EPC) and the Export Processing Zone (EPZ) in coordinating and monitoring of local and foreign investment in the country (National Development Plan, 1997-2001). In 2004, the government formulated the Private Sector Development Strategy (PSDS) and the Investment Climate Action Plan (ICAP) to support private investment and address insecurity, improve roads, rationalize licensing procedures, improve business registration and improve customs and tax administration. In the year 2009, the GOK initiated Kenya Economic Stimulus Program (ESP), to boost the country's growth after the downfall created by the post election violence in 2007. This was necessitated due to the fall of economic growth from 7.0 in 2007 to 0.2 in 2008, currently the economic growth stands at 5.3 which is remarkable (World Bank, 2014)

Over the years, Kenya has witnessed stumpy and erratic private investment. In the mid 1990s, there was slight growth in investment thanks to the economic policies that the government was putting in place. Implementation of these policies and optimism surrounding its application

may have crowded-in private investment (Republic of Kenya, 1994). In late 1990s and early 2000s rather unfortunate events were happening which were very precarious on private investment. Upward trends were experienced again in 2003 but were not robust since the optimism that investors had with change in government was stifled by political bickering within the ruling coalition. The final blow to any hopes of growth in the economy was post election violence in 2007 that led to displacement of thousands of domestic and foreign investors Republic of Kenya, 2009). Between 2008 to date, private investment as a percentage of GDP has been fluctuating (Economic Survey, 2013).

Private investment impacts positively on economic, social and political development of a country. According to Frimpong *et al.* (2010) private investment have an important role in making the growth process more socially and geographically inclusive and successful mobilization is thus increasingly important in job creation, growth expansion and poverty reduction. Private investment is treated as an engine to economic growth and development due to its sustainability nature and efficiency allocation of resources which forms the basis of study of its determinants to warrant improvement (Economic Survey, 2013).

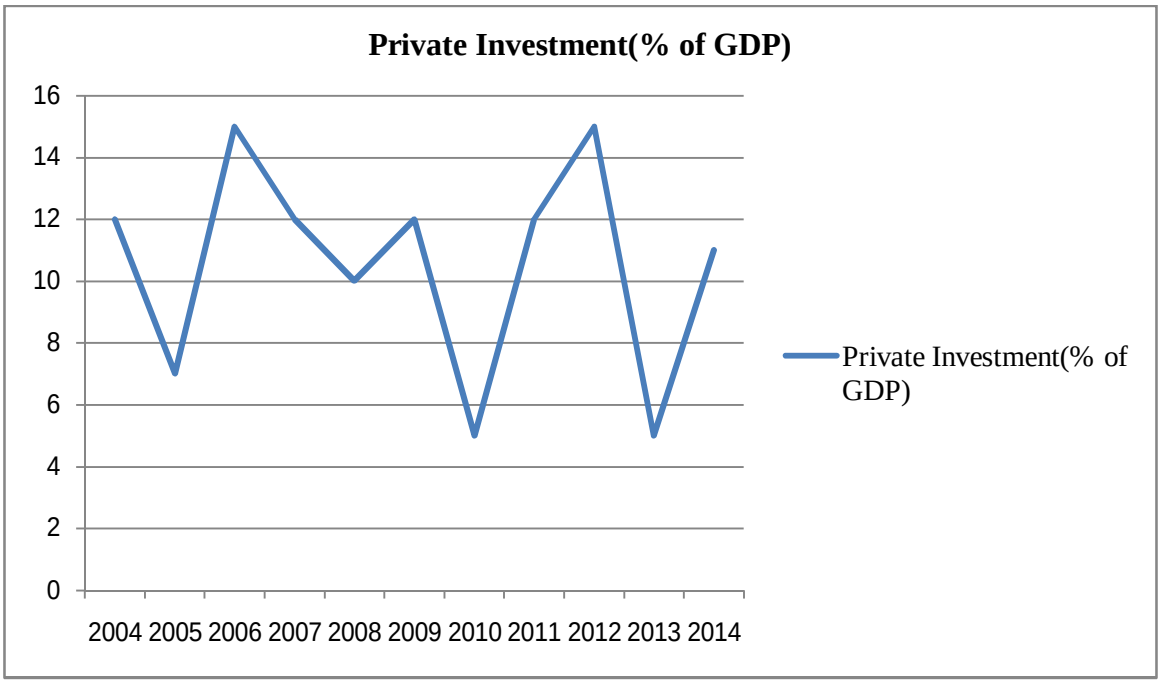


Figure 1.1: Private Investment as a percentage of GDP from 2004-2014

Source: Kenya National Bureau of Statistics - KNBS (2015), Economic Survey.

1.2 Statement of the Problem

Kenya's NBFIs have evolved over the past five years. From the period of excessive repression, to the current level of relatively fully-fledged liberalization of interest rates as a result of financial reforms undertaken in the sector. In the Kenyan economy, the NBFIs have played a major role in the mobilization of savings for growth and development. This is specifically attributed to the SMEs, who are playing a major role in the economic growth of the country. There has been growth in the NBFIs in terms of its credit creation; its total domestic credit has increased from Ksh.455, 665 million in 2010 to ksh.939, 097 million as at December 2014 (Economic Survey, 2015). However, its impact on private investment is not known. The studies done in Kenya on private investment such as Matwang'a (2000) and Kiptui (2005) concentrated on the determinants of private investment. Therefore, it is against this background that this study was conducted to empirically determine the effects of NBFIs' development on private investment in Kenya.

1.3 Research Objectives

1.3.1 General Objective

The main objective of this study was to analyze the effects of Non-bank Financial development on the private investment in Kenya over the period 1980-2014.

1.3.2 Specific Objectives of the Study

i) To examine the effect of Non-Bank Financial credit on private investment in Kenya.

ii) To determine the effect of Public Investment on private investment in Kenya.

iii) To determine the effect of Economic Growth on private investment in Kenya.

iv) To examine the effect of Inflation on private investment in Kenya.

1.4 Research Hypotheses

$H0_1$: Non-Bank Financial credit has no effect on private investment in Kenya.

$H0_2$: Public Investment has no effect on private investment in Kenya.

$H0_3$: Economic Growth has no effect on Private investment in Kenya.

$H0_4$: Inflation has no effect on Private investment in Kenya.

1.5 Scope of the Study

The study investigated the impact of NBFIs development on private investment over the period of 1980-2014. This period is important because it covers both Structural Adjustments Programs (SAPs) reform period (1980 to 1990) and post-reform period (1991 to 2014). The period is also long enough to study the effects of NBFIs credit on private investment in Kenya. Variables such public investment, NBFIs credit creation, Inflation and Economic Growth were analyzed as well in order to determine their impact on private investment. These variables were important because they could affect private investment.

1.6 Significance of the Study

The study is important since it sheds light on the effects of NBFIs development on private sector, which plays a fundamental role in the financial sector in achieving a robust and sustaining economic development. Financial sector plays a significant role in enhancing the country economy, and providing critical services for people of Kenya. Hence, there is need to secure confidence of investors and encourage them invest in the private sector, through providing them with results from the financial analysis and more specifically from NBFIs. Private investment also contributes to the economic growth of the country. Especially the role it plays in ensuring the growth of SMEs in Kenya, hence it is important to carry out a study on the same. The finding from the study provides insight to the policy makers in formulating and designing policies, towards attaining of Vision 2030 of Kenya's economy. To academicians, scholars and researchers, this study opens up to a new area that has not been studied hence the curiosity to try and dig deeper in this field. For those who may be interested in conducting further research on this area will undoubtedly find this study to be significant point of reference for literature and research gaps. Last but not least, the study is helpful to the potential investors to get the knowledge about the financial performance of the NBFIs and also helpful in taking effective long-term investment decisions.

1.7 Justification of the Study

Given the enormous impact of SMEs on the Kenyan economy, a study was carried out so as to provide an insight to firms and individuals intending to invest. Kenyans are expressing growing interest in acquiring credit from the NBFIs, especially MFIs and SACCOs. Private sector investment should also be an important issue as the government implements its "Vision 2030" which is intended to transform Kenya into a middle-income country by the year 2030. The subject of NBFIs therefore, in Kenya though popular has remained unexplored despite its importance. Most studies have concentrated on the commercial banks yet NBFIs have also showed an improvement in terms of credit creation over the last five years.

1.8 Limitations and Delimitations of the Study

Limitations are the boundaries that restrict the research scope and may cause difficulty in completing the research (Cooper & Schindler, 2002). The study utilized pure secondary data from several sources which could be ingrained with some errors and therefore could affect the findings from the purely econometric methodology utilized. The study ensured that the data was cleaned up before using it in order to avoid wrong findings. Data for some specific years were missing but the researcher sought the help of Kenya National Bureau of Statistics, using the letter of permission to collect data from the school. The study only concentrated on measurable economic factors while it did not take into account of non-quantifiable factors such as political, social and other non-measurable economic factors i.e. technology, tastes and preferences of the population. These factors might also be important in explaining investment behaviour of private investment in Kenya. It is therefore essential for future studies to incorporate these variables in order to determine their influence on private investment.

1.9 Definitions of the Operational terms

Domestic credit to private sector: refers to financial resources provided to the private sector, such as loans, purchases of non equity securities, and trade credits and other accounts receivable, which establish a claim for repayment (Central Bank of Kenya, 2013).

Economic Growth: Is the rate of change in some measure of aggregate income on per capita basis (Central Bank of Kenya, 2011). Haller (2012) agrees that there is no unanimously accepted

definition of economic growth but most scholars think of the economic growth as an increase in the per capita income of a country. In this study, economic growth will be measured in terms of GDP.

Gross Domestic Product: Total market value of goods and services produced within the borders of a country within a given year (Central Bank of Kenya, 2013). In this study, GDP referred to the total market value of all final goods and services in a country in a given year.

Inflation: It refers to the increase in price of goods and services. This means that each unit of currency buys fewer goods and services. Consequently, inflation leads to the erosion in the purchasing power of money which is a loss of real value in the money in the economy (Central Bank of Kenya, 2014). In this study, inflation referred to the continuing rise in prices as measured by an index such as the consumer price index (CPI).

Non-bank financial credit: It refers to the financial resources provided to the private sector, such as loans, purchases of non equity securities, and trade credits and other accounts receivable, which establish a claim for repayment (Central Bank of Kenya, 2013). In this study, NBFIs credit was obtained by deducting bank credit from total financial credit.

Non-Bank Financial Institutions: They are firms that undertake many of the activities of a commercial bank without meeting the legal definition of a bank as defined by Saunders & Cornett (2011). According to the Banking Act in Kenya a non-bank financial intermediary is a company other than a commercial bank authorized to conduct financial business. In this study, NBFIs constituted all other financial intermediaries that are not deposit taking. Examples included: Bureaus, Microfinance Institutions (MFIs) and Money Remittance Providers (MRPs).

Private Investment: It is the accumulation of physical and liquid stock for productive purpose. This is done by private persons who could be nationals or foreigners in the country. It is the capital accumulation by the private agents for productive purposes. Private investment refers to investment by private business for the purpose of profit generation (Kumo, 2006). In this study it was obtained by deducting government investment from gross fixed capital formation.

Public Investment: According to IMF (2014), Public investment is measured as general government gross fixed capital formation (GFCF) and comprises the total net value of general government acquisitions of fixed assets during the accounting period, plus variations in the valuation of non produced assets. In this study, public investment comprised of all other investments that are not private investments.

Return on Investment: According to the Investopedia, ROI is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio (Central Bank of Kenya, 2014.). In this study ROI will be used as a measure of Private Investment, and the results will be expressed as a percentage of GDP.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theoretical and empirical literature relevant to NBFIs development and its effect on private investments. Theoretical review highlights four theories namely; the neo-classical Theory of Investments, Modern Portfolio Theory, Life-cycle theory of Savings and Economic theory. The chapter also reviewed literature on the economic growth, public investment and inflation. Finally this chapter gives a summary and highlights on the gaps and issues reviewed as well as the conceptual framework.

2.2 Theoretical Review

Torraco (1997) asserts that theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge, within the limits of the critical bounding assumptions. In this study, theoretical framework introduces and describes the theory which explains why research problem under study exist. The theories below were found relevant to the study, in determining the effects of NBFIs development on private investment in Kenya.

2.2.1 Modern Portfolio Theory

Modern Portfolio Theory (MPT) as a theory of finance attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. MPT was introduced by Markowitz (1952) with his paper “Portfolio Selection,” which appeared in the 1952 Journal of Finance. Thirty-eight years later, he shared a Nobel Prize in Economics in 1990 with Merton Miller and William Sharpe for what has become a broad theory for portfolio selection and their contribution to the field of financial economics. Prior to Markowitz’s work, investors focused on assessing the risks and rewards of individual securities in constructing their portfolios. Standard investment advice was to identify those securities that offered the best opportunities for gain with the least risk and then construct a portfolio from these. James Tobin (1958) expanded on

Markowitz's work by adding a risk-free asset to the analysis. This made it possible to leverage or deleverage portfolios on the efficient frontier. Portfolio theory provides a context for understanding the interactions of systematic risk and reward. It has shaped how institutional portfolios are managed and motivated the use of passive investment techniques. There is a tendency for financial intermediaries to induce portfolio allocation in favour of productive investment by providing savers with liquidity, easing liquidity risks, reducing resource mobilization costs and exerting corporate control. The major assumptions in portfolio theory in managing risk are that the investors are rational and the market is efficient and perfect (Chijoriga, 2007).

A potential investor therefore needs to study the value movement of the intended asset investment and also to find out which assets have an opposite movement. However, risk diversification lowers the level of risk even if the assets' returns are not negatively or positively correlated (Omisore *et al*, 2012). In this study, investment has been defined as accumulation of newly produced physical entities, such as factories, machinery, houses, and goods inventories. Hence, for an investor to diversify risk and improve returns, assets included in a portfolio should contain risk free assets. For private investment to improve in terms of its percentage as a proportion of GDP, investors should diversify the risk by investing in portfolios rather than single assets.

2.2.2 The Neoclassical Theory of Investments

Tobin (1969) developed a neo-classical model in an attempt to explain investment behavior. According to Tobin, what mattered was the relation between the increase in the market value of the capital asset due to the installation of an additional unit of capital and its replacement cost. Mc Kinnon (1973) and Shaw (1973) emerged with another neo-classical approach which emphasized on the importance of financial deepening and high interest rates in stimulating growth. The core of their arguments rested on the claim that the developing countries suffered from financial repression which was generally equated with controls on interest rates in a downward direction, and that if these countries were liberated from their repressive conditions, it would induce saving, investments and growth. The studies by Mckinnon and Shaw observed that financial repression is correlated with sluggish growth in

developing countries. Such economies, according to Nnanna and Dogo (1998) are typically characterized by high and volatile inflation and distorted interest and exchange rate structures, low savings and investments and low level of financial intermediation, as interest rates do not reflect the cost of capital.

According to neo-classical theory of investment, private investment is influenced by the growth rate of real GDP and the user cost of capital (Jorgensen 2002). The growth rate could be construed as a proxy for expectations about future demand and returns from the output of investments (Jayaraman 2001). Neo-classical theory also argues that, increase in the interest rates tend to discourage investment by raising user cost of capital, this therefore implies that private investment is negatively correlated to interest rate. However, the interest rate can have a negative effect through the saving channel (McKinnon 2000; Shaw 2002). This is because Low interest rates tend to discourage saving by the low income earners who comprise of the biggest population in the country, which therefore would reduce the amount of resources meant for investment.

The theory gives special emphasis to the role of the user cost of capital in determining the optimal capital-output ratio. In this study, this theory is applicable in that investors look at the cost of capital while making decision on what project to carry out. If much return will be achieved in additional capital, then investors will take the risk, and vice versa holds true.

2.2.3 Economic theory

This theory generally predicts that there is a significant relationship between private investment and financial intermediary. When private investment increase it indicates that there is need for external finances, this calls for financial intermediaries to convince savers to convert their holdings of unproductive tangible assets to bank deposits. Levine and Renelt (1992) suggest that more investment raises the rate of economic growth, which could stimulate financial development (Greenwood and Smith 1997). According to William (1991), economists tend know that success in achieving the financial return from fast dynamics leads to slowly emergent, nearly hidden, changes in deeper and slower structures, changes that can ultimately trigger sudden crisis and surprise.

Economic theorists therefore concluded that a measure of intervention is important and in fact necessary for meaningful growth. Therefore, the focus of policy at every point in time should be to ensure that the financial system operates efficiently such that the real sector will receive the necessary support. Various policies should thus be put in place to encourage and promote the activities of financial institutions in this regard, Nzotta & Emeka (2009). Two factors tend to make the economic theory particularly more difficult (Hannagan, 1998). First, individual decisions at any moment are themselves influenced by these emergent features, by past decisions for example; learning, practice, and habit, and also by their future expectations. Secondly, the emergent features that can be handled well by the existing economic theory and policy concern only fast-moving variables. The more slowly emergent properties that affect attitudes, culture, and institutional arrangements are recognized, but are poorly incorporated. In this study, economic theory postulates the law of demand and supply. When the demand to invest goes up there is need for more finances, hence these intermediaries are there to provide finances for the investors.

2.2.4 Life-Cycle theory of Savings

Robinson (2001) contends that savings are more crucial to microfinance members than credit. This theory focuses on the voluntary savings mobilized from the public. People choose to save excess liquidity for future use and this excess liquidity can also be mobilized by financial institutions serving low income people in the society, since they are the majority. To add on that, Fry and Mason (1982) and Mason (1988) pointed out that the presence of children in the society tend to increase the consumption requirements of the young families, so that high rates of youth dependency can depress saving and lower the impact of the economic growth on savings rates. Other researchers have also studied that this age-structure and growth effects extensively and have found that, in general, national savings rates are higher when dependency rates are low and economic growth is rapid (Higgins, 1998; Higgins & Williamson, 1997; Kelley & Schmidt, 1996).

According to this life-cycle theory of savings, most people have been found to save when young, so as to finance their consumption during retirement period. This theory contends that, in the absence of a bequest motive, the saving of the old should counter the saving of the young, so that

in a population with a stable age distribution and no population growth, there is no aggregate saving. However, if the age structure of the population tends to be imbalanced, as it occurs under population growth, or rather if the economy is undergoing rapid economic growth and the wage incomes of the young tend to be high relative to the retirement incomes of the old, the savings of different cohorts may not cancel out, and aggregate savings, or dissavings, may occur (Ando & Modigliani, 1963). In this study therefore, savings constitutes economic growth in the country. Hence in order to boost the economic growth, people should practice the need to save in order to channel the surplus into investment. This theory matches with the objective of the study, since higher savings will lead to more investment in the country, thus increased economic growth. Hence, these financial intermediaries should convince people to save more hence to invest in future.

2.3 Relationship between NBFIs development and Private Investment

Financial development includes the expansion of financial services and the growth of financial institutions as well as an increase in per capital amount of financial services and institutions or an increase in the ratio of financial assets to income (Ahmed and Ansari, 1998). Therefore, the development of the financial sector, more so in the developing countries, is seen as a part of the growth strategy of the private sector, which therefore aims to stimulate economic activity and reduce poverty level by generating local savings, which it then leads to productive investments and better resource allocation in the country. This process is supposed to increase an investor's borrowing options, thus allowing him or her to choose an optimal debt structure for a given period (Mihalca, 2007). Arcand *et al*. (2012) also highlight that the finance-growth relationship turns negative for high-income countries, where finance starts having a negative effect when credit to the private sector reaches 100% of GDP.

Adamopoulos and Vazakidis (2009) contend that financial liberalization in the form of an appropriate rate of return on real cash balances is a vehicle of promoting economic growth. They argue that a low or negative real interest rate discourages saving. Reduction in savings reduces the loanable funds in an economy for investment resulting in higher interest rates, low output in turn, lowering the rate of economic growth. Thus, the "McKinnon-Shaw" model posits that a more liberalized financial system will induce an increase in saving and investment and therefore,

promote economic growth. It is, therefore, expected that NBFIs development in terms of credit creation is positively related to the private investment. This is through four basic functions essential to growth in private investment, namely, mobilization of savings, allocation of resources to productive uses, facilitating transactions and risk management, and exerting corporate control (Barajas, Chami and Yousefi, 2012).

Dobrinsky (2005) argues that high savings will not automatically be transferred to higher growth rate. He avers that the extent to which the level of savings can affect capital accumulation, and hence growth, largely depends on the capacity of the economy to channel the savings into productive use. It also depends on the efficiency of this process. The system of financial intermediation can affect economic performance and growth directly through the role it plays in resource allocation. Internal factors that influence private sector investment include: the level of profit, retained earnings and ability of the owners to inject additional capital or equity. External factors that motivate private sector investments are the availability of credit in the market, higher stock returns, prevailing interest rate, level of savings in the economy and the liquidity or money supply allowed by monetary authorities. According to Scholtens and van Wensveen (2003), the role of the financial intermediary is essentially seen as that of creating specialized financial commodities. These are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs. The existence of financial intermediary institutional weaknesses such as: ineffective screening and monitoring capabilities for loans, absence of credit rating agencies and information asymmetry on borrower's credit worthiness, coupled with non financial factors noted above provides a substantial hindrance for the growth of private sector investment. The relationship between financial intermediation and growth has been studied through many cross-country studies, at the firm and industry levels (Levine, 2004).

It has been argued that one of the major constraints on investment in most developing countries is the quantity, rather than the cost of credit. It can also be noted that, deep markets allow savers to invest in a broad range of quality investment and risk- sharing instruments and allow borrowers to likewise tap a broad range of financing and risk management instruments (Goswami and Sharma, 2011). The rates of return on investment in these countries therefore tend to be quite higher, while the real interest rates on loans are usually kept low by the governments

for a variety of reasons, although the Kenya's economy is liberalized financially; it therefore means that the interest rates are determined by demand and supply of funds. Therefore in such situations the investor cannot be expected to equate the current marginal product of capital to its service cost. Therefore, because the total amount of financing is limited and the price mechanism is not allowed to operate smoothly, it would seem legitimate to argue that the private investor in a developing country is generally restricted by the level of available bank credit. An increase in real credit to the private sector encourages real private investment as is confirmed by several empirical studies (Blejer and Khan 1984, Fry 1990, Tybout, 2000).

The finance led growth hypothesis states that financial development plays a very crucial role in the economic growth of a country. The hypothesis postulates that financial development has a stimulating impact on the economy of a country there are several channels through which financial development promotes growth in the economy and this includes: efficient allocation of capital, mobilization of savings through attractive instruments, lowering of cost of information gathering and presenting among others. Basically, an efficient financial sector is seen as a channel of limited credit resources whereby it ranges from the surplus units to the deficits. Through this process, the financial sector aid to promote efficient allocation of resources in the economy. Empirical evidence in support of this hypothesis has been provided in the works of Levine (1997), Arestis *et. al*, (2001); Jalilian and Kirkpatrick, (2002); Bhattacharya and Sivasubramanian, (2003); Abu- Bader and Abu-Qarn, (2005) and Habibullah and End, (2006).

2.3.1 Public Investment

Theoretically it is recognized that private and public investment are related, although there exist an ambiguous relationship between the two variables. However, there is considerable uncertainty about whether, on balance, increases in total public sector investment raises or lowers private investment (Von Furstenberg and Malkiel, 1999). Empirical evidence although exhaustive tends to remain inconclusive. This is because public investment in production and in infrastructure can have opposite effects on private investment, due to the competition on the scarce resources such as communication, transport, security, human resource among others.

Several scholars have empirically acknowledged that public investment in terms of infrastructure is more likely to be complementary to private investment as this raises the productivity of private

capital, hence causing positive correlation between the two variables. Several studies have examined this empirically (Aschauer 1992, Sundararajan and Thakur 1990, Blejer and Khan 1984, Chibber and Van Wijnbergen, 2002). Although there is a significant complementary relationship between private and public investment, it is only few studies that has found this. If public investment in terms of infrastructure and private investment tend to complement each other, we would expect that the coefficient of adjustment of private investment would become larger as the rate of public investment in infrastructure increases; this implies a faster response of private investment. The sign of the effect of public investment is ambiguous as the literature shows varying results regarding the crowding-in or crowding-out effects between public and private investments (Gjini *et al*., 2012; Sahu and Panda, 2012).

2.3.2 Economic Growth

Haller (2012) agrees that there is no unanimously accepted definition of economic growth but most scholars think of the economic growth as an increase in the per capita income of a country. Economic growth can be defined as the process of increasing the size of the economy through macroeconomic indicators especially GDP per capita. This increase in the GDP per capita is in a rising manner though not necessarily in a linear fashion. Economic growth can be: positive, zero or negative. Positive economic growth occurs when the annual average rates of the macro-indicators are higher than the average rates of population growth. Zero economic growth is achieved when the annual average rates of growth of the macroeconomic indicators are equal the population growth rate. Negative economic growth is realized when the pace of population growth is higher than the rates of growth the macro-economic indicators (Pasinetti, 1960).

Ray (1998) argues that economic growth is simply an increase in a country's real level of national output. Economic growth, increase as a result of an increase in the quality of resources, an increase in the quantity of resources and also due to the improvement in technology. A study by Barro (2003) found that the quantitative factors that affected economic growth including per capita GDP are closely related to the financial system of a country. Therefore it can be stated that Investment is one of the determinants of Growth in GDP. According to Podrecca and Carmeci (2001) the fundamental determinant of economic growth is investment. The importance attached to investment both by theory and the empirical research is demonstrated by the enormous amount

of empirical studies examining the relationship between investment and economic growth in different scenarios. Other studies have also found out that, financial sector development helps economic growth through more efficient resource allocation and productivity growth rather than through the sale of investment or savings mobilization Beck *et al*. (2000). In addition, cross-country time series studies have also shown that financial liberalization boosts economic growth by improving the allocation of resources and the investment rate Bekaert *et al*. (2001), Bekaert *et al*. (2005).

It has been found out by some scholars, that human capital is another determinant of economic growth. Hanushek and Kimko (2000) put human capital at the centre of economic growth. In their study the term human capital refers to workers' acquisition of skills and knowledge through education and training. Using measurement proxies related to education Hanushek and Kimko (2000) and many other studies have found evidence suggesting that an educated population is key driver of economic growth. However, studies like Pritchett (2001) have questioned the importance of the human capital in driving economic growth. Economic growth measures growth in monetary terms and looks at no other aspects of development (Ayres, Robert, Warr, and Benjamin, 2006).

2.3.3 Inflation

Inflation can generally be described as the increase in prices of goods and services in the long run. This is brought about when there is an increase in the earnings and a decrease in the production of these goods and services. Due to the high prices on the goods and services, it ultimately leads to the low saving and even high loan defaults among the low income earners, who comprise of the majority in the economy. This therefore implies that NBFIs would be affected as a result of high defaulters and also the low savings and deposits. Moreover, inflation can have a dampening effect on liquid liabilities, thereby making depositors more hesitant to place their savings in the formal financial system for fear of not being able to get them back quickly enough (Allen *et al*., 2010).

Theoretically more literature has expressed a situation whereby increase in inflation rates has tended to affect the operation and performance of the financial sector. This is whereby the NBFIs are cut throat in a way that they may not be able to allocate the resources effectively. More

specifically, recent theories emphasize the importance of informational asymmetries in credit markets and demonstrate how increases in the rate of inflation adversely affect credit market frictions with negative repercussions for financial sector performance and therefore long-run real activity (Huybens and Smith, 1999). When inflation rate increases, financial sector tends to ratio their credit leading to credit rationing which becomes severe as inflation rates keep increasing. The reduction in capital formation negatively influences both long-run economic performance and equity market activity, where claims to capital ownership are traded (Huybens and Smith 1999 and Boyd and Smith, 1996).

Existing models also emphasize that only when inflation exceeds certain "critical" rates do informational frictions necessarily play a substantial role. For example, in Azariadis and Smith (1996) or Boyd, Choi, and Smith (1997), when inflation is very low, credit market frictions may be "nonbinding," so that inflation does not distort the flow of information or interfere with resource allocation and growth. However, when inflation rates exceed certain level, the credit rationing intensifies hence the financial sector performance drops drastically. Furthermore, when inflation rates rise, there is a fall in the operation of financial intermediaries due to partial correlation between inflation and intermediary activity. These results are again very supportive of the theoretical predictions and thereby illuminate one mechanism via which predictable increases in the inflation rate interfere with resource allocation and economic growth.

2.4 Empirical Review

According to Zikmund *et al* (2010), empirical literature review is a directed search of published work which includes books and periodicals.

Ayadi, Ben-Naceur, and De Groen (2013) did an exploratory study to determine the relationship between financial sector development and economic growth. This study was done in northern and southern Mediterranean countries covering the years 1985-2009. The results indicated that credit to the private sector and bank deposits were negatively associated with growth. The studies therefore indicated that the relationship between credit market development and economic growth is also highly contextual. Whereas the study by Akpansung and Babalola (2010) and by Ayadi, Ben-Naceur, and De Groen (2013) show a negative relationship the study by Adamopoulos (2010) shows a positive relationship. The findings, therefore, makes it difficult

to determine what kind of relationship exists between credit market development and economic growth in Kenya. This study will fill this research gap.

Kazeem *et al* (2012) in the study which covered the period 1970 to 2010 used advanced econometric technique of ARDL bounds testing approach in modeling long run determinants of domestic private investment. Findings from the study showed clearly that difference exist between long and short run determinants. Interest rate, real GDP, exchange rate, terms of trade, external debts, public investments, credit to the private investment and reforms dummy are the key long run determinants of domestic private investment while real GDP, public investment and terms of trade are statistically significant in the short run.

Islam & Osman (2011) examined the long-run relationship between per capital real GDP and the NBFIs based on Malaysian market. They revealed that there is a long run stable relationship between per capita real GDP and the NBFIs' investment, trade openness, and employment. From their empirical result they showed that NBFIs is a vital component of the financial sector through which flow of financial resource effectively channelized from the surplus units to the deficit units and promote long-run sustainable economic growth.

Frimpong *et al* (2010) carried out a study seeking to present an empirical assessment of factors that have either stimulated or dampened private sector investment in Ghana using ARDL framework covering the period 1970 to 2002. From the results it emerges that private investment is determined in the short-run by public investment, inflation, real interest rate, openness, real exchange rate and a regime of constitutional rule, while real GDP, inflation, external debt, real interest rate, real exchange rate and openness significantly influenced private investment response in the long-run.

Traum and Yang (2010), in their study to examine whether additional government debt "crowds out" private investment through a higher real interest rate, found limited systematic relationship among (government) debt, the real interest rate, and (business) private investment. However, their result revealed that in the short run the additional government debt may either "crowed in" or "crowd out" private investment depending on what caused government debt as a percentage of GDP to increase. Miguel (2000) in his study on Mexico found public investment causing a crowding-in rather than a crowding-out effect on private investment. Crowding-in the antonym

of crowding-out, meaning that expansion of private investment instead of reduction prompted by domestic public borrowing. A similar result was found by Bazaumana (2004) in the case of Senegal. Cruz and Teixeira (2001) examined a temporal framework with Brazilian data for 1947-1997 and showed that although a crowding-out effect occurred due to public investment in the short-run; a reversal appeared in the long-run effect of public investment

Khan and Gill (2009) conducted a study with a view to examine the presence of crowding-out effect of public borrowing on private investment in Pakistan. The model for investment function was specified and estimated considering public borrowing, GDP and interest rate as independent variables. A long-run relationship was estimated and analyzed by performing unit-root test and co-integration test. The error correction model was estimated for short-run relationship. The main findings of the study confirmed with statistical significance that there was no crowding-out effects in Pakistan, rather, the crowding-in effect was evident.

Lesotho (2006) did an investigation on the determinants of private investment in Botswana. This study used a methodology that combined the static OLS with the co-integration and error correction model procedures to establish both the short-term and long-term effects simultaneously. The results postulated that the short term variables affecting private investments were public investment, bank credit to the private sector and the real interest rate. Whereas the long term variables were GDP growth and real exchange rates.

Erden and Holcombe (2006) in their study involving 19 developing countries examined the relationship between public investment and private investment where he measured the causal impact of public sector's spending on private sector's investment. From the results a 1 percent increase in the public investment will result to about a 0.5 percent increase in the private investment in the long run. Notably, the short run impact is positive but half as large

Allen *et al.* (2006) mention that credit granted by non-bank financial institutions to the private sector grows more as a proportion of the total credits by financial systems as a country develops. Kurokawa, *et al* (2008) found that major impediments to private sector investments are access to finance and finance costs, access to electricity, corruption, tax administration, skill levels and transport. Many of these constraints are due to market and government failures.

Pereira and Roca-Sagales (2001) examined impact of public investment on private sector performance in Spain. The study looked at aggregated as well as disaggregated sector levels where he found that in the overall level, public investment crowds in private capital accumulation and stimulates private sector production. The conclusion for the disaggregated level was that public investment promoted private capital accumulation. Service sector was the biggest gainer in absolute terms with all other sectors but agriculture having some benefit.

Kiptui (2005) in his study showed that economic growth is the most important determinant of private investment. He also cited the openness of the economy as determinant of investment where firms have to brace themselves for increased competition from foreign companies. He introduced a dummy variable to represent liberalization in 1990s which suggests negative effects of liberalization on private investments. His study found that increase in imports negatively affects investments as well as local currency depreciation. He also notes that a negative relationship exists between private investment and inflation.

Kimani (2005) studied the relationship between budget deficit financing and private investment in Kenya using a vector-auto-regressions analysis. The study findings indicated that, domestic borrowing crowds-out private investment in Kenya. The results implied that domestic borrowings resulted to government competing for scarce resources from financial sector with the private investors. With this competition, the interest rate goes up making cost of borrowing unbearable for the prospecting investors.

In a study of determinants and constraints of private investment in Kenya, Matwang‟a (2000) used regression analysis and co-integration technique to establish the long-run and short-run private investment model. There was a positive influence of savings, GDP growth and public investments on private investment. There was a negative influence of Debt ratio and inflationary uncertainty on private investment. The study therefore concluded that, the traditional models of investment were inappropriate for explaining the behavior of private investment in developing countries since they were developed to explain this behavior in developed countries.

Bwonde (2000) studied the effects of macroeconomic reform policy indicators on private investment. He found that private investment is positively affected by economic growth, real interest rate, lagged investment ratio, foreign exchange reserves, real exchange rate, domestic savings and private sector credit. However, lagged real interest rates, public investment and external debt have a negative effect on private investment.

2.5 Research Gap

From the above theoretical and empirical discussion, it is evident that there little discussion on the effect of Non-Bank Financial Credit on the private investment in Kenya. In the past five years, Non-Bank Financial Institutions has become an eye catching area of discussions by scholars, researchers' policy makers and financial planners about their role in stimulating economic development through provision of banking services and resources for investment purposes to large proportion of the population that had been neglected for long by the commercial banks in Kenya (According to KNBS Economic Survey 2015 Highlights). Although private investment enhances economic growth of the country, the decision to invest depends on the availability of resources. Thus, it is desirable to examine the impact of resource availability in terms of credit availability. In a study of determinants and constraints of private investment in Kenya, Matwang‟a (2000) used regression analysis and co-integration technique to establish the long-run and short-run private investment model. Kimani (2005) studied the relationship between budget deficit financing and private investment in Kenya using a vector-auto-regressions analysis. However, scarce information is available as to what effect does NBFIs development have on private investment in Kenya. This study therefore contributes to the literature by studying the effect of NBFIs development on private investment in Kenya.

2.6 Conceptual Framework

According to Kombo and Tromp (2009), a concept is an abstract or general idea inferred or derived from specific instances. Mugenda and Mugenda (2003), Smyth (2002) and Rrichel and Ramel (1987), define a conceptual framework a hypothesized model identifying the model under study and the relationship between the dependent and independent variables. Kothari (2004) defines an independent variable as the presumed cause of the changes of

the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain. The independent variable is NBFIs development; the dependent variable is the private investment (measured in terms of ROI) while the intervening variable is the government policies, exports, imports and political instability.

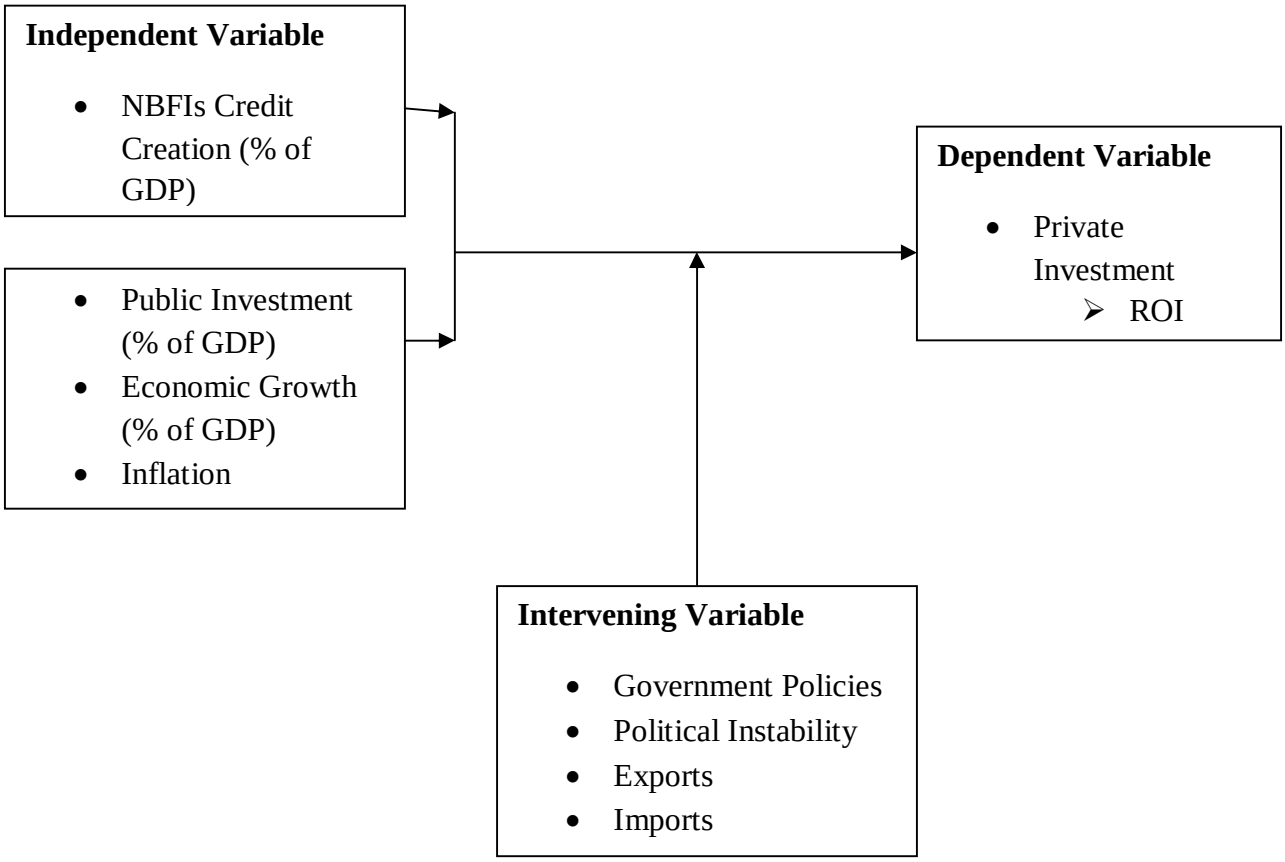


Figure 2.1 Conceptual Framework

Relationship between NBFIs development and Private Investment

Source: Researcher (2015)

2.7 Operationalization of terms

Non-bank Financial Credit being the main variable under study is expected to have a positive effect on the private investment. When more credit is channeled to the private investors, they will have more incentives to invest hence causing an increase in the private investment. Vice versa holds true.

Public Investment: this is a control variable that might affect private investment, if there is improved public investment, private investment might also improve and vice versa holds true. Although there seems to be an ambiguous relationship between public investment and private investment, when public investment goes up there is a likelihood of private investment going down, this is due to the crowding out effect. This is as a result of competition on the scarce resources such as: infrastructures, human resources, communication among others. The study expects a negative relationship between the two variables.

Economic Growth: this is a control variable that might affect private investment, if economic growth increases as a result of increase in demand of commodity goods, private investment might increase, and vice versa holds true. Through the accelerator effects, the study expects a positive relationship between economic growth and private investment.

Inflation: this is a control variable that might affect private investment, when there is inflation in the country caused by the general in price of goods and services, private investment might go down since the low income earners will spend more the purchase of these goods and services, hence left with less money to save and invest and vice versa holds true. This study expects a negative relationship between inflation and private investment.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explained how the data was collected, compiled, analyzed and presented in relation to the research objectives. These consisted of research design, Data type and source, Data analysis and procedures, last but not least ethical issues.

3.2 Research Design

According to Upagade and Shende (2012), research design is the arrangement of condition from collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is a plan and structure of investment conceived so as to obtain answers to research questions (Coopers and Schindler, 2008). The research used descriptive design because it is used to describe characteristics of a population or phenomenon being studied. It does not answer questions about how/when/why the characteristics occurred. Rather it addresses the "what" question (Shields, Patricia and Rangarjan, 2013). Non-Bank Financial Credit figures were analyzed against private investment figures to identify if there is any correlation between them. A private investment function was estimated considering economic growth, public investment and inflation as explanatory variables. Theory suggests that while the coefficients of economic growth and inflation are expected to assume positive and negative signs respectively, that of public investment and inflation would be either positive or negative depending upon the liquidity position in the economic system, the nature of the loan backed public expenditure, psychological impact on private investors and the like.

3.3 Data Type and Source

The study relied heavily on the data collected from secondary sources. Various issues of Kenya Monthly Economic Review published by the Central Bank of Kenya provided GDP and credit data, while NBFIs figures were generated from World Bank and KNBS. On the other hand, private investment data was picked from the Economic Surveys. Data collected was used to test

the effects of various NBFIs variables on private investment. The study examined trend over the last thirty four years, from 1980 to 2014.

3.4 Data Analysis and Presentation

According to Zikmund *et al* (2010), data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. Statistics estimated coefficient of determination to determine the proportion of private investment determined by NBFIs development, correlation coefficient determined the relationship and the t-test determined the significance of the relationship. Tables and texts were used to communicate the findings, while ensuring consistence and clarity of data to avoid misinterpretation. The researcher used the following time series regression equation.

$$Y_t = \beta_0 + \beta_1 X_{t,1} + \beta_2 X_{t,2} + \beta_3 X_{t,3} + \beta_4 X_{t,4} + \varepsilon_t$$

Where;

β_0 ---- β_4= parameter estimates to be estimated.

Y_t = Private investment

$X_{t,1}$= Credit to private investment

$X_{t,2}$= public investment

$X_{t,3}$= Economic growth

$X_{t,4}$= Inflation

ε_t = Error term (normally distributed)

3.5 Econometric Methodology: Estimation and Hypothesis testing

The study used a time series regression model to evaluate the effect of NBFIs development on private investment. This model was preferred to avoid high R-squared, low Durbin Watson (DW) statistics and significant t-values of the estimated coefficients suggesting a significant

relationship between dependent and explanatory variables when in fact they were completely unrelated.

3.5.1: Heteroscedasticity Test

Heteroscedasticity was used to check whether the error term was constant across the observations. The assumption of homoskedastic is violated by hetereskedasticity when error term keeps changing over time. Ordinary least squares estimates (OLS) are consistent in the presence of heteroskedasticity, but the conventional computed standard errors are no longer valid (Green, 2000). The tests were carried out using the white tests (White, 1980). In this study, the condition was corrected using Robust Standard Error.

3.5.2: Autocorrelation Test

It was paramount for the study to carry out autocorrelation test first; this is because in the time series analysis, residuals tend to be correlated at some time. In order to check whether the error terms were correlated across time, autocorrelation test was conducted. The presence of serial correlation in OLS regressions leads to estimates that have small standard errors, inefficient, biased and inconsistent especially when lagged dependent variables are included on the right hand side of the test equation (Hamilton, 1994). In this study, Durbin Watson's statistic of close to two indicated that autocorrelation did not exist.

3.5.3: Multi-Collinearity Test

The study conducted muiti-collinearity test first. It was essential to carry out this test, In order to check for multi-collinearity, Variable Inflation Factor (VIF) of greater than 0.1 indicated that there was no multi-collinearity. Hence this study carried out this test, in order to avoid multi-collinearity between the variables.

3.5.4: Unit roots

Unit root test was conducted for each variable. A time series data is said to be stationary if the mean and variance are constant through time and the value of the covariance between the two time periods depends only on the distance or lag between the two time periods and not the actual time at which the covariance is computed (Gujarati, 2003). In most cases economic variables are

non-stationary at levels and therefore they could result in spurious regression results being obtained, where the t-ratios and the adjusted R-square would be overestimated by a large magnitude. Hence, to avoid that unit roots was performed. Philips-Perron (PP) test was employed in this study to test the time series properties of the data series. The power of the testing procedure is reduced due to the incurred loss of degrees of freedom. PP test suffer severe size distortions where autocorrelations of the error term are predominantly negative, with the actual size much greater than the nominal size (Campbell and Perron, 1991).

3.6 Ethical Issues

Before conducting the study, the researcher adhered to the ethical issues such as confidentiality. The information obtained from this study was only used for the fulfillment of the researcher's academic requirement. The information would not be divulged to any third parties at any cost. During the study, the researcher might have come across other important government information and data that would be confidential. Researcher restricted herself only to the data relevant to the study. Efforts were done to meet all the necessary compliance requirements in accessing any government facility and sites (Creswell, 2009).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1Introduction

This chapter presents the data analysis, research findings, interpretations and presentation of the study based on the research objective which was to determine the effect of NBFIs development on private investment in Kenya. The analysis is based on data collected from 1980 to 2014 on a yearly basis. The results are presented in the form of summary tables. The data for this study was obtained from Central Bank of Kenya, Kenya National Bureau of Statistics and World Bank. The chapter outlines; descriptive statistics, correlation tests, unit root test, auto-correlation, multi-collinearity and discussion of the regression results.

4.2 Descriptive Statistics

The results in Table 4.1 provide the descriptive statistics of the variables namely; Private Investment, NBFIs Credit, Public Investment, Economic Growth and Inflation for the period 1980 to 2014.

Table 4.1 Descriptive statistics

Variable	Observation	Mean	Std. deviation	Minimum	Maximum
Lnpi	35	2.277887	.2581815	1.609438	2.70805
Lnnbfic	35	2.902973	.4462981	2.151762	3.505557
Lnpui	35	2.260958	.3192573	1.386294	2.833213
Lneg	34	1.039657	.9399558	-1.609438	1.974081
Lninf	35	2.31244	.7151543	.4700036	3.828641

Where;

Lnpi is the natural log of private investment

Lnnbfic is the natural log of non-bank financial credit

Lnpui is the natural log of public investment

Lneg is the natural log of economic growth

Lninf is the natural log of inflation.

The Table 4.1 above indicates that the mean for Private Investment over the period of study was 2.277887 percent and its associated standard deviation was 0.258182 percent. The maximum values and minimum values for Private Investment being 2.70805 and 1.609438 percent respectively. Similarly, the NBFIs Credit average values for the period were 2.902973 percent whereas the standard deviation for this period was at 0.446298 percent. The maximum values and minimum values for NBFIs Credit being 3.505557 and 2.151762 percent respectively. The Public Investment on average was 2.260958 and the maximum figure was 2.833213 percent and the minimum figure being 1.386294 percent. The standard deviation for this investment was 0.319257 percent. The mean Economic Growth measured as a percentage of GDP for the period 1980 to 2014 was 1.039657 percent whereas the maximum and minimum values were 1.974081 percent and -1.60944 percent respectively and had a deviation of 0.939956 percent. The level of inflation for the period of study had an average value of 2.31244 percent and its associated standard deviation was 0.715154. The maximum level for inflation was 3.828641 percent and its minimum level was 0.470004 percent. From the Table, economic growth recorded the lowest figure of -1.609438; while inflation recorded the highest figure of 3.828641. Economic growth also recorded the highest variation of 3.583519 (maximum-minimum value).

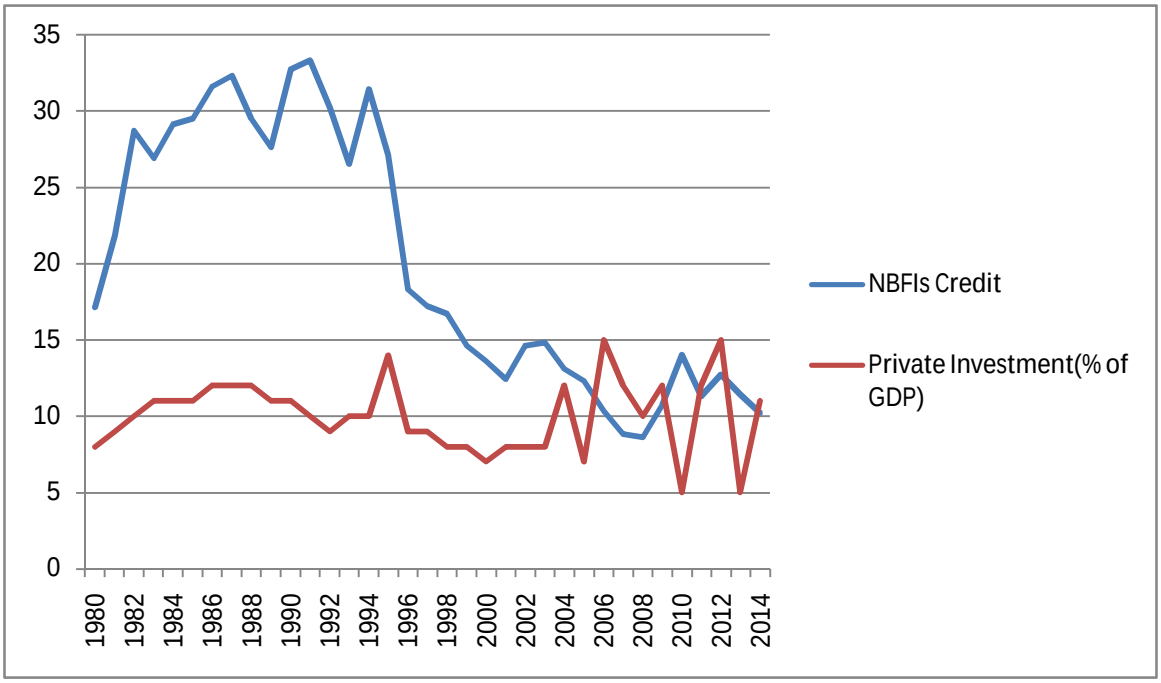
4.3 Trend Analysis

It advisable to plot a time series graph in order to check the trend of each variable at a specified time period. Trend analysis for NBFIs credit, public investment, economic growth and inflation are shown below.

4.3.1 Non- Bank Financial Credit and Private Investment

The Figure 4.1 below shows the trend analysis of NBFIs credit and private investment since 1980-2014. Between 1980s to 1988, NBFIs credit increased and this could be attributed to the SAPs that had been put in place. It showed a downward trend from 1992 to 1998 and this could be attributed to the election clashes in the year 1992. Between the year 2002 to 2007, NBFIs

started to increase and this could be as a result of change in government. The performance decreased from the year 2007 and this is attributed to the post election violence in the country.



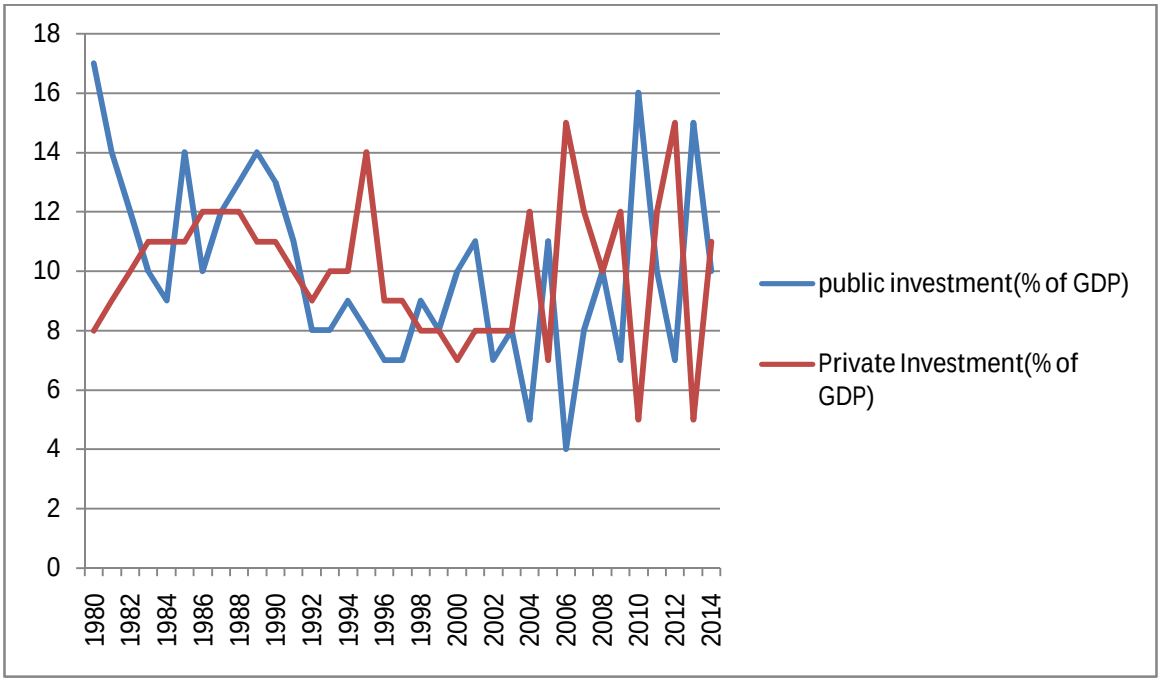
Source: World Bank

Figure 4.1: Trend analysis of Public Investment and Private Investment

4.3.2 Public Investment and Private Investment

The Figure 4.2 below shows trend analysis of Public Investment and Private Investment between the years 1980-2014. Between 1986- 1988 both private and public investment increased due to the SAPs that were introduced. In the year 2007 and 2010, Public investment showed a downward trend and this could be attributed to post election violence and global financial crisis respectively. On the other hand, Between 2006 to 2010, Real private investment decreased at decreasing rate and this could be associated to the 2007 post election violence and also 2009/2010 global financial crises. From the trend analysis, the relationship between the two variables is ambiguous, from the trend, it can be noted that when public investment is decreasing, private investment is increasing and vice versa. This is because Public Investment can either deter Private Investment or Spur it. It may deter, since it may compete for certain scarce resources for example skilled labour force, raw materials, funds etc hence might reduce the level

of private investment. However, public investment may spur private investment by providing important infrastructural facilities such as airports, railways, roads, irrigation projects and communication hence enhancing the incentive to carry out such private investment.



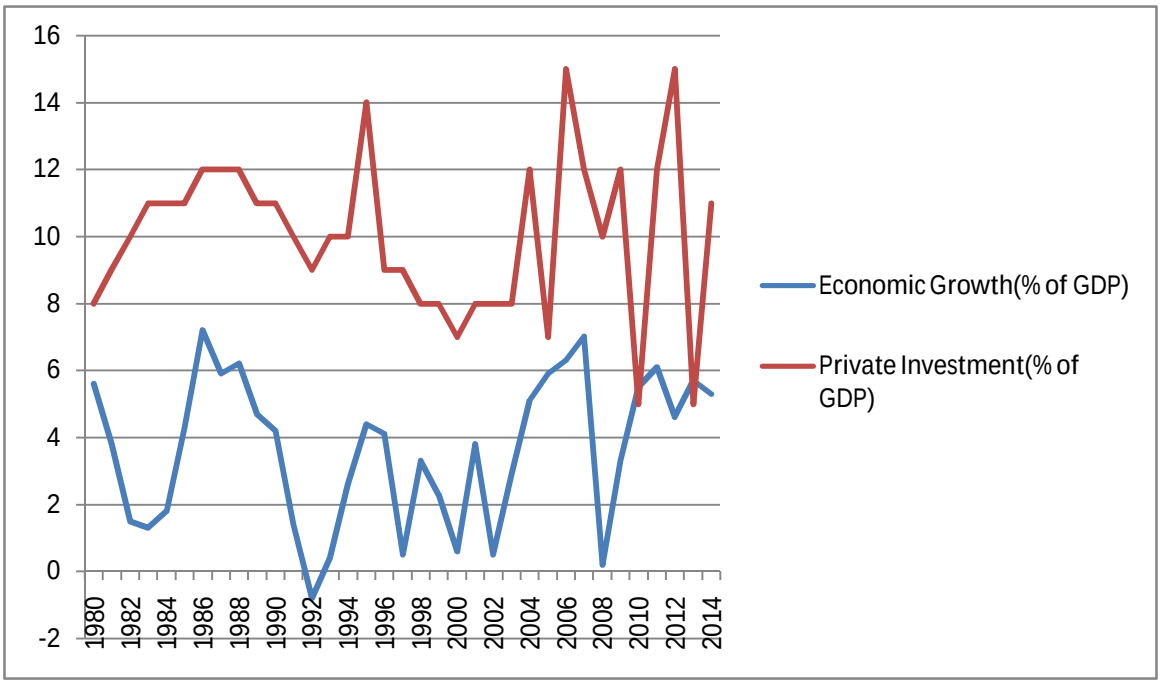
Source: World Bank

Figure 4.2: Trend analysis of Public Investment and Private Investment

4.3.3 Economic Growth and Private Investment

Figure 4.3 presents the trend analysis of Economic Growth and Real Private Investment over the period 1980 to 2014. From 1980, Kenya implemented structural adjustment programs; however, they failed to create the necessary conditions for sustained economic growth, leading to a poor economic performance during the 1980s and 1990s. Between 1997 and 2002, the economy grew by an average annual rate of 1.5%, which was well below the estimated population growth rate of 2.5% per annum. Kenya's economic growth began to recover after government change in 2002 with real GDP growth of 2.8% in 2003, 4.3% in 2004, 5.8% in 2005, 6.1% in 2006, and 7.0% in 2007. Between 2006 to 2010, private investment decreased at decreasing rate and this could be associated to the 2007 post election violence and also 2009/2010 global financial crises. On the other hand, Economic Growth as a percentage of GDP, between 2002 to 2007 it increased

at an increasing rate, however it decreased drastically in the year 2008, and this is attributed to the 2007 post election violence in the country. From the trend analysis, it shows that there is a positive association between the two variables.

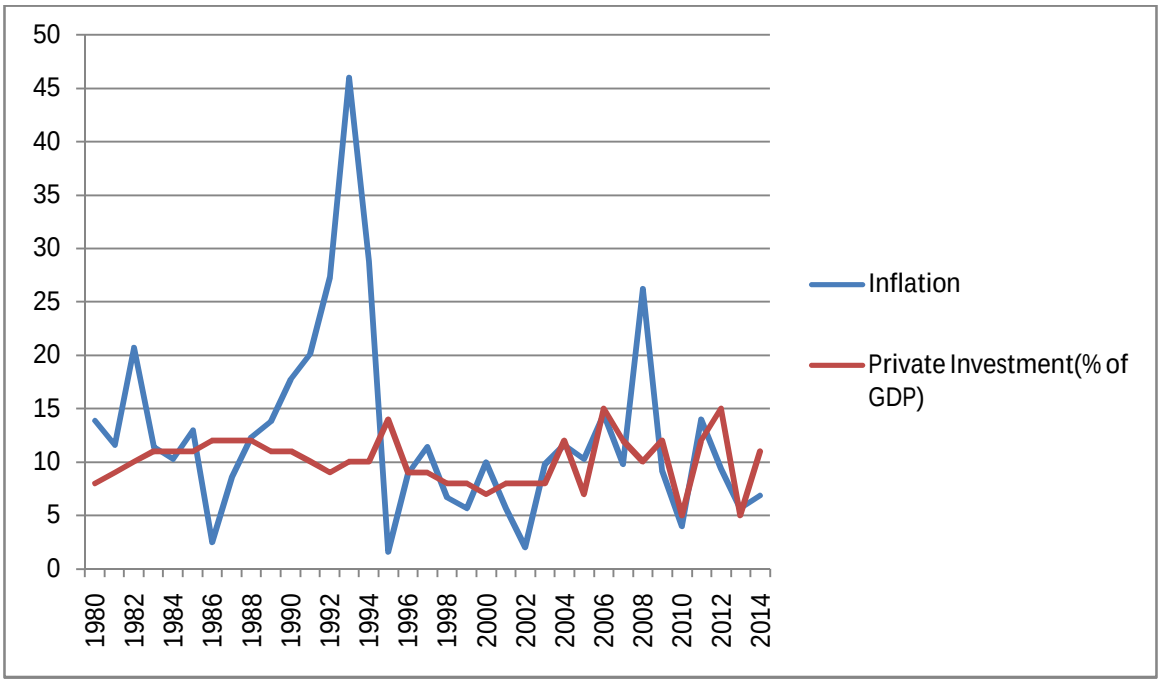


Source: World Bank

Figure 4.3: Trend analysis of Economic Growth and Private Investment

4.3.4 Inflation and Private Investment

Figure 4.4 below shows trend analysis of Inflation and Real Private Investment between the year 2004 up to 2014, between the years 2004 to 2005, real private investment showed an upward trend while inflation showed a downward trend. Between 2006 -2007, Private Investment showed an upward trend while that of inflation showed a downward trend. Between 2012 - 2014, Private investment showed an upward trend while that of inflation indicated a downward trend. From the trend analysis, it shows that there is a negative relationship between the two variables.



Source: World Bank

Figure 4.4: Trend analysis of Inflation and Private Investment

4.4 Correlation Tests

Table 4.2 Correlation Matrix

	Lnpi	**Lnnbfic**	**Lnpui**	**Lneg**	**Lninf**
Lnpi	1.0000				
Lnnbfic	0.2169	1.0000			
Lnpui	-0.4413	0.3393	1.0000		
Lneg	0.1551	-0.0083	0.1678	1.0000	
Lninf	0.1709	0.1408	0.0498	-0.2839	1.0000

Source: Data Analysis, 2015

Results in Table 4.2 above present results of correlation. From the Table 4.2, it is clear that NBFIs Credit is positively correlated with Private Investment (0.2169). Public Investment is found to be negatively correlated with Private Investment (-0.4413). Economic Growth and Private Investment are positively correlated (0.1551). The variable inflation is also found to be

positively correlated with Private Investment (0.1709). From the Table 4.2, non-bank credit is found to be highly correlated to private investment unlike the other variables in this study.

4.5 Unit Root test

Before testing for co integration between the time series, the first step is to check the stationarity of the variables used in the model. This is to verify whether the series have a stationary trend, and, if non-stationary, to establish orders of integration. The study uses Phillips-Perron (PP) tests to test for stationarity. Results in Table 4.3 indicated that all other variables were stationary, except for NBFIs credit which was non-stationary (i.e. presence of unit roots) at 1%, 5% and 10% levels of significance. This called for first difference to make it stationary**.**

Table 4.3 Philips-Perron test for Unit Root

	At Level		**At First Difference**		**Order of Integration**
Variables	**t-statistic**	**Critical Values**	**t-statistic**	**Critical Values**	
Lnpi	-6.360	-3.689 at 1%			I(0)
Lnnbfic	-0.644	-3.689 at 1%	-5.229	-3.696 at 1%	I(1)
Lnpui	-5.001	-3.689 at 1%			I(0)
Lneg	-5.443	-3.702 at 1%			I(0)
Lninf	-4.486	-3.689 at 1%			I(0)

Source: Data Analysis, 2015

4.6 Discussion of the Regression Results

Table 4.4: The regression estimation results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Lnnbfic	0.018525	0.010431	1.78	0.087
Lnpui	-0.45954	0.162321	-2.83	0.009
Lneg	0.082634	0.031450	2.63	0.014
Lninf	0.119548	0.060213	1.99	0.057
C	2.966327	0.365901	8.11	0.000
F(5, 34)	6.88		Durbin-Watson	1.90452
Prob>F	0.0006		Mean VIF	1.14
R-squared	0.3528			

Source: Data Analysis, 2015

The model is significant with F-statistic of 6.88 and p-value of 0.0006. The results shows that there is no multi-colinearity since the Variable inflation factor (VIF) is 1.14 which is greater than 0.1. From the results, the value of Durbin-Watson statistic is 1.90452 which shows that there is no autocorrelation since the value is close to 2. From the Table 4.4, the results indicated goodness of fit (R-squared) was 0.3528 meaning Lnnbfic, Lnpui, Lneg and Lninf explains 35.28% of the variations in Lnpi.

Non-bank financial credit had a positive sign which is statistically significant at 10 percent. It shows that a 1 percent increase in credit leads to 0.018525 percent increase in private investment. This result is similar to Kiptui (2005) results that found credit to private investment to influence positively, Akkina and Celebi (2002), Asante (2000) and Frimpong et al (2010). While study by Ouattara (2005), contradicts with these results; his findings showed that credit to private sector had indirect relationship with private investment.

Public investment impacts private investment negatively, and statistically insignificant at 5 percent. This confirms the crowding out effect, because of the interest rate. The results show that when public investment increase by 1 percent, similarly private investment decrease by 0.4595379 percent. Thus there is an inverse relationship between private investment and public investment in Kenya. Erden and Holcombe (2006) found similar results. Akkina and Celebi

(2002) while dealing with the components of public investment, they sought to know the impacts they had on private investment and found that public sector gross fixed infrastructure investment impacted private investment positively while public sector gross fixed non infrasructure was negatively impacting private investment. These results contradict those of Matwang'a (2000), who found a positive impact of public investment on private investment. Pereira and Roca-Sagales (2001) in their study also found a positive correlation.

Economic growth has a positive sign, and statistically significant at 5 percent. The results show that when economic growth increase by 1 percent then private investment will increase by 0.0082634 percent. Akkina and Celebi (2002) found similar results. Asante (2000) and Kazeem et al. (2012). Empirically it also confirms the findings of Frimpong and Marbuah (2010). This implies that economic growth has a positive impact on private investment in Kenya; this confirms the theory of accelerator. The reason could be that, as GDP increases it puts more pressure on the available capital goods in the private sector so as to meet the required increase demand of goods and services.

Inflation on the other hand had a positive sign, and statistically significant at 10 percent. This means that inflation had an impact on private investment in the study period covered. The results indicate that a 1percent increase in inflation, leads to 0.119548 percent increase in private investment. This implies that the increase in prices of the commodities caused by inflation is earning the economic agents abnormal profits, thus using the surplus to invest in the private sector thus increasing private investment. This result concurs with Acosta and Loza (2005) for Argentina and Frimpong *et al*. (2010) results. This result contradicts those of Kiptui (2005), who found a negative impact of inflation on private investment.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the findings of the study; conclusions and recommendations based on the study findings as well as suggested areas for further research.

5.2 Summary of the Findings

This study sought to determine the effects of NBFIs development on private investment in Kenya, so as to provide concrete information to the policy makers in the country. The theories under study were: Modern Portfolio Theory, Neo-classical Theory of Investment and Economic Theory. These theories postulated that there is a close link between financial development and private investment. Using time series regression model, between the years 1980 to 2014, the variables under study were private investment, NBFIs credit, public investment, economic growth, and inflation. All the variables were I(0) except NBFIs credit which was I(1) before the first difference. The results depicted that there was no long run relationship between the variables, since the dependent variable was I(0) at levels. Heteroscedasticity was corrected using robust standard error. The results indicated that there was no multi-colinearity, and also there was no autocorrelation. From the descriptive statistics results, economic growth recorded the lowest figure of -1.609438; while inflation recorded the highest figure of 3.828641. Economic growth also recorded the highest variation of 3.583519 (maximum-minimum value). From the correlation results, non-bank credit is found to be highly correlated to private investment unlike the other variables in this study.

The study showed that NBFIs credit had a positive sign which is statistically significant at 10 percent. It showed that a 1 percent increase in credit leads to 0.018525 percent increase in private investment, economic growth had a positive sign, and statistically significant at 5 percent. The results showed that when economic growth increase by 1 percent then private investment will increase by 0.0082634 percent and inflation had a positive sign, and statistically significant at 10 percent. This means that inflation had an impact on private investment in the study period

covered. The results indicated that a 1 percent increase in inflation, leads to 0.119548 percent increase in private investment. On the other hand, public investment was negatively correlated to private investment impacts, and statistically insignificant at 5 percent. This confirms the crowding out effect, because of the interest rate. The results showed that when public investment increase by 1 percent, similarly private investment decrease by 0.4595379 percent. Thus there is an inverse relationship between private investment and public investment in Kenya. .

5.3 Conclusion

The study was conducted with a view to examining the effects of Non-Bank Financial development on private investment in Kenya over the period 1980-2014. This period under study was important because it captured two important periods that is; the Pre-Structural Adjustment Programme and the Post-SAPs. To accomplish the objective, a model for investment function had been specified and estimated considering NBFIs credit, public investment, economic growth and inflation as independent variables. The research findings showed that higher amount of NBFIs credit, rising economic growth and low levels of total expenditure on public investment and higher inflation rate will boost private investment in Kenya. The results further supports the idea that, more of NBFIs credit should be availed to the private sector to enhance private investment while at the same time, investors should be enlightened to take advantage of escalating prices caused by inflation. On the other hand, the government should allocate fewer resources to the public sector so as to boost the private investment, as it will contribute to the economic growth of the country.

5.4 Policy Recommendations

NBFIs credit has had a significant impact on private investment at a 10% critical value. As it can be observed from the regression results, a one percent increase in NBFIs credit leads to 0.019 percent increase in private investment. The study reveals that as more credit is channeled to the private sector, there is a consequent increase in private investment. Since one of the major constraint to credit access and other types of borrowing in Africa, particularly Kenya as per the study is the lack of collateral; this is not because of insufficient assets but rather due to the inefficient and slow registration systems. Effective cadastre systems and land title transfers as well as credit registries are critical to the functioning of financial intermediaries, particularly

when it comes to Small and Medium Enterprises (SMEs). Hence, this calls for more appropriate policies to be put in place to ensure more credit is advanced to private sector to boost investment, among this include: encourage people to take up more credit by easing the credit procedure, accessibility of credit institutions by most of these SMEs and last but not least low user cost of capital for more investors to access credit.

Public investment does influence private investment negatively in the short run. This depicts that whenever public investment goes up, there is a consequent decrease in private investment. Policies aimed at improving private investment, will be to put up more infrastructure in order boost private investment in Kenya, to reduce taxes and also to reduce public borrowing by the government that is aimed at diverting resources from private sector to public sector.

Economic growth had a significant positive impact on private investment; its coefficient indicated that when there is an increase in the production of goods and services within the economy, there is an outright rise in private investment. This can be done by implementing policies that will lead to an increase in GDP and hence more investment to counteract the increasing demand of GDP. Improving the productivity of sectors such as agriculture and manufacturing by providing more efficient and modern technologies will increase private investment.

Inflation has had a positive impact on private investment in Kenya for the period under study. The economic policies aimed at sustaining moderate rate of inflation which may have a positive impact on private investment, furthermore, government should always ensure that the inflation rate is kept at a single digit so as to avoid the negative impacts the may be associated with it. Inflation should also be well managed to prevent uncertainties arising from it, which might cause negative effect on the private investment.

5.5 Suggested Areas for Further study

The findings of this study can be improved, if further research would be carried out using panel data since this study only concentrated on the time series regression model. In addition, disaggregated studies on developing countries should be conducted in order to find out whether

the same findings apply to other countries outside Kenya as well; as this will also create more room for generalization. A study should be done to establish whether there is a causality relationship between investment and NBFIs credit and, further, establish the nature and direction of the causality. A study incorporating other Non-Bank development variables such as return on asset and interest rates should be carried out. Last but not least a study should be carried out on the same to include non-quantifiable factors such as insecurity since this could also have an effect on private investment in Kenya.

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APPENDICES

APPENDIX I: LIST OF NON-BANK FINANCIAL INSTITUTIONS AS AT DECEMBER 2014.

No	Name of CRBs	Physical Address	Date of issue of License	E-mail Address & Fax
1	Credit Reference Bureau Africa Limited P.O. Box 46406, 00100 NAIROBI, KENYA	CRB Centre, Prosperity House, Westlands Road, Off	9th February 2010	info@crbafrica.com Website: www.crbafrica.com Fax: +254 (0) 20 3751344
2	Metropol Credit Reference Bureau Limited P.O. Box 35331, 00200 NAIROBI, KENYA Tel :020 2689881/27113575 0727 413 733/ 732 774 666	1st Floor, Shelter Afrique Centre, Upper Hill, Nairobi	11th April 2011	creditbureau@metropol.co.ke Website: http://www.metropolcorporation.com Fax: +254 (0) 20 273572

No	Name of MRPs	Physical Address	Date of issue of License	E-mail Address & Fax
3	Amal Express Money Transfer Ltd P.O. Box 3165 – 00100 NAIROBI Tel: +254723281122	Amal Plaza, 2nd floor, 1st Avenue Eastleigh, Nairobi.	3rd June 2014	info@amalexpress.co.ke

	/254722878597			
4	Continental Money Transfer Ltd P.O. Box 49387 – 00100 NAIROBI Tel: 020-2217138/40, 0705952520	Eco Bank Towers, 8th floor, Muindi Mbingu Street, Nairobi.	12th May 2014	support@continentalmoneytransfer.com info@continentalmoneytransfer.com
5	Dahabshill Money Transfer Limited P.O. Box 68991 – 00622 NAIROBI Tel: +254 020 2222728/9, 0720169999	20th Century Building, Standard Street, Nairobi.	19th November 2013	ken.dmtc@dahabshiil.com
6	Iftin Express Money Transfer Limited P.O Box 100184 – 00100 NAIROBI Tel: +254 (0) 20 2629818	Amco Shopping Mall, 1st Avenue Eastleigh	10th July 2014	iftinforex@gmail.com
7	Juba Express Money Transfer Limited P.O Box 17773-	Hamilton House, Kaunda Street	10th July 2014	: info@jubaexpress.co.ke zainab.mohamed02

	00100 NAIROBI Tel: +254 (0) 20 2240540, 0735 699669			@gmail.com; adbiciye@gmail.com
8	Kendy Money Transfer Limited P.O Box 76163 – 00508 NAIROBI Tel: +254 (0) 20 2377054 Email Date Licensed:	Bemuda Plaza, off Ngong Road.	21st March 2014	info@kendytechnologies.co.ke
9	UAE Exchange Money Remittance Limited P.O Box 51695 – 00100 NAIROBI Tel: +254 (0) 20 2220101	IPS Building, Kimathi Street, Nairobi.	20th March 2014	kimathistreet.branch@ke.uaeexchange.com

No	**Name of MFIs**	**Physical Address**	**Date of issue of License**	**E-mail Address & Fax**
10	Faulu Kenya DTM Limited P. O. Box 60240 – 00200,	Faulu Kenya House, Ngong Lane -Off Ngong Road	21st May 2009 Branches: 27	info@faulukenya.com, customercare@faulukenya.com Website:

	Nairobi Tel :020- 3877290 - 3/7, 38721883/4			www.faulukenya.com Fax: +254-20-3867504, 3874875
11	Kenya Women Finance Trust DTM Limited P. O. Box 4179-00506, Nairobi Tel :020-2470272-5, 2715334/5, 2755340/42 , 070 - 3067000	Akira House, Kiambere Road, Upper Hill,	31st March 2010 Branches: 24	info@kwftdtm.com Website: www.kwftdtm.com
12	SMEP Deposit Taking Microfinance Limited P. O. Box 64063-00620 Nairobi Tel 020-3572799 / 26733127 / 3870162 / 3861972 / 2055761	SMEP Building - Kirichwa Road, Off Argwings Kodhek Road	14th December 2010 Branches: 6	info@smep.co.ke info@smep.co.ke info@smep.co.ke Website: www.smep.co.ke Fax: +254-20-3870191
13	Remu DTM Limited P. O. Box 20833-00100 Nairobi Tel :020-	Finance House, 14th Floor, Loita Street	31st December 2010 Branches: 3	info@remultd.co.ke info@remultd.co.ke info@remultd.co.ke

	2214483/2215384/ 2215387/8/9, 0733-554555			
14	Rafiki Deposit Taking Microfinance P.O.Box 12755-00400 Nairobi Tel: 020-216 6401 0719804 070/0734 000 323	Physical Address: : 2nd Floor, El-roi Plaza Tom Mboya Street	14th June 2011 Branches: 3	info@rafiki.co.ke Website: www.rafiki.co.ke
15	UWEZO Deposit Taking Microfinance Limited P.O.Box 1654-00100 Nairobi Tel :020 2212917 / 9	Park Plaza Building, Ground Floor, Moktar Daddah Street	08 November 2010 Branches: 2	info@uwezodtm.com Website: www.uwezodtm.com
16	Century Deposit Taking Microfinance Limited P. O. Box 38319 – 00623, Nairobi Tel :020-	KK Plaza 1st Floor, New Pumwani Road, Gikomba	17th September 2012 Branches: 1	info@century.co.ke

	2664282, 20 6768326, 0722 168721, 0733 155652			
17	SUMAC DTM Limited P. O. Box 11687-00100, Nairobi Tel :020 2212587, 20 2210440	Consolidated Bank House 2nd Floor, Koinange Street	29th October 2012 Branches: 1	info@sumacdtm.co.ke Website: www.sumacdtm.co.ke Fax: (254) 2210430
18	U&I Deposit Taking Microfinance Limited P.O. Box 15825 – 00100, Nairobi Tel : 020 2367288, 0713 112 791	Asili Complex Building 1st Floor, River Road	8th April 2013 Branches: 2	info@uni-microfinance.co.ke Website: http://uni-microfinance.co.ke/uni-microfinance/ Fax: (254) 2210430
No	**Name of Bureau**	**Physical Address**	**Date of issue of License**	**E-mail Address & Fax**
19	Alpha Forex Bureau Ltd P. O. Box 476 – 00606 Nairobi Tel: 4451435/7	Pamstech House Woodvale Grove Westlands	11th January 2003	Alpha-forex@yahoo.com Fax: 254-2-4451436
20	Amana Forex Bureau Ltd P. O. Box 68578 – 00622 Nairobi	Eastleigh, Sect.VIII, 1st Ave. Nairobi	1st November 2003	Amanaexpress236@hotmail.com Fax: 254-2-6760137

	Tel: 6761296			
21	Arcade Forex Bureau Ltd P. O. Box 21646 – 00505 Nairobi Tel: 3871946/21891 21/0721-810274	Adams Arcade Ngong Road	1st November 2003	Fax: 254-2-571924
22	Aristocrats Forex Bureau Ltd P. O. Box 10884 – 00400 Nairobi Tel: 245247/228080	Kenindia House Nairobi	1st January 1995	aristoforex@nbi.ispkenya.com Fax: 254-2-213794
23	Avenue Forex Bureau Ltd P. O. Box 1755 – 80100 Mombasa	Motor Mart Building, Moi Avenue, Mombasa	29th September 2008	
24	Bakaal Express Forex Bureau Ltd P. O. Box 71248 - 00622 Nairobi Tel:	24th November 2009		
25	Bamburi Forex Bureau Limited P.O Box 97803 Mombasa Tel: 041-548	Nyali Mombasa	1st November 2003	bamburiforex@hotmail.com Fax: 254 415486948

	6950, 0722-412 649/0733-466 729			
26	Bay Forex Bureau Ltd P. O. Box 42909 – 00100 Nairobi Tel: 2244186/ 2248289/224418 8	The Stanley Bldg. Kenyatta Avenue Nairobi	16th August 1995	info@bayforexbureau. com Fax: 254-2- 229665/248676
27	Boston Forex Bureau Limited P.O. Box 11076–00400 Nairobi Tel: 0205249664/ 0732622429/ 0702022429	Nakumatt Ukay Westlands	26th May 2014	marioshah_101@hotm ail.com
28	Cashline Forex Bureau Ltd P. O. Box 64672 – 00619 Nairobi Tel: 4452296/97/98	Sound Plaza Westlands	1st October 2004	cash@cashlinefx.co.ke Fax: 254-20-4452299
29	CBD Forex Bureau Limited P. O. Box 10964 – 00400 Nairobi Tel: 316123	Clyde House, Kimathi Street	24th November 2009	Fax: 254-2-318895
30	Central Forex Bureau Ltd P.	I. P. S. Building,	1st September 1995	centralforex@swiftken ya.com

	O. Box 43966 – 00100 Nairobi Tel: 2226777/ 2224729/317217	Ground Floor, Kaunda Street, Nairobi		Fax: 254-2-249016
31	City Centre Forex Bureau Ltd P. O. Box 40253 – 00100 Nairobi Tel: 2246694/0729-888555	Nginyo Towers, Ground Floor, Koinange Street Nairobi	1st September 2004	info@citycentreforex.co.ke Fax No: 254-02-246696
32	Classic Forex Bureau Limited P. O. Box 39166 – 00623 Nairobi Tel: 3862343/4	Prestige Plaza, 1st Floor, Ngong Rd Nairobi	25th July 2008	Fax No. 3862346
33	Commercial Forex Bureau Limited P. O. Box 47452 – 00100 Nairobi Tel. 020-2210307/8	Vedic House, Mama Ngina Street	16th May 2008	info@commercialforex.co.ke
34	Conference Forex Bureau Limited P. O. Box 32268 – 00600 Nairobi Tel. 3581293, 020-3586802	KICC, Ground Floor	30th January 2008	
35	Continental Forex Bureau	Old Mutual Building	21st July 1995	cfbbusiness@yahoo.com

	Ltd P. O. Box 49580 – 00400 Nairobi Tel: 2222140, 3168025	Kimathi Street Nairobi		Fax: 254 2-216163
36	Cosmos Forex Bureau Ltd P. O. Box 10284 – 00100 Nairobi Tel: 250582/5	Rehema House Nairobi	1st September 1995	Fax: 254-2-250591
37	Crater Forex Bureau Ltd P.O. Box 130 - 20100 Nakuru Tel: 051-2214183, 2216524	Menengai Motors George Morara Avenue	1st September 1995	craterforex@wananchi.com Fax: 254-51-2214183
38	Crossroads Forex Bureau Limited P. O. Box 871 – 00502 Nairobi, Tel: 0729-888444	Crossroads Shopping Centre, Karen, Nairobi	12th May 2008	info@crossroadsforex.co.ke
39	Crown Bureau De Change Ltd P. O. Box 22515– 00400 Nairobi Tel: 2250 720/1/2	Corner House, Mama Ngina Street Nairobi	6th June 1995	info@crown.co.ke Fax: 254-2-252365

40	Dalmar Exchange Bureau Ltd P. O. Box 16381-00610 Nairobi Tel:+254-20-6761628,6760476 6762301	2nd Floor, Olympic Complex Centre 1st Ave. 7th street, Eastleigh Nairobi	15th December 2003	dalmarforex@gmail.com Fax:+254-20-6760470
41	Downtown Cambio Forex Bureau Ltd P. O. Box 42444 – 00100 Nairobi Tel: 608659; 609547/607721	Wison Airport Nairobi	2nd November 1995	Fax: 254-2-608354
42	Forex Bureau Afro Ltd P. O. Box 14353 – 00800 Nairobi Tel: 2247041/2250676/222950	Jamia Plaza Kigali Street Nairobi	17th February 1998	Fax: 254-2-2251078
43	Gala Forex Bureau Ltd P. O. Box 35021-00100 Nairobi Tel: 020310241 Mobile: 0729750000	20th Century 1st Floor Mama Ngina/ Kaunda Street	15th December 2003	galaforexbureau@gmail.com Fax: 020310261
44	Gateway Forex Bureau Ltd P.	Town House, Kaunda Street	17th October 2003	info@gatewayforex.co.ke

	O. Box 11500 – 00100 Nairobi Tel: 2212955/45/49, 0700-003435			Fax: 254-20-2212942
45	Giant Forex Bureau de Change Ltd P. O. Box 56947 – 00200 Nairobi Tel: 827970	Unit 1-Departure	2nd November 1995	Fax: 254-2-825327
46	Give and Take Forex Bureau Ltd P. O. Box 51463 – 00200 Nairobi Tel: 7120581/3562152	Gigiri, China Garden Nairobi	1st November 2003	Fax: 254-2-7120046
47	Global Forex Bureau Ltd P. O. Box 47583 – 00100 Nairobi Tel: 6762982	2nd Floor, Tasir Complex, 1st Ave. Eastleigh, Nairobi	1st November 2003	
48	Glory Forex Bureau Ltd P. O. Box 42909 – 00100 Nairobi Tel: 2244333/2241164/2243115	Norwich Union House Kimathi Street, Nairobi	21st May 1998	gloryforex@yahoo.com Fax: 252-2-245614

49	GNK Forex Bureau Ltd P. O. Box 14297 – 00100 Nairobi Tel: 890303/891243 /891848/892048	Jubilee Centre Karen Nairobi	1st November 2003	gnkforex@swiftkenya.com Fax: 254-2-892266
50	Green Exchange Forex Bureau Ltd P. O. Box 20809 – 00100 Nairobi Tel:+254020221 4547/8/9	Emperor Plaza, Ground Floor, Koinange Street	17th August 2009	greenexchangeforexbureau@hotmail.com Fax: 254-2-2214550
51	Hodan Global Forex Bureau Ltd, P. O. Box 68811 – 00622 Nairobi Tel: 6763035, 0202084862	Hong Kong Shopping Mall, 2nd Fl, Kipanga Athumani St, Eastleigh		hodanglobal@hotmail.com Fax No. 254-2-6763955
52	Hurlingham Forex Bureau Ltd P. O. Box 85 – 00600 Nairobi Tel. 2724409 Mobile: 0773203279, 0722337140	China Centre, Ngong Road	3rd May 2007	info@hurlinghamforex.com

53	Industrial Area Forex Bureau Ltd P. O. Box 45746 – 00100 Nairobi Tel: 551186/551198	Bunyala Road, Industrial Area Nairobi	1st November 2003	Fax: 254-2-551186
54	Island Forex Bureau Ltd P. O. Box 84300 Mombasa Tel: 041-2223988/ 2229626	Moi Avenue, Mombasa	15th December 2003	islandforex@hotmail.com Fax: 254-41-2227057
55	Junction Forex Bureau Limited P. O. Box 43888 – 00100 Nairobi Tel: 3861268/9, 0725-852840	The Junction of Ngong Road/ Dagoreti Corner	1stDecember 2005	junctionforexbureaultd@yahoo.com
56	Kaah Forex Bureau Ltd P. O. Box 10327 – 00400 Nairobi Tel: 6767494/6760504	Eastleigh Section 11, Nairobi	1st November 2003	mobash33@yahoo.com Fax: 254-2-6767543
57	Kenza Exchange Bureau Ltd P. O. Box 21819 – 00400 Nairobi Tel: 822504/ 2245863	JKIA, Arrival Unit 1 Nairobi	9th September 2003	

58	L'ache Forex Bureau Ltd P. O. Box 45191 – 00100 Nairobi Tel: 3514509, 2119568/9, 0711-229408, 3752109	Diamond Plaza, 2nd Floor, Parklands	10th April 2004	info@lache.co.ke Fax: 254-2-2733485
59	Leo Forex Bureau Ltd P. O. Box 82304– 80100 Mombasa Tel: 041-2230396/7/8 2230329	T. S. S. Towers Nkrumah Road, Mombasa	21st May 1999	leoforex@swiftmombasa.com Fax: 254-41-230399
60	Link Forex Bureau Ltd P. O. Box 11659 – 00400 Nairobi Tel: 2213619/21, 0724-256480	Uganda House – Arcade, Kenyatta Avenue, Nairobi	25th April 1995	Link-forex@yahoo.com Fax: 254-2-213620
61	Lion Bureau De Change Ltd P.O Box 4581-00200 Nairobi Tel: 0732911138, 0731863896, 0202600072	Taj Shopping Mall North Airport Road, Embakasi.	22rd February 2012	i info@lionbureau.com

62	Loki Forex Bureau Ltd. P. O. Box 12523 – 00100 Nairobi Tel: 0723-886999, 020-554822, 020-2117780	T&L Centre, Industrial Area, Nairobi	30th September 2005	nfbwesternunion@yahoo.com
63	Magnum Forex Bureau De Change Ltd P. O. Box 46434 – 00100 Nairobi	Nakumatt Mega, Uhuru Highway	17th August 2009	
64	Maritime Forex Bureau Ltd P. O. Box 43296 – 80100 Mombasa Tel: 041-2319175/6/7	Iddi House, Nkrumah Road, Mombasa	1st November 2003	maritimeforex@africal.co.ke Fax: 254-41-2319178
65	Metropolitan Bureau De Change Ltd P. O. Box 7080 – 00300 Nairobi Tel: 827963	Unit 2 Departure, JKIA	7th September 1995	Fax: 254-2-252116
66	Middletown Forex Bureau Ltd P. O. Box 41830 – 00100 Nairobi Tel:	Westminister House Kaunda Street Nairobi	1st January 1998	mtforex@iconnect.co.ke Fax: 254-2-332534

	2211227			
67	Mona Bureau De Change ltd P.O Box 46180-00100 Nairobi Tel: 828-111/2 Cell: 0733 744348	Panari Centre Mombasa road Nairobi	1st December 2005	Fax: 254-2-828113
68	Moneypoint Forex Bureau Ltd P. O. Box 3338-00100 Nairobi Tel No. 020-2211346/7	Tubman Road, Ansh Plaza	27th June 2008	moneypointforex@hotmaill.com Fax:+254-20-2211342
69	Morgan Forex Bureau De Change Ltd P. O. Box 79012 – 00400 Nairobi Tel No. 020-4444073	Westlands	25th July 2008	morgankenya@gmail.com
70	Mustaqbal Forex Bureau Ltd P. O. Box 100745 – 00101 Nairobi Tel: 020-2497344	Eastleigh, Nairobi	19th December 2005	mustaqbalforex@yahoo.com Fax: 254-2-6766650

71	Muthaiga-ABC Forex Bureau Ltd P. O. Box 63533 – 00619, Tel: 4048883/4044146 Cell: 0722-362665/0733-362665	Muthaiga Shopping Centre, Nairob		mfbfx@live.com
72	Nairobi Bureau De Change Ltd P. O. Box 644 – 00624, Village Mkt Nairobi Tel: 822884	Unit 2 JKIA Nairobi	6th July 1995	Fax: 254-2-241307
73	Nairobi Forex Bureau Ltd P. O. Box 12523 – 00100 Nairobi Tel: 2244767/2223039	Gujarat House Muindi Mbingu Street Nairobi	21st July 1995	Fax: 254-2-244767
74	Namanga Forex Bureau Ltd P. O. Box 12577 – 00100 Nairobi Tel: 02-213642/045-51332476	Namanga		15th December 2003
75	Nawal Forex Bureau Ltd P. O. Box 43888 – 00100	Chaka Place, Chaka Road	15th December 2003	Fax: 254-2-272011

	Nairobi Tel: 2720111			
76	Net Forex Bureau Ltd P. O. Box 102348– 00100, Jamia Nairobi Tel: 020 – 249999	Avenue House, Kenyatta Avenue	27th May 2008	Fax: 254-2-250088
77	Nevada Forex Bureau Limited, P. O Box 1544 - 00600 Nairobi, Tel: +254- 020 - 2113898, Mobile : 0722-519399	Westlands Square,	1st September 2010	nevada@forex.com
78	Offshore Forex Bureau Limited P. O. Box 26650 – 00100 Nairobi Tel: 020 – 310837/8	Cianda House, Ground Floor, Koinange Street	12th May 2008	Fax: 254-02-310839
79	Pacific Forex Bureau Limited P. O. Box 24273 – 00100 Nairobi	Lonhro House, Standard Street	27th November 2007	pacific@sahannet.com

	Tel. 310880, 310882/3			
80	Peaktop Exchange Bureau Ltd P. O. Box 13074 – 00100 Nairobi Tel: 2244371/313438, 0722 - 332518	20th Century, Mama Ngina/ Kaunda Streets, Nairobi	1st September 2004	Fax: 254-2-210210
81	Pearl Forex Bureau Ltd P. O. Box 58059 – 00200 Nairobi Tel: 2724769/ 2724778	Hurlingham Shopping Centre	1st January 1998	Fax: 254-2-2724770
82	Pel Forex Bureau Ltd P. O. Box 957 – 40100 Kisumu Tel: 057-2024134/2044425	Allmamra Plaza Oginga Odinga road Kisumu	25th September 1995	pel@swiftkisumu.com Fax: 254-57-2022495
83	Penguin Forex Bureau Ltd P. O. Box 3438 – 80100 Mombasa Tel:	Nkrumah Road, Mombasa	1st November .2003	Fax: 254-41-2228194

	041-316618/2228170			
84	Princess Forex Bureau Ltd. P.O. BOX 104140 – 00101 Nairobi Tel: +254 20 2217978	City House, Standard Street. Nairobi	12th February 2009	princessforexbureau@gmail.com
85	Pwani Forex Bureau Ltd P. O. Box 87200 – 80100 Mombasa Tel: 041-2221727/2221734/2221845	Mombasa Block 404 XV11/M1 Abdel Nasseiz	16th August 1995	forex@pwaniforex.com Fax: 254-41-2221870
86	Rand Forex Bureau Limited P. O. Box 30923 - 00100 Nairobi Tel: 0722200815	Kampus Tower, Moi Avenue, Nairobi	28thMay 2012	
87	Real Value Forex Bureau Limited P. O. Box 2903 – 00100 Nairobi Tel: 236044/55/66/77	Shariff Complex, 5th Avenue, Eastleigh	25th July 2008	
88	Regional Forex Bureau Limited P. O. Box 634 –	Kimathi House, Kimathi Street	28th April 2008	Fax No. 312296

	00100, Nairobi Tel. 313479/80,311 953			
89	Rift Valley Forex Bureau Ltd P. O. Box 12165 Nakuru Tel: 051-2212495/22101 74	Merica Hotel Building Court Road Nakuru	1st June 2004	riftvalleyforex@yahoo.com Fax: 254-51-2210174
90	Safari Forex Bureau Ltd P. O. Box 219 Eldoret Tel: 053-2063347	KVDA Plaza Eldoret	1st December 2004	Fax: 254-053-2063997
91	Satellite Forex Bureau Ltd P. O. Box 43617–00100 Nairobi Tel: 2218140/1, Cell: 0721-411300	City House Standard Street Nairobi	17th June 2004	satelliteforex@swiftkenya.com Fax: 254-20-230630
92	Simba Forex Bureau Limited P. O. Box 66886 – 00800 Nairobi Tel. 020 – 445995, 0722 – 703121	Moi International Airport, Mombasa	16th April 2008	Fax No: 020 – 4443706

93	Sisi Forex Bureau Limited P.O. Box 60770 - 00200 Nairobi Tel: 2445846/0722-382995	Agip House, MHaile Selasie Avenue	22nd October 2012	sisiforex@sisi.co.ke
94	Sky Forex Bureau Limited P. O. Box 26150 – 00100 Nairobi Tel: 020-2242062/3	20th Century, Mama Ngina/ Kaunda Street	12th May 2008	Fax No. 020-2242064
95	Solid Exchange Bureau Ltd P. O. Box 19257–00501 Nairobi Tel: 822922/0722-853769	JKIA-Unit 2	6th July 1995	Fax: 254-2-822923
96	Sterling Forex Bureau Ltd P. O. Box 43673 – 00200 Nairobi Tel: 2228923/340624	Laxmi Plaza, Biashara Street	27th November 1995	info@sterlingforexbureau.com Fax: 254-2-330894
97	Sunny Forex Bureau Limited P. O. Box 34166 – 00100	Uniafric House, Koinange Lane	26th June 2008	sunnyfoexbureau@yahoo.com Fax:254-2-252076

	Nairobi Tel: 2252013/252079			
98	Taipan Forex Bureau Ltd P. O. Box 42909 – 00100 Nairobi Tel: 827378	JKIA, International Arrivals Terminal	6th June 1995	taipan@africaonline.co.ke Fax: 254-2-229665/248676
99	Tawakal Forex Bureau Ltd P. O. Box 71623 – 00622 Nairobi Tel: 6766171	Ubah Centre, Eastleigh Nairobi	1st November 2003	tfbureau@yahoo.com Fax: 254-2-6765756
100	Tower Forex Bureau Limited P.O. Box 25934 - 00100 Nairobi Tel. 0723434343, 0739270511, 0772372744	I & M Bank Tower, Kenyatta Avenue	24th July 2012	nim711@hotmail.com
101	Trade Bureau De Change Ltd P. O. Box 7080 – 00300 Nairobi Tel: 2241107	Cotts House City Hall Way Transnational Bank	21st May 1999	trade@wananchi.com tradebdc@yahoo.com Fax: 254-2-317759
102	Travellers Forex Bureau Ltd P. O. Box 13580 – 00800	The Mall Westlands	7th September 1995	Fax: 254-2-443859

	Nairobi Tel: 447204/5/6			
103	Travel Point Forex Bureau Limited P. O. Box 75901 – 00200 Nairobi Tel. 827872, 827877	JKIA, International Arrivals Terminal	11th February 2008	
104	Union Forex Bureau Ltd P. O. Box 43847– 00100 Nairobi Tel: 4441855/4448 327/4447618	Sarit Centre Westlands	1st January 1999	unionforex@hotmail.com Fax: 254-2-4441855
105	Ventures Forex Exchange Bureau Ltd P.O. Box 2665 - 00200 Nairobi Tel: 0722 650 195	Bishop Magua Centre, 1st floor Along Ngong Road	26th August, 2013	wanjiru101@yahoo@.com
106	Victoria Forex Bureau De Change Ltd P. O. Box 705 – 40100 Kisumu Tel 057-	Sansora Building Central Square Kisumu	1st September 2005	Fax: 254-57-202536

	2025626/2021 134/2023809			
107	Wallstreet Bureau De Change Ltd P. O. Box 6841-30100 Eldoret Tel: 053-2062907	Bargetuny Plaza Uganda Road Eldoret	8th January 1999	Fax: 254- 53-2062907
108	Wanati Forex Bureau Limited P. O. Box 88309 – 80100 Mombasa Tel: 0202107500 Cell: 0726925090/0733702668	Diani, Mombasa		26th May 2009
109	Warwick Forex Bureau Ltd P. O. Box 49722 – 00100 Nairobi Tel: 7124072 Cell: 0721253664	The Warwick Centre Gigiri Nairobi	1st November 2003	warwickforex@wananchi.com warwickforex@gmail.com Fax: 254-2-520997
110	Westlands Forex Bureau Ltd P. O. Box 45746 – 00100 Nairobi Tel: 3748786	Westgate, Westlands Nairobi	1st November 2003	westforex@wananchi.com Fax: 254-2-3748785
111	Yaya Centre Exchange	Yaya Centre	6th June1995	Fax: 254-2-3870869

	Bureau Ltd P. O. Box 76302 – 00508 Nairobi Tel: 02-3869097			
112	ZTA Forex Bureau Ltd P. O. Box 51779 - 00200 Nairobi Tel: 0722792279	Greenhouse 1st floor, along Ngong Road	12th August 2013	

Source: Kenya National Bureau of Statistics - KNBS (2015), Economic Survey. CBK, 2014.