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Reasons for Low Listing by Agricultural Companies in the Bourse: A Case Study of Del Monte Limited Kenya

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Abstract

The economic stability, the key driver of the boom has seen a rush by companies to raise funds from the stock markets. It has never been better time for companies to raise capital from the capital markets. This explains the long list of initial public offers (IPO) and right issues since 2006. Recent IPO include the Kengen, Eveready, scan group, access Kenya and Kenya re-insurance Corporation.

Mumias sugar also made a second offer while equity bank listed in the Nairobi stock exchange (NSE) BY introducing, capital holdings made their right issue all seeking additional funds to bank roll their expansion.

Notably however no agricultural company has featured in the aforementioned IPOs leave alone seeking additional funds through the bourse. This brings to the lime light the problem of persistent minimum listing by agricultural companies (currently stands at 8) on the bourse, despite the fact that Kenya is predominantly an agrarian economy.

The general objective of the study was to find out reasons of low listing by agricultural companies in the bourse. Specifically study intended to identify challenges for listing in the bourse, to establish whether companies knows the opportunities at the bourse, to identify the challenges faced by agricultural companies in Kenya and to establish the need for alternative to the NSE for companies unable to meet the stringent listing rules of the NSE.

A descriptive study was archived by doing a case study of Del Monte Kenya a Thika based subsidiary of Del Monte international inc. the target population was the top management who were issued questionnaires. Secondary data was collected using documentary information from books, company final accounts and relevant publications.

The study found out a number of issues hindering the listing of agricultural companies on the bourse which include listing / application fees, unfavorable legal and regulatory framework on listing, lack of confidence in the NSE and inadequate public awareness.

In light of the findings the study recommends the establishment of an alternative listing avenue

for agricultural companies, the NSE and the capital market authority should work towards the efficiency of the Kenya stock market.

Keywords: Agricultural Companies; Listing; Bourse; Del Monte Limited Kenya; Nairobi stock exchange

Abbreviations

AIMS –alternative investment market segment

ATS –Automated trading system

CDS – Central depository system

CMA – Capital market authority

ERS – Economic market strategy

FIMS –Fixed income securities market segment

IAS – International accounting standards

IPO – Initial public offering

MIMS – Main investment market segment

NSE – Nairobi stock exchange

NYSE – New York stock exchange

1.0 Introduction

1.1 *Background of study*

The principal role of a stock exchange in any economy is to mobile resources and directs them to the productive sectors of the economy .It offers relatively cheap source of capital for investment and working capital requirements compared to the traditional financial intermediaries.
"Agriculture growth and development is critical to Kenya's overall economic and social development. The sector directly contributes about 26 per cent of Gross Domestic Product (GDP) and a further 27 per cent through linkages with manufacturing ,distribution and services-related sectors .About 80 per cent of the population lives in the rural areas and depends mainly on agriculture and fisheries for livelihood .In addition,87 per cent of all poor households live in rural e Economic areas where main activities are in Agriculture .About 50 per cent of Kenyans are food insecure while significant potential for increased production remains largely unexploited.

The Agricultural sector has not performed well over the last decade with its growth declining from a rate of 4.4 per cent in 1966 to 1.5 per cent in 1999 and to an all time low of negative 2.4 per cent in 200.Growth in the sector started to pick up in 2002 rising to 1.8 per cent in 2004 and a dramatic 6.7 per cent in 2005.In its blueprint policy document for economic recovery, the Economic Recovery Strategy for wealth and Employment Creation (ERS), the Government has identified agriculture is the main productive sub- sector through which the country will generate

wealth and create employment as well as achieve food security and reduce poverty."The Business Post 9June/July) the bourse has been associated with Agriculture for many years. In fact, at its inception in 1954, Kakuzi was among the listed firms. Currently, under the Main Investment Market Segment (MIMS) there are only 4 agriculture companies listed compared to the 11 Commercial and Services companies, 13 Finance and Investment companies and 18 Industrial and Allied Companies .
These 4 companies are: Unilever Tea Kenya Ltd,Kakuzi,Rea Vipingo Plantations and Sasini Tea and Coffee .Under the Alternative Investment Market (AIMS), of the 8 companies listed, four are agricultural, namely Eaagads Ltd,Kapchorua Tea Co.Ltd, Williamson Tea Kenya Ltd and Limuru tea company Ltd.

The Bourse enables the business community to access long term capital for investment through shares, bonds and debentures. All the companies listed have issued shares as a way of raising long-term investible capital. Apart from facilitating the primary issue of securities, the bourse serves another function .It facilitates secondary trading and transfer of ownership of securities .By so doing, shareholders are accorded an avenue through which they can relinquish their ownership of a company and new ones can come in.
A quoted company enjoys other benefits .The market acts as a constant value of its worth so when primary shareholders wish to sell their stake ,the market price provides a basis for valuation .Compare this with lengthy, laborious process and hard bargaining that it takes the shareholder of a private company to dispose of his or her ownership .

The bourse can enhance the development of agricultural sector by enabling those wishing to raise cheap and long-term capital to do so .Agricultural businesses should take advantage of this to raise financial resources to expand their business and diversify into other areas. The common tendency is for the companies to rely on Commercial banks' credit for business expansion or to delay their investment plans until they generate sufficient funds internally.
Both methods are quite expensive .Bank credit can be costly as has been witnessed in the local market.

Besides, the attitude of financial institution towards the agricultural sector has proved wanting: "despite Kenya's financial sector being dynamic, it failed to target clients in the agricultural sector" (Wahome, 2007).Company savings through retained profits, particularly for a sizeable project, often take long to build up .At the same time, by waiting to finance business or investment through internally generated savings, a company may lose business opportunities or fail to undertake the envisaged expansion due to cost escalation.

In short, provided the companies operating in various sections, including agricultural business, are efficient and well managed, they can benefit immensely by using the exchange to raise long –term investible capital. There are some companies ' management and pioneer shareholders who know the benefits of listing but are afraid of losing control of their companies to newcomers.

This need not be so as a company can issue any proportion of its ownership in a public issue provided it is at least 20 per cent .One does not necessarily lose control by going public. Secondly, other securities, such as bonds, debentures and loan stocks can be issued instead of shares. Even the most conservative shareholders or management, therefore, has the opportunity to enter the market and raise investible capital.

1.2 Problem statement

Kenya is a predominantly agrarian economy."Agriculture growth and development is critical to Kenya's overall economic and social development. The sector directly contributes about 26 per cent of Gross Domestic Product (GDP) and a further 27 per cent through linkages with manufacturing, distribution and service – related sectors."The Business Post, (June/July 2007).

The bourse facilitates, among others, a principal activity in the financial system .It enables companies to gain access to long-term investable funds by issuing company shares and debt securities to the public .The bourse is therefore an important economic agent for mobilizing long –term investments that yield economic benefits for the nation .As such, the bourse acts as a barometer of the economy.
At the bourse, of the 46 companies listed in the MIMS, only 4 are under the agricultural segment. The less than 10 per cent agricultural companies' listing stands out as a problem that need be looked into. The research was therefore to unearth reasons for the low listing of agricultural companies on the bourse.

1.3 Objectives of the study

1.3.1General objective

To find out reasons as to why there is low listing by agricultural companies on the bourse.

1.3.2 Specific objectives

i. To identify challenges for agricultural companies list to on the bourse
ii. To establish whether agricultural companies know the opportunities at the bourse
iii. To identify the challenges facing agricultural companies in Kenya
iv. To establish the need for an alternative to NSE for agricultural companies unable to meet the stringent requirements for listing.

1.4 Research hypothesis

Null hypothesis (Ho) - unfavorable regulatory and legal framework, little publicity high application and manual fees and inefficiency of investment banks have no relation with the low listing of agricultural companies at the bourse.

2.0 Literature review

2.1 Listing of companies on the stock exchange

Brigham, E. & Gapenski, L. (1997) records the following on listing of companies on a stock exchange:

Stocks that are traded on an organized exchange are said to be listed on that exchange. Some companies are so small that their common stocks are not actively traded, they are owned by only a few people, usually the company's managers. Such firms are said to be privately owned or closely held corporations and their stock is called closely held stock. In contrast, the stocks of large companies are owned by a large number of investors, most of whom are not active in management. Such companies are called publicly owned corporations and their stock. Publicly owned companies generally apply for listing on an organized security exchange, and as such their stocks are said to be listed.

In order to be listed, firms must meet certain minimum criteria concerning, for example, asset size and number of shareholders. The criteria differ for different exchanges. New York Stock Exchange (NYSE) has the most stringent requirements of the exchanges in the United States. For example, to be listed on NYSE, company is expected to have a market value for its publicly held shares of at least $ 18 million and total of at least 2000 shareholders with at least 100 shares each. There are additional minimums on earnings, assets, and number of shares outstanding.

Mbaru J. (2006) shared the following information on what non-listed companies need to know about listing on the NSE:

The term NSE refers both to the market in which securities – shares and bonds – are traded or exchanged, and to the body which oversees the operations of that market. The NSE was constituted as a voluntary association of stockbrokers registered under the Societies Act in 1954 and has since been the devise for structural reforms in the financial markets.

In 1988, the first privatization through the NSE was marked with the government selling 20 per cent stake in Kenya Commercial Bank. Many more privatization followed and became the main drivers of capital market growth. The exchange has since increased its listed companies by more than twenty two to the present 54 listed companies.

To accomplish its roles, the NSE aims to attract companies that want to list, as primary sellers and investors who want to buy the shares in these companies, as buyers. It therefore must filter good companies with solid performance to match the interest of both issuers and investors. To ensure continuity in trading of the listed companies' shares after the primary issue, the NSE'S role is to watch on the market performance of the companies for soundness and ensure that investors have all price sensitive, accurate and up- to-date information.

2.2 NSE as a primary market

NSE is the primary market for new issues where companies and public bodies raise capital (cash) by issuing securities or shares through a process known as initial public offering (IPO).In doing so, NSE is subject to a number of safeguards that companies must adhere to in seeking admission. The companies undergo rigorous check to demonstrate the soundness of their current and future business.

Since 1992, NSE has helped raise over Ksh.24 billion in the primary market listing. Major privation issues include National Bank's Ksh.1.8 billion, Kenya Airways'2.7 billion, and Mumias Sugar's 1.13 billion. The most recent IPOs include Kengen issue worth Ksh.7.8 billion, the largest single issue, followed by Scan group's Ksh.721 million worth IPO Equity Bank's listing added Ksh.6.4 billion to the market in 2006.

2.3 NSE as secondary market

NSE facilitates the trading of both shares and bonds once they are listed.NSE provides its members consisting of stockbrokers and investment banks with electronic trading for securities through Automated Trading System (ATS)

2.4 Market organisation

The market is organized into three segments namely; the Main Investment Market Segment (MIMS), Alternative Investment Market Segment (AIMS),and the Fixed Income Securities Market Segment (FISMS).The MIMS lists all companies that comply with listing requirements of both Capital Market Authorities (CMA) AND NSE .They are large in nature and reports strong and consistent growth prospects over a given period of time .It is a market segment for which securities of issuers satisfy the eligibility requirements prescribed under Regulation 7 (1) (a) of the Capital Markets (Securities) (Public offers Listing and disclosure) Regulation, 2002.

AIMS lists relatively small companies that are closely held and do not trade frequently ,but which wishes to raise capital or become public through listing .It is a market segment for which securities of issuers satisfy the eligibility requirements prescribed under regulation 7 (1) (b) of the Capital Markets (securities) (public Offers, Listing and Disclosure) Regulation, 2002.It lists companies with good growth prospects but which are not able to meet the profit criteria of MIMS, to raise funds from the stock market .A company listed on the AIMS may apply for transfer to MIMS when it meets the Main Segments requirements and have been listed on the NSE for at least 2 years.

The FISMS lists debt securities including preference shares, commercial papers, corporate and government bonds. Bonds are interest bearing securities issued by a company or the Central Bank of Kenya in return for a loan of money from investors.

2.5 The decision to go public

In the words of Brigham, E & Gapenski, L. (1997):"Most businesses begin life as proprietorships or partnerships ,and then, as the more successful ones grow, at some point they find it desirable to convert into corporations. Generally, new corporations' stocks are owned by the firm's officers ,key employees and/or a very few investors who are not actively involved in the management .However ,if growth continues, at some point the company may decide to go public by listing on the bourse."Acess Kenya, for example took this step in 2007.

Brigham, E. & Gapenski, L. (1997) further gives the following literature concerning the advantages and disadvantages of listing:

One of the regulations for listed companies is that they should furnish published audited financial statement that are in compliance with the International Accounting Standards (IAS).For this cause, IAS 41,Agriculture comes to the limelight. (Greuning, H.2005) gives the following guidelines on IAS 41 Agriculture:

IAS 41 prescribes the accounting treatment; financial statements presentation and disclosure related to biological assets and agricultural produce at the point of harvest insofar as they relate to agricultural activity.

2.6 Scope of standard

The standard should be applied to account for biological assets, agricultural produce at the point of harvest and government grants, when they relate to agricultural activity. The standard does not apply to land related to agricultural activity as addressed under IAS 16 or intangible assets related to agricultural activity addressed under IAS 38.IAS 41 does not deal with processing of agricultural produce after harvest; for example, it does not deal with processing grapes into wine or wood into yarn. Such processing is accounted for as inventory (IAS2)

2.7 Key concepts

Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Agricultural produce is the harvested produce of the entity's biological assets A biological asset is a living animal or plant. Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life process.

2.8 Accounting treatment

An entity should recognize a biological asset or agricultural produce when, and only when

1. The entity controls the assets as a result of past events
2. It is possible that future economic benefits associated with the assets will flow to the entity, and
3. The fair value or cost of the asset can be measured reliably

2.9 Empirical literature review

"Stock market development is important to economic growth." Levine (1996).With financial development affecting the speed of growth, cross- country studies show "a strong correlation

In the survey by (Kimuyu, Wagacha & Abagim (1998): Kenya's strategic policies for the 21st century: Macroeconomic and Sectoral Choices" the three came out with reviewed inherent problems including poor policy making and its impact. Policy failures or neglect in regard to agriculture ,industry, education, banking and finance and health all of which from backbone of the firms which could otherwise be among listed companies at the Nairobi Stock Exchange.

In a survey carried out by Wagacha (2000), Mobilizing Domestic Resources in Kenya: A survey of shareholder strategic in the capital market "He drew several conclusions regarding the survey. Among the conclusions was that most investors hold shares only in listed companies than those who hold shares in both listed and unlisted companies therefore highlighting the importance of NSE as a domestic in resource mobilize and therefore bringing a challenge in finding out why then not many companies go public.

In the discussion paper No. 023/2000 by Wagacha (2000) titled "Analysis of liberalization of the trade regime in Kenya since 1980" he concluded in his survey that priority ought to be given to commodity diversification, competitiveness and market diversification in regard to exports. He pointed out the exchange rate ought to be maintained if not to depreciate. However, all these leads to the stock exchange market whose stability depends on the listing of companies at the stock market to boost the exchange trade.

It is true that a stock exchange is a mobilize of securities in any country. It is therefore paramount to ensure that bottlenecks that discourage companies from listing are removed or downscaled.

From the foregoing empirical literature review, the researcher and academicians have contributed in bringing into fore the problems companies face when listing. Notably however, there is no specific research on hindrances to agricultural firms 'listing on the bourse hence the need for the study so conducted.

3.0 Methodology

3.1 scope of the study

The study was intended for the qualified but unlisted Agricultural companies hence the case study of Del Monte Kenya, situated in Thika town. Del Monte Kenya is A Kenyan Company that operates in food plantation and processing. The company previously known as Kenya canners owns 5,500 acres (22 KM square) of pineapple plantation and a population of 6,000 employees. Del Monte Kenya is a subsidiary of Del Monte International, one of a number of companies using the name “Del Monte” following the 1965 partial sale of the United States Company Del Monte Foods. The company’s annual revenue is Sh.4.5 billion and a daily processing capacity of 1,500 tones of pineapples. The company is well known in Kenya to be one of the major Kenya employers, providing housing, transportation and school facilities to its employees. Del Monte International is listed on the London Stock Exchange this however, is not the case for the local Del Monte Kenya. As such Del Monte Kenya was assumed to be qualified but unlisted company.

3.2 Research design

The research was descriptive in nature. Descriptive in that, a survey where data collection using questionnaires was undertaken to ascertain and be able to describe the reasons why few agricultural firms are listed on the bourse.

3.3 Target population

The decision to go public by listing on the bourse is a top management prerogative. As such, the population of interest was all the top management who were twenty in number .The researcher did a census enquiry hence the questionnaires were administered to all the top managers; as such there was no sampling of the population.

3.4 Type of data

The study used both primary and secondary data. Primary data was sourced from the filled questionnaires by the respondents and secondary data was sourced from existing publications on the subject of study.

3.5 Data Collection Instruments

Primary data was collected by administering questionnaires to the respondents. The questionnaires so administered in the collection of data contained open-ended and closed – ended questions. For secondary data collection, documentary analysis was done.

3.6 Data collection procedure

The questionnaires were hand delivered to the respondent, who was given enough time to complete filling the same. The filled questionnaires were collected at a later date when the respondent had filled them. On the other hand, secondary data was collected by obtaining the existing relevant information/data from the company’s records, publications and research findings.

3.7Data analysis and presentation

The data collected was analyzed by employing descriptive statistics, to a great extent, percentage .Presentation of the analyzed data is by use of pie charts, tables and graphs. This has been achieved through the use of computer program, statistical package for Social Sciences (SPSS).The researcher has further explained the above tools used in presenting data.

3.8 Testing of hypothesis

The hypothesis has been tested using the non parametric test, Chi- Square test as enabled by the computer program SPSS.A decision as to whether to accept or reject the null hypothesis (Ho) has been made based on the interpreted results of the Chi – square test

4.0 Findings

4.1 Summary of findings

The data collected, analyzed and tested using the Chi-square test showed that the following are responsible for the low listing of agricultural companies' listing on the NSE:
High application and annual fees –Application and annual fees payable to the NSE by the companies on applying for listing and for the subsequent years of their membership in the NSE are rather high.

Low publicity –There is low publicity by the NSE on the available opportunities for the agricultural companies on the stock market. As a result, agricultural companies on the stock market. As a result, agricultural companies are not aware of the opportunities available at the stock exchange.

Unfavorable Regulatory and Legal framework – There is an unfavorable regulatory and legal framework to which listed companies are subject to, as such unlisted agricultural companies shy away from getting listed.

Share prices not reflective of relevant information – The share prices are never reflective of all the relevant qualitative and quantitative information on a given listed company, as such: some stocks are under- priced while others are over-priced.

Uncertain economic conditions in the country –This is as a result of high inflation levels, escalating fuel prices. This ends up in affecting the prices of agricultural produce and ultimately the profitability of the agricultural companies.

Too stringent listing requirements – These tend to favor subsidiaries of large multinational companies that are almost always not interested in listing on the NSE because they are listed in their home countries.

There is poor organization among the Agricultural industry players –Most agricultural entities operate on small scale, having little commercial produce. As such, these entities are in the first place not organized as companies which can be considered for listing on the bourse, if interested. This means that these entities cannot enjoy the economies of scale that come with large scale production.

Existing rampant land problems in the country – Land has been an issue in Kenya dating back to independence. There is the problem land segmentation that hinders large scale production and unfair and illegal land ownership and transfer among the Kenyan Nationals, most of which lies idle at the expense of productive agricultural activities. Worth underscoring is the land issues that emerged during the 2007 post election crisis that have left many people displaced and led to the disruption of agricultural activities in most parts of the country.

In light of the foregoing, the study further established the dire need for an alternative to the NSE for companies (both agricultural and others) that cannot meet its stringent listing requirements.

4.2 challenges facing agricultural firms in relation to listing on the bourse

The respondent gave the following as the major challenges facing the agricultural industry in the country in relation to listing on the NSE:

- Unfavorable and inconsistent weather conditions
- Price instability/fluctuations for agricultural produce
- Too high listing fees
- Lack of government support for the agricultural sector
- Lack of knowledge for most of the investors in the agricultural sector
- Fluctuations in profitability in the agricultural sector hence considered a risky sector to invest in.
- Increased and stiff competition from imports of similar agricultural produce
- Poor organization of the agricultural industry
- Use of traditional farming methods
- Most agricultural firms operates on small scale hence lack finances and cannot capitalize on economic of scale
- Uncertain economic conditions due to high inflation levels, high oil prices among others
- Political instability
- Land problems especially the segmentation of land
- High competition from subsidiaries of international companies that operate in Kenya
- Poor infrastructure
- High cost of farm inputs and implements like seeds and fertilizers

The above information on the major challenges facing the Agricultural sector in relation to listing on the NSE clearly brings out the fact that a company's interest to list its stock on the NSE is subject to that company being stable, highly profitable and having potential for growth. As such, the challenges facing most agricultural companies affect their stability, reduce their profitability and reduce their potential for growth because of reduced potential capacity. The researcher in light of the foregoing respondents' responses concludes that the various challenges facing the agricultural firms are a hindrance to their listing on the Bourse.

4.3 possible solutions to agricultural firms 'low listing on the bourse

The respondent recommended the following possible solutions to the persistent problem of few agricultural companies 'listing on the NSE:

- Revision of application and annual fees and other listing requirements for the agricultural sector
- Government support for example by offering subsidies for farm inputs and implements
- Proper regulation of the NSE
- Government control over imports for agricultural products
- Need to educate the general public on agriculture and stock markets
- Provision of an alternative to the NSE for companies that are unable to meet its existing requirements
- Proper organization of the agricultural industry
- Having irrigation schemes in place
- Farmers to be introduced to, trained and encouraged to use modern mechanized farming methods
- Need to regularly and increasingly create awareness on the opportunities that come with the listing of a company's stock on the bourse.
- Improved marketing activities for the local agricultural firms to enable them be at par with similar global firms
- A critical look into the land issue in Kenya especially following the 2007 post election crisis that clearly brought out the tribal animosity harbored by many people.

- The above possible solutions to the persistent problem of agricultural companies' low listing on the NSE, as recommended by the respondents will go a long way into improving the number of agricultural companies listed on the bourse.

4.4 Documentary analysis

The researcher in a bid to collect secondary data did documentary analysis and the following information was gathered on the Agricultural sector and the challenges facing it, which in one way or the other has contributed to the low listing of Agricultural companies on the bourse:
The latest World Development report calls for greater investment in Agriculture in developing countries and warns that the sector must be replaced at the centre of the development agenda if the goals of halving property by 2015 are to be realized. Titled Agriculture for Development, the World Bank's report says the agricultural and rural sectors have suffered from neglect and under investment over the past twenty years. According to this World Development Reports, for the poorest people, GDP growth originating from agriculture is about four times more effective in reducing poverty than GDP growth originating from outside the sector "(African Farming,Nov/Dec).

Ng'etich & Bii, (2008) "The violence that rocked the nation after the 2007 General election interrupted a number of agricultural activities trough out the country, for example, the breeding programme of dairy animals that could result in a long term decline of milk production, the servicing of loans advanced to farmers by processing plants, which had been pegged on milk deliveries. Maize and wheat farmers expressed concerns over increasing fuel prices and high costs of farm inputs as the season's planting programme begun. the farmers said the souring prices especially that of fertilizer would result in decline in acreage cultivation of the crop."

4. 5 testing of hypothesis

4.5.1 Null Hypothesis
Ho = Unfavorable regulatory and legal framework. little publicity, too high application and annual fees and inefficiency of investment banks have no relation with the low listing of Agricultural companies on the bourse.

4.5.2 Interpretation of above results

a) 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 8.0
b) 0 cells (.0%) have expected frequencies less than 5.The minimum expected cell frequency is 5.7
c) 0 cells (.0%) have expected frequencies less than 5.The minimum expected cell frequency is 6.0
d) 0 cells (.0%) have expected frequencies less than 5.The minimum expected cell frequency is 9.0
e) 0 cells (.0%) have expected frequencies less than 5. The minimum ,expected cell frequency is 8.5
f) 0 cells (.0%) have expected frequencies less than 5.The minimum, expected cell frequency is 3.6

4.5.3 Decision

Reject the null hypothesis (Ho) since 100% cells have expected frequencies of less than 5 and the minimum expected cell frequency is 3.6.

4.6 Study conclusions

In light of the above findings from the study, the researcher successively met the objectives of the study given that the study:

1. Identified the challenges for agricultural companies ‘listing on the bourse;
2. Established whether agricultural companies know the opportunities at the bourse;
3. Identified the challenges facing agricultural companies in Kenya, and ;
4. Established the need for an alternative to the NSE for agricultural companies unable to meet its stringent requirements for listing.

4.7 Recommendations

As per the results of the study the researcher companies that researcher recommends that:

1. An alternative to the NSE for companies that cannot meet its stringent listing requirements be introduced. In the United States of America for example, the America Stock Exchange (AMEX) was introduced as an alternative for the New York Exchange (NYSE) whose listing requirements are too stringent for some companies. As such the AMEX accommodated such companies.
2. The NSE being an independent stock market running and regulatory body in collaboration with the Capital Markets authorities (CMA) should work towards improving the holistic efficiency of the Kenyan stock market that it gains the confidence of the possible investors in all the sectors of the economy especially the Agricultural sector.
3. The Agricultural sector authorities need to look to the different challenges facing the industry as clearly brought out in the study findings and make recommendations to the responsible stakeholders on ways of countering those challenges. For example, the government should consider supplementing the cost of agricultural produce to make the sector a profit making venture. The government also needs to urgently move in and solve the land issues in the country that have emerged as a big monster fighting the Agricultural Sector. The recent move by equity bank to set up a Sh.1 billion fund for funding farmers and appointed stockiest (MEA limited), towards having fertilizers be more accessible to farmers was much called for

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Table 2.1listing requirements for CMA

Requirements	MIMS	AIMS	FISMS
Incorporation status	Issuer must be a public company limited by shares and registered under the Companies Act (Cap 486)	Issuer must be a public company limited by shares and registered under the Companies Act (Cap 486)	Issuer must be a public company limited by shares and registered under the Companies Act (Cap486) or any other corporate body
Share capital	The minimum authorized issued and fully paid capital must be Ksh.50 Million	The minimum authorized issued and fully paid capital must be Ksh.20 Million	The minimum authorized issued and fully paid capital must be Ksh.50 Million
Net Assets	Not less than Ksh.100 Million immediately before the public offer	Not less than Ksh.20 Million immediately before the public offer	Not less than Ksh.100 Million immediately before the offer
Transferability of shares	The shares to be listed must be freely transferable	The shares to be listed must be freely transferable	May or may not be freely transferable

Financial records	The audited financial statements of the issuer for5 preceding years be availed	The audited financial statements of the issuer for 3 preceding years be availed	The audited financial statements of the issuer for 3 preceding years be availed (except for the government)
Directors and management	The directors of the issuer must be competent persons without any legal encumbrances	The directors of the issuer must be competent persons without any legal encumbrances	The directors of the issuer must be competent persons without any legal encumbrances
Track record	The issuer must have declared positive profits after tax attributable to shareholders in at least 3 years within 5 years prior to application	The issuer must have been operating the same business for at least 2 years, one of it must have made profit with good growth potential	Not a requirement
Solvency	The issuer should be solvent and have adequate working capital	The issuer should be solvent and have adequate working capital	Not a requirement
Share ownership structure	At least 25% of the shares must be held by not less than 1000 shareholders excluding employees of the issuer	At least 25% of the shares must be held by not less than 100 shareholders excluding employees of the issuer or family members of the controlling shareholders	Not a requirement
Certificate of comfort	May be required from the primary regulator of the issuer, if any	May be required from the primary regulator of the issuer, if any	May be required from the primary regulator of the issuer, if there is one
Dividend policy	The issuer must have a clear future dividend policy	The issuer must have a clear future dividend policy	Not a requirement
Debt ratios	Not a requirement	Not a requirement	Total indebtedness including the new issue not to exceed 40% of the firm's net worth as at the latest

			balance sheet 2. The funds from operations to total debt for the 3 trading periods preceding the issue to be kept at a weighted average of at least 40% 3. A range of other ratios to be certified by the issuer's external auditors
Issue lots	Not a requirement	Not a requirement	Minimum issue lot size shall be: 1.Kshs.100,000 for corporate bonds or preference shares 2.Kshs. 10000000 for commercial paper programme
Renewal date	Not a requirement	Not a requirement	Every issuer of commercial paper to apply for renewal at least 3 months before the expiry of the approved period of 12 months from the date of approval

Source: CMA, securities – Public offers, listing and disclosure requirements pg6-8

Table 4.5.2 Chi Square test results

	Annual fees	Regulatory framework	Legal framework	Investment banks' efficiency	Trading system's efficiency	Enough publicity	Applicant fees
Chi-square (a,b,c,d,e,) Df Asymp Sig.	4.000 1 .046	5.059 2 .080	10.706 2 .005	7.000 2 .030	6.333 2 .042	3.556 1 .059	2.882 1 .090