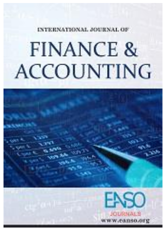

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Original Article

Foreign Investor Participation Reforms and Securities Market Performance in Kenya

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ABSTRACT

This study investigated the influence of foreign investor participation reforms (FIPRs) on securities market performance in Kenya. It employed an exploratory research design, collecting primary data from firms participating in the securities market and 238 respondents who actively participated in the Kenyan securities market. Data was analyzed using SPSS AMOS, employing principal component analysis and confirmatory factor analysis to evaluate the associations between latent variables. Structural equation modelling was undertaken to evaluate any inherent relationship between the study variables. The findings revealed a significant positive influence between FIPR and several key indicators. An increase in FIPRs incentivized foreign investors to purchase more listed securities. As a result, foreign investors are shifting towards online trading due to reforms, which reduce the need for physical travel. The inherent taxation rate adjustment within the reforms has successfully drawn in more foreign investors into the local market. Generally, the results reveal a significant relationship between foreign investor participation reforms and securities market performance in Kenya, demonstrating the influence of these reforms in shaping domestic securities market outcomes. Given that investors constitute sixty-five percent of trading at the Nairobi Securities Exchange, attempts to further increase market activity must consider a reform agenda aimed at attracting foreign investors into the market.

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INTRODUCTION

The introduction of market reforms aimed at attracting foreign investors into Kenya’s securities market was essential due to the decreasing inflow of foreign capital (Gitari & Mohamed, 2021). In response to this decline, significant policy adjustments were made in 1995, including the relaxation of capital controls. This allowed foreign investors to own up to 20 percent of shares in the domestic market, a critical move that facilitated Kenya's integration into the global financial system (Gachigo, 2017). According to Hermes and Lensink (2013), the integration brought substantial advantages, including enhanced capital flows and increased investor confidence. Furthermore, Ahmed (2016) emphasized that financial integration, driven by foreign investor participation and the introduction of diverse investment vehicles, significantly contributes to the deepening of financial markets. This, in turn, resulted in heightened market liquidity and an increase in trading volumes within the securities market.

Athukorala and Tien (2012) support this view, arguing that the liberalization of financial markets and the subsequent inflow of foreign capital are critical drivers of economic development in emerging markets. By opening domestic markets to foreign investors, countries can tap into global capital pools, which can spur economic growth through improved capital market performance and broader access to investment opportunities. However, the liberalization of financial markets has not been uniformly beneficial across all countries. In emerging economies such as Russia, Mexico, and Brazil, the influx of foreign capital following market liberalization has sometimes led to adverse outcomes, including currency devaluation and financial crises (Miles, 2002). These experiences underscore the complex and context-dependent nature of financial integration, suggesting that while reforms may enhance financial market performance in some countries, they also carry risks that require careful management to avoid economic instability.

Many African countries began by opening their economies to foreign investors, liberalizing interest and exchange rates, removing credit caps, privatizing and restructuring banks, and developing capital markets. As observed by Allen, Otchere and Senbet (2011), widespread financial sector reforms in Africa included policies aimed at fostering the development of financial markets, with a particular focus on Sub-Saharan Africa.

The Structural Adjustment Programme (SAP) introduced financial sector reforms in many African economies. The reforms included liberalizing foreign exchange and interest rates to encourage saving among the locals and increase capital inflows from foreigners. They also privatized and commercialized public enterprises to stimulate growth in private-sector investment. The goal of all these reforms was to foster the growth of the capital market (Onyuma, 2017; Okoroafor & David, 2017). Okoroafor, Adeniji and Emmanuel (2018) found that securities market reforms significantly increased market participation by investors and led to capital formation in Nigeria. Similarly, Ebong (2006) also revealed that reforms aimed at financial and systemic crises, as well as adjustments in

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Nigeria's financial markets, had a positive impact on securities market participation. In addition, Oke and Adeusi (2012) also found a positive effect of securities market reforms on economic growth. This implies that the implementation of structural reforms in the capital markets is likely to enhance the overall market performance.

In Kenya, the market activity has been on an upward trajectory, particularly between 2001 and 2006 (Nyasha & Odhiambo, 2014). However, even though the stock market capitalization has improved to 50%, it remains low compared to many high-income countries (World Bank, 2012). In addition, the total value traded in Kenya's securities market has been low and constant at 2% for the ten years between 1900 and 2000, with a slight increase of 6% in 2006, and thereafter, the trading volumes decreased to 2% by the year 2009 (Nyasha & Odhiambo, 2014). Aduda, Masila, and Osongo (2012) point out that overall investor participation in the securities market in Kenya is low. Wendo (2015) found that although there was a period of strong retail investor engagement in the securities market, enthusiasm started to wane over time. The CMA reported a decrease in retail investor participation from 27% in 2008 to 14% in 2010. Oxford Business Group's 2015 study revealed that only 4% of individual investors across all categories participated in the market.

More recent data on securities market performance reveal that although the bond market segment recorded an increase in market activity in the year 2018/19, the Capital Market Authority reported a decrease in the market performance for all equities market composite comparative indicators for the financial year 2018/19 and the 2017/18 financial year. Equity turnover decreased by 25.97%, while share volumes declined by 27.05%. Market capitalization also recorded a decrease of 11.54%, with the NSE 20 Share Index recording a drop of 18.53% compared to the previous year. A review of Kenya's securities market alongside South Africa's and Egypt's regional markets showed that, despite ongoing developments, Kenya's capital market is still relatively small in terms of depth and size when assessed using indicators such as the All-Share Index, market capitalization, and the number of listed companies (CMA, 2019).

The main objective of this paper was to examine the influence of foreign investor participation reforms on securities market performance. Specifically, the research aimed to assess the impact of foreign investor participation reforms on several key indicators, including the volume of listed securities purchased by foreign investors. It also sought to determine whether foreign investors are increasingly shifting towards online trading as a result of reforms that reduce the need for physical travel. Additionally, the study also determines that the adjustment of inherent taxation rates within the reforms has successfully attracted more foreign investors to the local market.

REVIEWED LITERATURE

Theoretical Literature.

Krugman in 1991, proposed the New Economic Geography theory, which postulates that business location is influenced by demand for products and large markets, which help executives reduce the cost of transportation. The theory further pointed out that locational advantage encourages global investor participation in the domestic market. The theory emphasizes that transportation costs play a key role in influencing international trade and that consolidation of interrelated economic activities could help achieve cost savings, which ultimately leads to economic development (Krugman, 1991).

This theory has indeed played a pivotal role in integrating economic and geographical perspectives, offering valuable insights into the spatial organization of economic activities. By acknowledging the significance of geographical factors alongside market forces and policy interventions, this theory provides a comprehensive framework for analyzing regional and urban development dynamics. Its interdisciplinary

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approach has facilitated a deeper understanding of the complex interactions shaping economic geography, contributing to more informed policymaking, and fostering a more holistic approach to researching the relationship between space and economic outcomes. (Krugman ibid,1992). The theory has made significant contributions to our understanding of spatial economics, but like any theory, it also has its limitations. However, it often overlooks the role of social and political factors in shaping economic geography. Factors such as income inequality, social networks, political institutions, and government policies can significantly influence spatial patterns of economic activity but are often neglected in the theory, incorporating insights from other disciplines, such as sociology, political science, and environmental studies, can enrich the understanding. The theory suggests that countries benefit more when they trade with each other. The theory suggests that a country's location influences investment patterns, particularly foreign investor participation. Krugman (2011) further demonstrates how the model explains the determinants of international and inter-regional trade.

Given the global nature of foreign direct investment flows, effective foreign investor participation reforms often require coordination and cooperation among countries to create an attractive investment environment. The theory highlights the importance of policy complementarities and coordination in promoting regional competitiveness and economic integration. Reforms that align regulatory frameworks, streamline administrative procedures, and foster international cooperation can enhance the attractiveness of regions for foreign investors and promote mutually beneficial outcomes consistent with the predictions of the theory. Finally, it provides insights into the spatial dynamics of economic activities, while foreign investor participation reforms aim to shape the distribution and impact of foreign investment across regions. By considering the linkages between the theory and Foreign investors' participation in reforms, policymakers can design more effective strategies to harness the potential benefits of foreign investment for regional development and economic growth. The theory anchored the variable of Foreign Investor participation reforms. The objective of this paper was to examine the influence of foreign investor participation reforms on securities market performance in Kenya.

Empirical Literature

The goal of foreign investor reforms was to boost the involvement of foreign investors in the securities market. In a securities market set-up, foreign investor participation can be determined using the total value of stock traded specifically by foreign investors. The securities market expresses it as a percentage of all the securities traded in a given period (CMA, 2018). Rajapakse (2018) sought to establish the short-term and long-term link between the securities market and foreign direct investment in Sri Lanka. Co-integration and VAR established a causal relationship. Secondary data was obtained secondary data on foreign direct investment (FDI) and trading volumes in the Sri Lanka securities market from 1994 to 2017. The study found that when the securities market is well developed, foreign inflows to the local market increase. This means that regulators should aim at developing the stock market, as it leads to increased foreign direct investment. The research used secondary data to establish the relationship, while this study used primary data. The current research focused on foreign investor participation reforms and how they have impacted the securities market's general performance.

Arcabic, Globan and Raguz (2013) investigated the long-term relationship between foreign direct investment (FDI) and the development of the securities market in Croatia. Their findings indicated a significant long-term relationship between FDI and market development. Utilizing a Vector Autoregression (VAR) model to analyze short-term dynamics, the study observed a positive association between the variables. While their

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research was conducted in a developed country context, a similar study was carried out in Kenya.

In another study, Adam and Tweneboah (2009) conducted a study that combined secondary and primary data to explore the role of stock market development in attracting foreign direct investment (FDI). They employed a descriptive research design to provide a comprehensive overview of the relationship between stock market development and FDI. Secondary data, which included existing economic and financial information, was used to understand broader trends and establish a baseline for the analysis. To complement this, primary data was collected directly from market players, such as investors and financial professionals, to gain firsthand insights into the impact of foreign investor participation reforms. This primary data was subjected to regression analysis to quantify the effects of these reforms on the performance of Kenya's securities market. The study aimed to measure how specific reforms designed to enhance foreign investor participation influenced market dynamics and overall performance, offering valuable insights into the effectiveness of such policies.

Abubakar and Danladi (2018) investigated the impact of foreign direct investment (FDI) on the development of the Nigerian securities market. They utilized annual secondary data spanning from 1981 to 2016 for their analysis. The study found that while FDI had a positive influence on the development of Nigeria’s securities market, this effect was statistically insignificant. In contrast, the research revealed that the exchange rate and gross domestic savings had strong and significant effects on market development. In this study focusing on Kenya, the approach diverged by using primary data to examine how reforms aimed at increasing foreign investor participation impact the securities market’s performance. This research involved collecting data directly from market participants to understand how specific reforms influence market dynamics and performance, providing a more tailored analysis of the Kenyan situation.

In a separate but related to this study focusing on Kenya, the approach differs by incorporating primary data to examine how reforms aimed at enhancing foreign investor participation influence the securities market’s performance. This study gathered direct feedback from market players including stockbrokers, investment banks, fund managers, listed firms, investment advisors and REITS and trustees’ managers through surveys or interviews. By doing so, the research aims to assess the effectiveness of specific reforms designed to attract foreign investors and their subsequent influence on the performance of Kenya's securities market. The primary data provided a more nuanced understanding of how these reforms influence market dynamics, offering insights that are tailored to the Kenyan financial environment. This approach allows for a more contextualized analysis of the reforms' influence, contrasting with the findings from the Nigerian study.

METHODOLOGY

In this study, the unit of observation included 154 institutions actively participating in the securities market. The study employed a purposive sampling approach to determine an appropriate sample size. The target population consisted of key securities market participants categorized into subgroups based on their shared characteristics.

Primary data was collected through a questionnaire from not only the listed firms but also from other players in the securities market such as stockbrokers, investment advisors, fund managers, REIT managers and investment trustees to understand the current market status after reforms. From the above institutions, the respondents comprised 238 from a target population of 333 managers working in the firms participating in the securities market. This paper analyses data using Structural Equation Modelling (SEM) via SPSS AMOS, employing principal component

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analysis and confirmatory factor analysis to evaluate the relationships between latent variables, using the following regression model to test the underlying hypothesis:

$$\mathbf{Y = \beta_{0+} \beta_i X_i + \varepsilon} \quad 1$$

Where; **Y=** Dependent variable; **β_0 =** Y-intercept; **β_i=** Coefficients to be estimated; **X_i=** Independent variables; **ε =** Stochastic error term.

FINDINGS

Influence of Foreign Investor Participation Reforms in Kenya

The respondents expressed their level of agreement on various measurement items related to the influence of foreign investor participation reforms on securities market performance. The respondents' level of agreement is tabulated in Table 1. Statements were analysed using percentage and mean values.

Table 1: Foreign Investor Participation Reforms and Securities Market Performance.

Statements N=238	**SD% 1**	**D% 2**	**N% 3**	**A% 4**	**SA% 5**	**Likert Mean**
FIPR1- There is a policy in place in our company protecting foreign investors.	2.5	9.2	13.0	57.6	17.6	3.78
FIPR2- The changes in regulations have allowed the foreign investor to participate in the market.	20.2	3.8	8.8	41.2	26.1	3.49
FIPR3- The company has attracted foreign investors buying your shares and securities in the recent past	20.2	5.5	18.5	37	18.9	3.28
FIPR4- Foreign investors extensively participate in the decision-making of the firms in that they have invested resources.	22.7	8.8	19.3	34.5	14.7	3.09
FIPR5- Foreign investors participate in the company's decision-making during the annual general meeting as minority shareholders	22.7	14.7	18.9	33.2	10.5	2.94
FIPR6- Foreign investors trade online without necessarily having to travel physically	20.2	8.4	19.7	37.4	14.3	3.17
FIPR7- Foreign investors get access to full disclosures as required by the Securities market regulations.	3.4	10.5	16.8	52.1	17.2	3.69
FIPR8- Foreign investors have easy access to the securities market without any limiting barriers.	3.4	2.5	33.6	45.0	15.5	3.66
FIPR9- The taxation rate has attracted foreign investors to invest in the Nairobi securities market.	0.8	24.8	16.8	40.3	17.2	3.48
FIPR10- Foreign investor gets their returns inform of dividends or rebates on time.	4.2	0.8	15.5	43.3	36.1	4.06
FIPR11- Foreign investors are free to transfer and buy new shares without any challenges.	2.5	5.0	13.9	60.5	18.1	3.86
FIPR12- Foreign investors are allowed to buy local company shares and other securities.	22.3	2.1	27.7	31.5	16.4	3.17
FIPR13- Foreign capital inflow has increased due to the participation of foreign investors.	1.7	5.5	17.2	61.8	13.9	3.80
Average Mean Score	**9.54**	**7.81**	**18.43**	**44.26**	**18.19**	**3.49**

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As presented in Table 1, a significant majority of respondents (75.2%) affirmed that their institution had a policy designed to safeguard foreign investors (mean = 3.78. Additionally, 67.3 percent of respondents agreed that changes in market regulations have facilitated foreign investors' participation in the local market (mean =3.49). According to 55.9 percent of the respondents, the institution had contributed to the attraction of foreign investors who have been purchasing securities listed in the market (mean =3.28), although 25.7 percent of respondents disagreed with this statement. These results support the findings of Makeni (2018), who investigated the influence of foreign direct investment on securities market returns in Kenya and concluded that the increase in foreign direct investment positively influenced the securities market.

Secondly, a fair majority of respondents (49.2%), foreign investors extensively participate in the decision-making of the listed firms in which they have invested (mean=3.09), implying that the interest of foreign investors is taken into consideration in the securities market. Conversely, 31.5 percent disagreed with this statement. Also, there was agreement among the respondents (43.7%) that foreign investors participate in the company decision-making during annual general meetings as minority shareholders (mean=2.94), although 37.4 percent of the respondents disagree with this statement. The majority of the respondents (51.7%) agreed that foreign investors trade online without necessarily having to travel physically (mean=3.17) while 28.6 percent disagreed. On average the results indicate that the market conditions and communication channels are favourable to the foreign investors. Also, 69.3 percent of the respondents agreed that foreign investors have access to full disclosures as mandated by securities market regulations (mean=3.69). Additionally, 60.5 percent agreed that foreign investors can access and exit the securities market without significant barriers (mean=3.66). These findings support those by Arcabic, Globan and Raguz (2013), which established a long-term relationship between foreign investors and the development of the securities market in Croatia.

Furthermore, 57.5 percent of the respondents agreed that taxation incentives due to reforms have attracted more foreign investors to the securities market (mean=3.48). A notable majority (79.4%) agreed that foreign investors receive their returns in the form of dividends on time, whose withholding tax has been constant following the reforms (mean=4.06). Similarly, the majority of respondents (78.6%) agreed that foreign investors can transfer and purchase new shares without encountering regulatory challenges (mean=3.86). Additionally, a fair majority (47.9%) agreed that foreign investors are permitted to buy more securities with the minimum holding increasing following reforms (mean=3.17), although 24.4 percent disagreed with this statement. Moreover, most respondents (75.7%) agreed that foreign capital inflow has increased due to the participation of foreign investors (mean=3.80). This finding agrees with the results of Ochenge, Ngugi, and Muriu (2020), who established the links between aggregate foreign equity inflows and aggregate liquidity of the securities market and concluded that foreign inflow has impacted positively by influence on securities market activity. On average, respondents agreed with statements regarding the influence of foreign investor participation reforms on market performance, with a mean score of 3.49. This generally suggests that foreign investors are perceived to have played a pivotal role in the improvement of securities market activity. The data indicates a consensus among respondents on the significance of foreign investment in influencing market dynamics, further underscoring the importance of such reforms in investment capital flows, thus positively shaping market performance

Sample Adequacy

Factor analysis was conducted to reduce item dimensions for foreign investor participation reforms as the fourth variable. To determine the

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appropriateness of factor analysis for the data, the Kaiser-Meyer-Olkin (KMO) measure and Bartlett's Test of Sphericity were employed. The KMO index, which ranges from 0 to 1 with values above 0.5, is considered acceptable. The KMO was found to be 0.827. This value indicates that factor analysis is suitable for further processing of the data. Additionally, Bartlett's Test of Sphericity yielded a chi-square value of 886.319 with a probability value of 0.0001, which was statistically significant ($P<0.05$). This further confirms the appropriateness of proceeding with the analysis, implying that factor analysis was appropriate. The research, therefore proceeded with factor analysis; the results are presented in Table 2.

Table 2: KMO and Bartlett's Test for Foreign Investor Participation Reforms

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**.827**
Bartlett's Test of Sphericity	Approx. Chi-Square	886.319
	Df	6
	Sig.	.000

Total Variance Explained for Foreign Investor Participation Reforms

The Principal Component Analysis extraction method was utilized to assess the factor loadings, with the number of factors to be extracted fixed at one. This extracted component explained 84.79 percent of the variance in the construct. The sums of squared loadings for other factors ranged from 3.392 to 0.110. The contribution of these factors to explaining the variance was carefully evaluated, with the results presented in Table 3.

Table 3: Total Variance Explained for Foreign Investor Participation Reforms

	Initial Eigenvalues			**Extraction Sums of Squared Loadings**		
Component	**Total**	**% of Variance**	**Cumulative %**	**Total**	**% of Variance**	**Cumulative %**
1	3.392	84.799	84.799	3.392	84.799	84.799
2	.272	6.796	91.595			
3	.226	5.652	97.247			
4	.110	2.753	100.000			
Extraction Method: Principal Component Analysis.						

The component matrix for factor loadings related to foreign investor participation reforms was extracted, with factor loadings ranging from 0.948 to 0.906. Three measurement items exceeded the 0.7 threshold. According to Byrne (2006), regular factor loadings must be greater than 0.7. The items were therefore retained for Structural Equation Modelling (SEM) analysis. The tabulated findings are shown in Table 3.

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Table 4: Component Matrix for Foreign Investor Participation Reforms

	Component
	1
FIPR3- The company's listed stock has attracted foreign investors buying its shares in the recent past.	.919
FIPR6- Foreign investors trade online without necessarily having to travel physically	.948
FIPR9- The taxation rate reduction has attracted foreign investors to invest in the domestic securities market.	.906
FIPR12- Foreign investors are allowed to invest in local company-listed debt securities.	.909
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

The component matrix factor loadings for securities market performance were extracted. The factor loadings ranged from 0.931 to 0.827. Four measurement items exceeded the 0.7 threshold and were therefore retained for Structural Equation Modelling (SEM) analysis. The detailed results are provided in Table 4.

Table 5: Component Matrix for Securities Market Performance

	Component
	1
ML5- Investors have significantly improved since savers have been attracted by market liquidity.	.827
SPV5- Market patterns have become predictable over time.	.844
SMT1- The company shares sold have significantly increased cumulatively over time.	.862
SMT2- The number of shares bought has significantly increased over the years.	.931
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

Confirmatory Factor Analysis

Confirmatory Factor Analysis was conducted using Analysis of Moments Structures (AMOS) to assess both covariance and causal modelling. Confirmatory Factor Analysis was utilized to determine whether the measurement items accurately represented the underlying latent constructs. The objective of this paper was to evaluate the influence of foreign investor participation reforms on securities market performance in Kenya. To test this, the study utilized measurement items with factor loadings of 0.7 or higher, which were retained for the structural model analysis. Table 5 and Figure 1 present the results.

Table 6: Standardized Regression Weights and Critical Values

Item		Construct	Estimate	S. E	C.R	P
SMP	<---	FIPR_1	-.334	.034	-4.808	***
FIPR12	<---	FIPR_1	.853			
FIPR9	<---	FIPR_1	.859	.045	17.403	***
FIPR6	<---	FIPR_1	.953	.052	21.073	***
FIPR3	<---	FIPR_1	.904	.056	19.160	***

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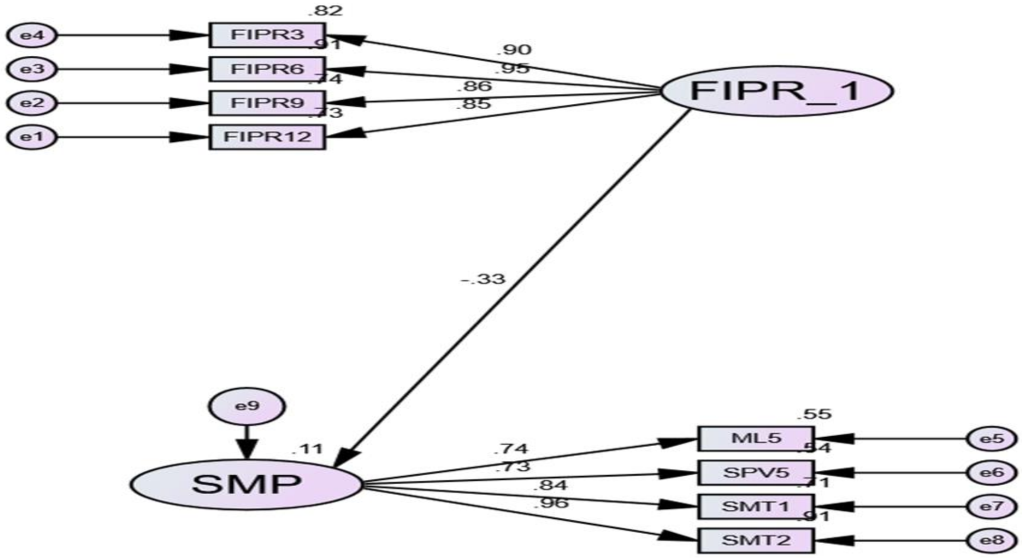
Figure 1: Path Coefficient for Influence of Foreign Investor Participation Reforms on Securities Market Performance in Kenya



The results in Table 6 and Figure 1 show that a unit increase in the level of foreign investor participation reforms was related to an increase in FIPR3 of 0.904 units, which shows that the company had attracted foreign investors buying its securities in the recent past. The calculated t-value for FIPR3 was 19.160, significantly exceeding the threshold of 1.96. This result confirms a significant relationship between FIPR3 and foreign investor participation reforms. For FIPR6, the results show that a unit increase in the level of foreign investor participation reforms resulted in a 0.953-unit increase in foreign investor stock trading conducted online, eliminating the need for physical travel. The corresponding t-value for this relationship was 21.073, which also exceeds the 1.96 threshold, indicating a significant association between FIPR6 foreign investor participation reforms.

Additionally, results for FIPR9 indicate that each unit increase in the level of foreign investor participation reforms was associated with a 0.859-unit increase in the taxation incentives, which has effectively attracted foreign investors to the Kenyan securities market. Since the calculated t-value of 17.403 was more than 1.96, there is a significant link between FIPR9 and foreign investor participation reforms. For FIPR12, a unit increase in foreign investor participation reforms was linked to 0.853 unit increases in FIPR12 in which foreign investors are allowed to buy locally listed company securities. The results show that the measurement items had regression weights with t-calculated values that were greater than 1.96 and also statistically significant ($P<0.05$). This implies that the measurement items were perfectly related to foreign investor participation reforms, ascertaining their convergent validity. The results reveal a significant relationship between foreign investor participation reforms and securities market performance in Kenya. The standard path coefficients for the influence of these reforms on market performance were statistically significant ($\beta = -0.334$, t-value = -4.808, $P < 0.05$). Since the calculated t-value is greater than 1.96, it indicates that the relationship is indeed significant.

However, the negative coefficient suggests that a unit increase in foreign investor participation in reforms was associated with a 0.334 decrease in securities market performance. This unexpected finding may require further investigation to uncover the underlying factors contributing to the negative influence observed. This aligns with the findings of

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Errunza (2001), who provided clear evidence of the significant benefits of foreign investor Participation reforms. Errunza's study highlights that, while there are policy concerns about market fluctuations, contagion, and volatility, these concerns are largely unfounded; thus concluded that the performance of securities markets is primarily dependent on market liberalization. As a result, we failed to accept HO_1, thus concluding that foreign investor participation reforms have a statistically significant influence on securities market performance in Kenya.

CONCLUSION AND RECOMMENDATION FOR POLICY

Given the objective of the study and the inherent findings, this paper concludes that the findings reveal that a single unit rise in foreign investor participation reforms signifies the company's recent success in luring foreign investors to purchase shares and securities. Additionally, a single-unit increase in foreign investor participation reforms leads to a surge in online trading by foreign investors, eliminating the need for physical travel. Additionally, the results show a correlation between the increase in the level of foreign investor participation reforms and the reduction in taxation, as well as the ability of foreign investors to purchase securities issued by local firms. In conclusion, foreign investor participation reforms have a statistically significant influence on securities market performance in Kenya.

Reforms aimed at enhancing foreign investor participation can significantly improve securities market performance by addressing key barriers and creating a more attractive investment environment. Simplifying entry procedures with streamlined regulatory processes and digital registration can make it easier for foreign investors to access the market, increasing their participation and market liquidity. Further strengthening legal frameworks that protect foreign investors, including clear dispute resolution mechanisms and safeguards against expropriation, has the potential to build more investor confidence. In addition, improving corporate governance standards and ensuring greater transparency in financial reporting could also make securities markets more trustworthy, attracting long-term foreign capital. To mitigate risks associated with currency fluctuations, introducing tools like derivatives for currency hedging can further encourage more foreign investor investment flows to Kenya.

Furthermore, offering competitive tax incentives, such as reduced capital gains taxes and favourable treatment of long-term investments, can also make the market more appealing to foreign investors. Also, deepening the financial markets by introducing a variety of investment products, such as exchange-traded funds (ETFs) and listing more real estate investment trusts (REITs), will attract a broader range of foreign investors. Promoting regional financial integration through harmonized regulations can expand the investor pool by facilitating cross-border investments. Finally, active engagement with foreign investors through dedicated outreach and market promotion could raise more awareness of the local market's potential as an investment return location, leading to increased capital inflows and enhanced securities market performance. These reforms, collectively, could not only attract more foreign investors but also improve securities market liquidity, depth, and overall efficiency.

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