Factors Influencing the Investment Decisions of Local Financial Institutions In Financing Public Private Partnerships (PPP) Projects in Kenya

Winnierose Wanja Kosgei

Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Science in Development Finance at Strathmore University

Strathmore University Business School
Strathmore University
Nairobi, Kenya

June 2025

DECLARATION

Declaration

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

Name of Candidate

Winnierose Wanja Kosgei

Approval

The dissertation of Winnierose Wanja Kosgei was approved by the following:

Dr. Noah Omondi
Supervisor
Strathmore University Business School

Dr. Ceaser Mwangi
Executive Dean
Strathmore University Business School.

Prof. Bernard Shibwabo
Director, Office of Graduate Studies

DEDICATION

I wholeheartedly dedicate this dissertation to my amazing parents, Mr. Charles Kosgei and Mrs. Alice Kosgei, whose unwavering love and sacrifices have been the foundation of all my achievements and shaped the person I am today. To my amazing siblings Martin, Mercy, and Mark thank you for being my constant cheerleaders and a source of boundless inspiration. Your support has been my anchor throughout this journey.

ACKNOWLEDGEMENT

I thank God for his care, provision and protection during this study. Special thanks to Dr. Noah for invaluable guidance. I salute my parents and siblings from them I have received immense support morally and spiritually.

ABSTRACT

Infrastructure development is essential for economic growth, yet financing remains a critical challenge, particularly in emerging economies. Public-Private Partnerships (PPPs) have been introduced as an innovative financing mechanism to bridge this gap by leveraging private sector investment. However, despite the increasing adoption of PPPs in Kenya, local financial institutions remain hesitant to participate due to concerns over risk exposure, profitability, project feasibility, and regulatory uncertainty.

This study examines the key factors influencing investment decisions by local financial institutions in financing PPP infrastructure projects in Kenya. The research adopts a quantitative approach, collecting data from commercial banks and pension funds to assess their decision-making criteria. The findings indicate that risk assessment, expected returns, project feasibility, and regulatory compliance significantly shape investment decisions. Institutions prioritize financially viable projects with stable returns and strong risk mitigation strategies. While regulatory frameworks influence investment behavior, policy stability alone is insufficient to drive participation without complementary financial incentives and risk-sharing mechanisms.

The study concludes that increasing local financial institutions' involvement in infrastructure financing requires improving project bankability, strengthening risk-sharing frameworks, and implementing targeted policy reforms. Enhancing institutional capacity and exploring alternative financing structures could further stimulate private sector engagement. The findings provide valuable insights for policymakers, financial institutions, and project developers seeking to optimize infrastructure financing through PPPs in Kenya.

Key Words: Public-Private Partnerships, Infrastructure Financing, Investment Decisions, Local Financial Institutions, Kenya, Risk Assessment, Policy Environment

TABLE OF CONTENTS

LIST OF TABLES

TABLE OF FIGURES

DEFINITION OF TERMS

Public-Private Partnerships (PPPs): Partnerships between public and private sector organizations aimed at funding, constructing, and managing infrastructure projects, with a shared approach to both risks and benefits (World Bank, 2017).

Infrastructure Financing: The method of funding large-scale infrastructure projects such as roads, bridges, and utilities, typically requiring significant capital investments and involving various financial instruments (Delmon, 2014.

Investment Criteria: The standards or benchmarks used by financial institutions to assess the feasibility and potential return on investment of infrastructure projects (Reilly Brown, 2011).

Local Financial Institutions: Commercial Banks and Pension Funds that have the ability to provide capital or financial services for infrastructure projects (Yescombe, 2010).

Regulatory Frameworks: The set of laws, policies, and guidelines established by the government to oversee and manage infrastructure financing and PPP arrangements (World Bank Group, 2017).

Project-Specific Factors: Characteristics unique to a given project, such as size, complexity, duration, and sector, that influence investment decisions (Huang et al., 2016; Ye et al., 2023).

Risk Assessment: The process of identifying, evaluating, and mitigating financial and operational risks associated with infrastructure projects (Babatunde et al., 2012).

Financing Capacity: The ability of financial institutions to provide the necessary capital for infrastructure projects, including their liquidity and asset base (Lauridsen et al., 2018).

Economic Growth: The increase in a country's economic output, often supported by improved infrastructure that facilitates business operations and investment (Romero, 2015).

Policy Environment: The broader context of regulations, incentives, and government measures that affect the willingness and ability of financial institutions to invest in infrastructure (African Development Bank, 2008).

LIST OF ABREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BOT	Build-Operate-Transfer
CBK	Central Bank of Kenya
DFI	Development Finance Institution
GDP	Gross Domestic Product
KEPFIC	Kenya Pension Funds Investment Consortium
NACOSTI	National Commission for Science, Technology and Innovation
PMT	Portfolio Management Theory
PPP	Public-Private Partnership
RBA	Retirement Benefits Authority
RFP	Request for Proposal
RPF	Regulatory and Policy Framework
SHS	Solar Home Systems
WBG	World Bank Group

CHAPTER ONE

INTRODUCTION

1.1. Background of Study

Infrastructure is a crucial driver for the development of any economy, and thus, substantial government resources are often allocated to the development of essential public infrastructure (African Development Bank, 2008). There are several ways of financing infrastructure developmentincluding traditional public sector investment through budgetary allocations, government borrowing and donor funding. More recently, blended finance and non-recourse project finance and PPPs have gained traction as alternative models to complement constrained government resources (OECD, 2018).

Kenya is faced with a substantial infrastructure shortfall, estimated at US$2.1 billion annually (World Bank, 2018), and as a result this constrains economic growth and development. This together with the ballooning debt burden in Kenya, is need for the country to explore innovative solutions to leverage upon private sector financing of infrastructure projects. Among the available alternatives, PPPs have emerged as a preferred model for delivering infrastructure efficiently and sustainably. PPPs allow for risk-sharing, improved value for money, and access to private capital while ensuring public oversight and accountability (World Bank, 2020). In Kenya, the formal adoption of the PPP model was institutionalized through the enactment of the *Public Private Partnerships Act in 2013* (revised in 2021), which provides a structured legal and regulatory framework to facilitate such collaborations.

Despite the PPP framework's potential, Kenya's experience with PPPs has revealed significant financing challenges. Over the last 6 years, the Kenyan PPP market has been expanding, with a pipeline of approximately 70 projects across different sectors of the economy. However, PPP projects, regardless of size, have faced difficulties in securing commercial financing (World Bank, 2017). Foreign currency financing for PPPs often exposes the projects to significant risks in the form of currency risk compensation, which affects the overallvalue of the project

and affordability drivers, a key factor for project viability.

PPP initiatives of all scales have encountered difficulties in obtaining commercial funding (World Bank, 2017). In this case therefore it has been the trend that PPPs attract expensive foreign currency financing that expose the projects to significant risk in the form of currency risk compensation, which significantly affects the total value of the project and the affordability drivers which as per the Kenyan PPP Act, 2021 and principles of PPP projects is a key driver for project viability.

In addition to providing financing for infrastructure projects, long-term infrastructure investments may also provide opportunities to local debt markets and help increase their depth and breadth, thus improving the overall growth of the economy, (Delmon, 2014). This research aims to assess the key factors that influence the investment decisions of local financial institutions in financing infrastructure projects in Kenya, focusing primarily on PPP projects. The study reviewed literature on the subject and undertook market survey in the country, which was statistically analyzed to identify mechanisms for increasing local currency investment in infrastructure projects.

The study investigates various variables that are crucial to understanding the investment decisions of local financial institutions in Kenya's infrastructure projects. The key independent variables examined include project-specific factors, such as project size, complexity, and duration, which are essential in assessing the attractiveness and feasibility of investments. Another critical variable is the regulatory and policy framework, which determines the enabling or restrictive nature of the investment environment for Public-Private Partnerships (PPPs). Additionally, the study considers financing capacity, focusing on the availability of funds and the institutions' ability to mobilize resources without jeopardizing their financial stability. Finally, investment criteria used by local financial institutions, including risk assessment and expected returns, are evaluated to understand how these criteria influence their willingness to finance infrastructure projects. Together, these variables are analyzed to uncover how they impact infrastructure development and contribute to economic growth, while also

addressing the challenges of securing commercial funding and minimizing risks associated with foreign currency exposure.

The success of PPPs, however, depends on several interrelated factors. The legal and regulatory framework is essential in providing predictability and investor confidence, especially given the long-term nature of PPP contracts. A weak legal environment may expose parties to contract disputes or political interference (Yescombe, 2011).

Another crucial determinant is risk allocation, which refers to how financial, technical, and operational risks are shared between the public and private sectors. An optimal risk-sharing arrangement can incentivize private sector participation, while poor risk transfer mechanisms may discourage investment (Grimsey & Lewis, 2004). In addition, institutional capacity, particularly within public implementing agencies, influences the ability to develop, procure, and manage PPP projects effectively. Limited human and technical capacity has been identified as a constraint in many developing countries, including Kenya (Mwangi, 2020).

Lastly, adequacy of funds and fiscal space remains a central issue. While PPPs are expected to attract private capital, public sector funding is often required for viability gap funding, land acquisition, or early-stage project preparation. Inadequate public co-financing can therefore delay or derail PPP initiatives. These variables collectively shape the investment decision-making environment for PPPs in Kenya, yet there remains limited empirical analysis focused on how they specifically influence project uptake and investor commitment in the Kenyan context.

The research results can provide valuable guidance for policymakers within the government on the creation of an enabling environment to tap into local currency financing for projects, as well as expansion of capital markets to diversify to infrastructure investments. By identifying the factors influencing investment decisions of local financial institutions, this study seeks to device a roadmap for improving infrastructure financing in Kenya, which could ultimately lead to increasedeconomic growth and development.

1.1.1. The Factors Influencing the Investment Decisions

Infrastructure is essential for economic and social development but increasing demands and government budget constraints have led to the rise of PPPs. PPPs entailcollaboration between public and private sectors, with various agreements, such as Build Operate Transfer (BOT), Joint Venture (JV), and Operations & maintenance (O&M) Contract, being used to determine the division of duties and risks (Yescombe, E, R., 2017). Project finance is commonly used to finance PPP projects, and the attractivenessof a project for funding relies on its capacity to function independently as a separate legal and economic entity (Yescombe, 2014). The modern era of PPPs was brought about by governments' neo-liberal privatization schemes in the 1970s and 1980s, and the need for private infrastructure investment has grown due to the Global Financial Crisis and government debt levels (Hellowell & Caselli, 2015).

Public-private partnerships (PPPs) embody a collaboration between the public and private sectors in pursuit of a common goal. The division of tasks between the two parties, utilizing their unique abilities, is the most common definition of PPPs. The PPP contract's scope, structure, and risk allocation between the public and private sectors are all based on the level of responsibility assumed by the private party. Most PPP projects are typically financed using the project finance method. With the help of both equity and debt investors. Project finance is tailored to suit the requirements of a particular project and repaymentof the invested financing contingent upon the anticipated cashflow generated from theproject. And due to the numerous risks that the private party is expected to take in this case, then the attractiveness of a project for funding is its capability to operate independently as a separate legal and economic entity, this means that the project is distinct from the sponsor’s corporate structure or balance sheet.

Governments have facilitated private investor access to infrastructure sectors, contributing to covering a portion of the required investment (World Bank, 2018). Infrastructure services have fluctuated between public and private sectors with varying degrees of success. Public-Private Partnerships were brought about by neo-

liberal privatization schemes in the 1970s and 1980s due to a decrease in government spending on infrastructure and an increase in demand for infrastructure investment (Delmon, 2014). The Global Financial Crisis has led to unprecedented levels of debt on government balance sheets and a need to stimulate economies, making private infrastructure investing more important than ever.

The research identifies several key factors that influence investment decisions, one of the considerations is project-specific factors, which include project size, complexity, and duration, which influence investment attractiveness and feasibility. Larger, more complex projects require structured financial mechanisms, while long project durations demand sustainable repayment models.

Another critical determinant is regulatory and policy framework, particularly the role of the PPP Act (2013, revised 2021) in shaping the investment climate is crucial. The effectiveness of government support measures, risk-sharing arrangements, and legal protections for investors significantly impact financial institutions' participation.

Financing Capacity also emerges as a key factor that focuses on the availability of funding and the ability of financial institutions to mobilize capital without jeopardizing their financial stability. The lack of long-term funding options in local markets has been a significant barrier to investment in infrastructure. Finally, investment criteria used by financial institutions assess projects based on risk factors, expected returns, and creditworthiness. Key concerns include debt service coverage ratios, repayment schedules, and exposure to currency fluctuations.

The choice to invest typically involves a substantial amount of capital, requiring approval not solely from managers but also from the board of directors and key stakeholders within a firm. Accountants and finance managers play crucial roles in this decision-making process, as they assess the capital needed and the projected maturity period of investment projects using various decision-making models, predominantly focused on anticipated cash flows. Given the significance of the time value of money, investment horizons typically span several years. Bitar (2023) suggests that investment decision-making processes have grown progressively

more intricate and dynamic, underscoring the importance of investors' financial knowledge and skills.

Investment decisions typically commence with establishing the required rate of returnor the minimum expected return on an investment. Assessing market prices and projected cash flows against intrinsic value is a standard practice for investors (Semple, 2013). Subsequently, investors usually make their decisions based on a thorough analysis of investment proposals, considering factors such as the level of riskassociated with the project. This risk stems from uncertainties regarding capital recovery and profit generation (Stee, 2015). The decision to invest is often influenced by an investor's past experiences and perceived profit opportunities (International Finance Corporation [IFC], 1999). In today's ever-evolving investment landscape, decision-making poses challenges due to a plethora of availableoptions. It emphasizes the need for informed decision-making, not solely reliant on assets and sophisticated financial models. Investors must gather relevant information and maintain focus to achieve their desired objectives (Formanek et al., 2023).

1.2.Overview of Infrastructure Financing in Kenya

Infrastructure is essential for promoting economic development across Africa, especially given its small, open economies and evolving global commerce landscape. Studies by the OECD and WTO indicate that infrastructure has become a more significant contributor to economic growth in Africa than tariff reductions and market access (African Development Bank, 2008)). According to the African Economic Outlook Report (2022), The Kenyan Economy grew by 6.7% on 2021. International Monetary Fund (IMF, however, notes that Kenya's public debt has been increasing in recent years and reached an estimated 69% of GDP at the end of 2020. This rise is attributed to elevated budget deficits, partially stemming from investments in infrastructure projects and exacerbated in 2020 by the COVID-19 pandemic. Approximately fifty percent of Kenya's public debt is owed to international creditors, with a significant portion of this debt maintaining favorable terms. In the fiscal year 2019/20,the fiscal deficit for the country reached 7.8% of GDP in Financial Year 2019/2020.

The World Bank has embraced the Multilateral Development Finance (MFD) approach, which seeks to attract private sector investments while maximizing the efficient utilization of public resources., in response to this significant infrastructure funding gap that cannot only be funded by Development Finance (World Bank, 2018).The World Bank Group reportedly allocated the Kenyan PPP program $90 million to get off the ground. The Bank is assisting in the development of bankable projects as part of the facility and is enhancing the ability of regional institutional investors to participate in infrastructure investments. According to the same report, there have been a lot of developments in the Kenyan PPP market since 2013, including an improvement in the regulatory environment and the generation of a pipeline of more than 60 projects. Briceño-Garmendia and Shkaratan (2011) observe that Kenya faces infrastructure needs across various sectors, including but not limited to power, ICT technologies, road construction and rehabilitation, water supply and sanitation, air transport, urban infrastructure, and agricultural infrastructure. Kenya currently spends around $ 1.6 billion per year to meet its infrastructure needs, which is estimated at around 9% of Gross Domestic Product (GDP). The annual infrastructure funding gapis estimated at $ 2.1 billion per annum.

Kenya has achieved a level of success with privately financed infrastructure projects.Over the last two decades, Kenya stands out as one of the Sub-Saharan African countries that has successfully unbundled all or portions of its energy sectors to attract private financing for power generation and achieved well performing power sectors. The country opened its market to Independent Power Producers (IPPs) in the 1990s, the success of which can be attributed to the existence of a credit worthy off taker andabundance of renewable energy resources, Additionally, the country has attained financial close for four road PPP projects in the recent past according to the Public Private Pa Directorate.

In 2013, Kenya enacted the Public-Private Partnerships (PPP) Act, which established key institutions responsible for overseeing PPP projects. The PPP Committee was instituted as the sanctioning authority for all PPP projects, whereas the PPP unit functions as the technical support entity providing expertise

to government entities involved in PPP initiatives. This legislative achievement has impacted the success of various sectors, as evidenced by the financial closure of two road projects and severalrenewable energy projects between 2013 and 2020. An exemplary project that highlights the substantial financing requirements of PPPs is the Nairobi Expressway toll road project, with an estimated cost of Ksh. 66 billion and a 30-year operations period. This underscores the significance of adequate financing to support execution of PPP projects.

Some of the PPP projects that have financially closed have been in the renewable energy sector (Independent Power Producers) and the road sector, including both toll roads and the roads annuity programme. One of the projects is the Nairobi Expressway, a 27-kilometer toll road, connecting Jomo Kenyatta International Airport to Nairobi's Westlands area, was developed under a PPP arrangement with the China Road and Bridge Corporation (CRBC). The CRBC financed the project through a build-operate-transfer model, investing approximately US$560 million. Road Annuity Lot 33, which is Part of Kenya's Road Annuity Programme and involved the construction and maintenance of the 90.55 km road stretch from Ngong to Isinya. was financed by Kenya Commercial Bank.

Kenya's renewable energy sector has seen numerous IPP projects primarily financed through a combination of international Development Finance Institutions (DFIs) and commercial lenders, often denominated in foreign currencies. This approach, while bringing in substantial capital, exposes projects to currency risk due to fluctuations between the Kenyan shilling and foreign currencies. Local currency financing in this sector remains limited, underscoring the need for innovative financial solutions to mitigate foreign exchange risks.

In a notable move towards innovative financing, the Kenyan Ministry of Defense entered into a PPP agreement with China Railway Engineering Group (CREG) to develop approximately 2,340 residential units for the KDF. This project, valued at KES 7.5 billion (approximately US$46 million), employs a build-lease-transfer model. CREG will lease the project sites, construct the housing units, and subsequently lease them back to the Ministry of Defense for a specified term, after which the assets will be transferred to the government. From the above there is still

little investment by local financial institutions, as such, there is a need to mobilize more local currency financing in order to mitigate against currency risks among other risks.

To further enhance the legal and regulatory environment for PPPs in Kenya, the government introduced the Government Support Measures Policy in 2018. This policy governs the issuance of derisking measures for PPP projects, aiming to attract private sector investments by mitigating potential risks. Additionally, in 2021, the PPP Act underwent further amendments to streamline the legal framework and improve project delivery.

One potential research gap is evaluating the effectiveness of PPPs in delivering and financing infrastructure projects in Kenya. While the World Bank has provided support for the development and capacity building of institutional investors, it is important to assess the outcomes of these efforts and the impact of PPPs on infrastructure provision, economic growth, and social development in the country. This evaluation could provide insights into the strengths and weaknesses of the PPP approach in Kenya and inform future policy decisions related to infrastructure financing.

1.3.Statement of the Problem

Kenya is confronted with a significant infrastructure deficit, hindering the implementation of vita projects and economic growth. The challenge is compounded by escalating debt levels, further impeding economic progress. Semple (2013) underscores the financial hurdles of PPP projects, where high private financing costs, relative to government financing costs, undermine project sustainability. Despite an influx in foreign investment in infrastructure in the recent past, local financial institutions remain hesitant to finance projects due to a lack of understanding regarding the investment criteria and risk assessment. This gap inhibits effective engagement with these institutions. Additionally, existing studies offer limited insights with a gap in understanding the specific factors influencing local financial institutions' decision to finance infrastructure projects in Kenya.

Several international studies have examined the factors influencing investment

decisions of local financial institutions in financing Public-Private Partnership (PPP) projects. Babatunde et al. (2012) explored factors attracting private sector investments in PPPs in developing countries, identifying political support, government attitudes towards private investment, political stability, favorable legal frameworks, and well-organized contracting authorities as critical elements in attracting private financing. Zhang et al. (2021) examined the factors affecting local governments' adoption of PPPs, emphasizing infrastructure shortages, financial pressures, and the institutional environment as key drivers influencing government decisions to engage in PPPs. Liu et al. (2020) investigated the factors affecting the selection of PPP schemes in infrastructure projects, highlighting the importance of a well-designed procurement process and the differences in PPP adoption between developed and emerging economies.

While global literature has extensively examined factors influencing private participation in PPPs particularly in emerging economies such as China, India and Brazil, there is no empirical research that focuses on the Kenyan context. Kenya's PPP landscape is nascent and is shaped by a unique mix of socio-economic and political realities. The country operates a devolved system of governance, which adds complexity to project planning, coordination, and accountability across national and county governments (World Bank, 2023). Moreover, fiscal constraints have made it increasingly difficult for the government to finance infrastructure solely through public means, heightening the urgency for successful PPP models (AfDB, 2022). Politically, delays in procurement approvals and weak institutional coordination often deter private investors. Additionally, Kenya faces challenges related to institutional capacity such as limited expertise in project preparation and contract management which further discourages investment. These conditions distinguish Kenya from countries typically covered in PPP literature, underscoring the need to investigate how contextual factors influence investment decisions in PPP infrastructure projects in Kenya.

1.4.Research Objectives

1.4.1. General Objective

The objective of this study was to analyze the factors that influence the investment decisions of local financial institutions in financing public private partnerships

(PPP) Projects in Kenya

1.4.2. Specific Objectives

1. To identify and rank the key investment criteria utilized by local financial institutions in Kenya when evaluating infrastructure projects
2. To examine the extent to which project-specific factors namely size, complexity, and implementation duration influence investment decisions in PPP infrastructure projects in Kenya.
3. To assess the influence of institutional capacity (e.g., technical expertise, risk assessment ability) and financial readiness (e.g., capital adequacy, availability of long-term financing) on PPP investment decisions in Kenya.
4. To control for the effect of Kenya's regulatory and policy frameworks when analyzing the investment decisions of local financial institutions in PPP infrastructure projects.

1.4.3. Research Questions

The study sought to answer the following research questions:

1. What are the key investment criteria used by local financial institutions to finance infrastructure projects in Kenya?
2. How do project-specific factors, such as size, complexity, and duration, affect the investment decisions of local financial institutions in Kenya?
3. Is there adequate financing and capacity available to facilitate investment in Public-Private Partnerships (PPPs) in Kenya?
4. What is the influence of regulatory and policy frameworks on the investment decisions of local financial institutions in financing infrastructure projects in Kenya?

1.5.Scope of the Study

The concept scope investigated the key factors that influence the investment decisions of local financial institutions in financing infrastructure projects in Kenya.

The study examined the role of government policies and regulations in promoting the participation of local financial institutions in infrastructure financing, their perceptions regarding risks and opportunities associated with financing

infrastructure projects, and the existing barriers and challenges faced by local financial institutions.The methodological scope also explored potential solutions and recommendmeasures that could be taken to enhance the participation of local financial institutionsin financing infrastructure projects in Kenya using inferential statistics. The study was limited to local financial institutions in Kenya and the focus was on their role infinancing infrastructure projects. The time scope took six months (January to June2024).

1.6.Significance of Study

This study's findings would be useful to various stakeholders including policymakers who can use the findings to design policies and regulations that encourage local financial institutions to participate in infrastructure financing. Additionally, financial institutions can use the insights to develop investment strategies that are aligned with the needs of infrastructure projects in Kenya.

Infrastructure project developers can use the findings to better understand the investment behavior of local financial institutions and design projects that are attractive to potential investors. This, in turn, would play a role in advancing the nation's overall development by improving access to finance for infrastructure projectsand promoting economic growth.

This study's significance lies in its contribution to the understanding of the investment behavior of local financial institutions in Kenya and their role in financing infrastructure projects. Infrastructure development is essential for fostering economic growth and promoting social development in Kenya and local financial institutions have an important role to play in providing the necessary funding for infrastructure projects. However, there is a limited understanding of the investment behavior of local financial institutions in this regard.

This study would help to address this knowledge gap by providing insights into the keyfactors that influence investment decisions of local financial institutions in financing infrastructure projects in Kenya. The study would also evaluate the level of readiness oflocal financial institutions to support infrastructure development in the country and identify barriers and challenges that need to be addressed to enhance their participation.

1.7.Chapter Summary

This chapter offers an overview of PPP projects, focusing on the Investment Decisionsof Local Financial Institutions in Financing. It begins by discussing the global and regional trends in PPP investments, highlighting how they serve as an alternative to utilizing limited public resources, benefiting the public and private sector. It then addresses the problem statement, indicating the limited success of PPP initiatives in Kenya despite government efforts and global trends. It outlines the study's purpose, which aims to review the factors that influence private sector investors' involvement infrastructure projects in Kenya through the PPP framework, along with the study's significance, scope, and key terminology. The subsequent chapter provided an extensive literature review on the factors affecting low investor participation in PPP projects with Chapter Three outlining the research methodology, Chapter Four presenting the results and findings, and Chapter Five covering discussions, conclusions, and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1.Introduction

This chapter explores the literature on the factors influencing the investment decisions of local financial institutions in financing Public-Private Partnership (PPP) projects in Kenya. It concludes with a summary providing a concise overview of the discussion.

2.2.Theoretical Review

2.2.1. Institutional Theory

According to institutional theory, the norms, values, and beliefs of significant stakeholders including regulators, customers, and the public influence how firms behave. Meyer and Rowan (1977), who advanced the idea of institutionalized organizations, organizations that have adopted society norms and values and are seen as genuine stakeholders, also introduced the theory. They claimed that organizationsmust adhere to institutional norms in order to obtain legitimacy, and that formal structures like rules and procedures help to sustain this conformity.

Powell and DiMaggio (1983) developed the neo-institutional theory, emphasizing the importance of institutional forces—such as rules and regulations, conventions, and cultural beliefs—in shaping organizational behavior and outcomes. Considering this, companies follow rules in order to appear legitimate and stay out of trouble. Additionally, they contended that institutional constraints put pressure on companies to become homogeneous, which eventually results in convergence in organizational structures and practices.

Chileshe, Zhang & Ruan, (2022) further built on this theory and proposed a new

perspective on the relationship between institutions and organizations. Zucker introduced the concept ofisomorphism which states that organizations conform to institutional norms andexpectations to gain legitimacy and avoid sanctions. She identified three different types of isomorphism: coercive, mimetic and normative. Coerciveisomorphism refers to organizations confirming institutional demands to avoid sanctions or penalties, mimetic isomorphism on the other hand refers to organizations copying the behavior of other organizations in their field and normativeisomorphism refers to organizations internalizing institutional norms and values leading to long-term changes in organizational behavior. This theory is relevant to thisstudy as it provides a framework for understanding the factors that influence the financing behavior of local financial institutions and can help explain why some financial institutions are more willing and able to finance infrastructure projects than others. Application of this theory to this study can provide deeper understanding on the factors that influence the behavior of local financial institutions and help identify areas of improvement.

In the Kenyan context, this theory is particularly useful for understanding the financing behavior of local financial institutions in infrastructure development. Kenya's financial sector is regulated by institutions such as the Central Bank of Kenya (CBK) and Capital Markets Authority (CMA), which impose coercive pressures through capital adequacy rules, project financing guidelines, and interest rate caps. Mimetic pressures are also present, as local banks and investment firms often replicate financing models used by more established institutions or donor-backed banks. Normative pressures come from industry associations like the Kenya Bankers Association (KBA), which shape ethical standards and professional behavior.

This theory helps explain why some Kenyan financial institutions are more conservative or selective in infrastructure financing—they are reacting to both external regulatory expectations and internalized norms of legitimacy. However, institutional theory may overstate the uniformity of behavior. In Kenya, there is a spectrum of financial institution responses: while some follow traditional risk-averse models, others—like emerging private equity funds or fintech lenders—

have innovated and taken strategic risks. Thus, while institutional theory provides a foundational lens for analyzing financing behavior, its explanatory power is strengthened when complemented by theories that acknowledge strategic agency and heterogeneity, especially in dynamic markets like Kenya's.

This theory directly links to the study's dependent variable—willingness of local financial institutions to invest in PPPs (binary: 1 = willing, 0 = unwilling) by explaining how institutional legitimacy concerns can either facilitate or hinder this willingness. Institutions that feel secure in their regulatory compliance and aligned with prevailing norms are more likely to participate in infrastructure financing to signal legitimacy and alignment with national development goals. Conversely, institutions that perceive high institutional risk may withdraw from such financing. This theoretical framing connects directly with the dependent variable of the study the willingness of local financial institutions to invest in PPPs, a variable measured in binary terms to reflect either a positive or negative disposition toward such financing. Institutional theory helps explain the external and internal pressures that inform this willingness. An institution that perceives strong alignment with regulatory expectations and sector norms is more likely to express willingness to engage in PPP financing, as this aligns with its pursuit of legitimacy. Conversely, an institution that views the regulatory landscape as uncertain, or that lacks the normative support from its professional networks, may exhibit reluctance, choosing instead to prioritize safer, more conventional investments.

Further, the theory informs several independent variables in the study. For instance, the regulatory environment plays a critical role in shaping institutions' perceptions of what is permissible or advantageous. Institutional capacity is another factor influenced by normative pressures, as institutions with stronger governance, trained personnel, and robust systems are better positioned to meet institutional expectations and participate in complex financing arrangements like PPPs. Risk perception is also shaped by institutional legitimacy—institutions may perceive infrastructure investments as riskier when institutional frameworks are unstable, or past failures have damaged confidence in PPP mechanisms.

While institutional theory offers a robust framework for understanding these dynamics, it is important to acknowledge its limitations in capturing the full complexity of financing decisions in the Kenyan context. The theory tends to emphasize conformity and uniformity, yet Kenya's financial sector demonstrates significant diversity in institutional behavior. While some entities remain risk-averse and highly constrained by regulation, others, such as private equity firms or fintech-driven lenders, have pursued more innovative and aggressive strategies. Moreover, institutional theory often downplays the role of strategic decision-making, assuming that institutions passively respond to external pressures. In reality, many financial institutions actively interpret, negotiate, and sometimes contest these institutional constraints to advance their strategic interests.

Therefore, while institutional theory provides a useful starting point for understanding the forces that shape financial institutions' behavior, its explanatory power is enhanced when integrated with other perspectives that account for agency, strategic choice, and market dynamism. Nonetheless, in the Kenyan infrastructure financing landscape, institutional theory remains essential for illuminating how legitimacy concerns, regulatory mandates, and normative expectations collectively influence whether and how financial institutions choose to participate in PPPs.

2.2.2. Portfolio Management Theory (PMT)

Portfolio Management Theory (PMT) involves analyzing and optimizing a collection of investments to identify, assess, and mitigate risks effectively. This approach is rooted in the groundbreaking work of Harry Markowitz, who introduced Modern Portfolio Theory (MPT) in the 1950s. Markowitz's theory emphasized that an investor's primary goal of maximizing portfolio returns should be achieved through diversification, considering both risks and rewards, rather than solely focusing on return maximization. His work laid the foundation for the evolution of portfolio management as a critical field of financial analysis.

Subsequent contributions have further refined and expanded on Markowitz's principles. Stella (2015) developed the Treynor Ratio, a measure of portfolio performance that accounts for both risk and return. This metric enables investors to evaluate how efficiently a portfolio generates returns relative to the level of risk

taken. Similarly, Sharma (2013) introduced the Sharpe Ratio, which assesses portfolio returns above the risk-free rate. The Sharpe Ratio helps investors compare risk-adjusted returns across different investments, thereby enabling more informed decision-making.

Ross (2019) extended the theory by presenting the Capital Asset Pricing Model (CAPM), which explains the connection between expected returns and risk for individual securities and portfolios, providing a systematic framework for evaluating the trade-off between risk and return. These advancements have significantly enhanced the application of portfolio management theory, making it a vital tool for investors and businesses alike.

The relevance of PMT to infrastructure investment cannot be overstated. Portfolio risk and return are often major considerations for stakeholders, and the theory plays a crucial role in project selection and investment decisions. According to Formanek et al. (2023), PMT is particularly applicable during the project selection phase, where optimal risk allocation is paramount. Each risk a financier is willing to take is factored into the calculation of the risk premium, ultimately influencing the expected return on investment. By aligning project selection with portfolio management principles, stakeholders can better navigate the complexities of infrastructure investments.

Corporate strategy also heavily relies on PMT. A company's investment level is often guided by the principles of portfolio management, ensuring that risks are appropriately diversified, and returns are optimized. However, applying this theory to infrastructure projects, particularly in public-private partnerships (PPPs), has its challenges. One common shortfall is the high correlation between investments in traditional portfolios. However, PPP projects tend to avoid this issue because their structures and characteristics vary significantly, allowing for greater diversification within the portfolio.

In the Kenyan infrastructure financing context, PMT is particularly relevant in the investment selection process by local financial institutions, especially as infrastructure projects are capital-intensive and span long timeframes. Kenyan banks, pension funds, and development finance institutions must carefully evaluate whether infrastructure projects fit within their overall risk-return profiles. As noted

by Formanek et al. (2023), optimal portfolio design requires aligning project risk with investor risk appetite a consideration that influences decisions such as sector targeting (e.g., energy vs. transport), tenor structuring, and use of credit enhancements.

Kenya's infrastructure market presents a mix of risks ranging from political instability and land acquisition delays to currency depreciation and off-taker default risks. Local institutions that apply PMT principles are more likely to seek blended finance structures or co-investment partnerships to mitigate exposure. For example, the use of partial risk guarantees from agencies like the African Guarantee Fund allows for de-risking, which makes certain infrastructure projects more attractive in a portfolio context.

This theoretical framework directly informs the study's dependent variable: the willingness of local financial institutions to invest in PPPs, which is measured in binary form (1 for willing, 0 for unwilling). According to PMT, this willingness is likely to be higher when infrastructure projects can demonstrably enhance overall portfolio performance, either by reducing total portfolio risk through diversification or by increasing expected returns after risk adjustments.

The theory also aligns closely with several of the study's independent variables. First, PMT emphasizes the critical role of risk perception in investment decision-making. Financial institutions that view PPP projects as carrying high risks—whether due to political instability, construction delays, or off-taker creditworthiness—are less likely to invest unless these risks are mitigated through mechanisms such as guarantees, insurance, or public co-investment. Second, the expected return on investment is central to the PMT framework. Institutions apply risk-adjusted return metrics such as the Sharpe or Treynor Ratios to evaluate whether the anticipated benefits of a PPP project justify the risks, thereby influencing their investment behavior.

Another important variable is portfolio exposure. Institutions consider whether infrastructure projects complement their existing investment mix. PPPs often differ significantly in terms of structure, sector, and duration, making them attractive from a diversification standpoint. An institution with a highly concentrated asset base may view infrastructure investments as a way to spread exposure and stabilize

overall returns. Finally, institutional capacity plays a significant role in the practical application of PMT. Financial institutions with well-developed analytical capabilities, risk assessment tools, and technical staff are more likely to implement portfolio theory principles effectively. In Kenya, institutions with higher capacity are better equipped to model portfolio-level impacts, conduct scenario analysis, and make strategic investment decisions based on PMT. Consequently, such institutions are more likely to exhibit a positive disposition toward PPP financing.

While PMT offers a strong foundation for evaluating investment decisions, it is not without limitations. The theory assumes rational decision-making and efficient markets—assumptions that may not fully hold in Kenya's financial environment, which is characterized by information asymmetries, regulatory unpredictability, and evolving institutional structures. Moreover, infrastructure projects in Kenya are not evaluated solely on financial metrics; social, political, and developmental considerations—such as job creation, regional equity, and political alignment—also influence investment decisions. Additionally, the long tenors and limited liquidity of infrastructure investments challenge the traditional assumptions of portfolio theory.

Despite these constraints, PMT remains a valuable analytical tool in the context of Kenyan infrastructure financing. It provides a structured way to think about risk and return trade-offs, helping financial institutions rationalize their investment decisions in the face of uncertainty. Its applicability can be further strengthened by integrating it with complementary theories, such as institutional theory or behavioral finance, to better reflect the complex realities of decision-making in emerging markets.

2.3.Empirical Review

The empirical review focuses on the factors influencing the investment decisions of local financial institutions in financing Public-Private Partnership (PPP) projects in Kenya, organized around the study's specific objectives.

First, research exploring the investment criteria used by financial institutions reveals that risk assessment and expected returns are central to decision-making. Avram et al. (2009) found that financial institutions carefully evaluate the projected cash flows and rate of return before committing to infrastructure projects.

Similarly, Reilly and Brown (2011) highlight that factors such as the stability of returns and project cash flow predictability are crucial in assessing the investment potential. These studies emphasize that financial institutions prioritize well-structured projects that promise adequate financial rewards while minimizing risk.

Empirical studies also highlight the impact of project-specific factors, such as size, complexity, and duration, on investment decisions. Huang et al. (2016) demonstrated that larger projects tend to be more attractive to investors due to their perceived stability and revenue generation potential. Conversely, (Ye et al, 2023) noted that high project complexity and long-term commitments can deter investment, as they introduce uncertainties and increase the perceived risk. These findings suggest that financial institutions are more inclined to invest in projects that strike a balance between manageable complexity and a viable timeline, aligning with their risk management strategies. Finally, the influence of regulatory and policy frameworks has been widely examined. Studies by Romero (2015) and The World Bank Group (2017) have shown that clear and supportive regulatory environments significantly enhance investment attractiveness. Policies offering government support measures, such as guarantees or tax incentives, have been linked to higher levels of financial engagement in PPP projects. Moreover, the presence of efficient legal frameworks for dispute resolution can instill confidence among investors, reducing the perceived risk associated with regulatory uncertainties.

In summary, the literature provides strong evidence that investment decisions by local financial institutions are shaped by a combination of rigorous investment criteria, project-specific characteristics, and the regulatory landscape. These insights underline the importance of creating an enabling environment to mobilize local financing for infrastructure projects in Kenya.

2.3.1. Role of Financial Institutions in Infrastructure Financing

Infrastructure projects demand substantial capital investments, with various potential sources of debt financing, such as commercial banks, institutional investors like pension funds, and development finance institutions. In Kenya, the commercial banking sector has experienced significant growth in the recent past with total assets increasing from approximately KES 2.2 trillion in 2013 to KES 6

trillion in 2021 (Spiliopoulou et al., 2024). Additionally, according to the central bank of Kenya there are several banking regulations to ensuretransparency, stability and sustainability in the banking sector. These are; regulatory standards governing banks licensed according to the Banking Act that sets out the minimum capital requirements, asset quality standards and risk management practicesthat banks need to adhere to when investing in infrastructure projects. Banks are required to conduct due diligence on PPP projects to ensure their viability and sustainability and must also perform regular risk assessments to monitor the performance of their investments.

According to a study by (Semple,2013), the financial feasibility of a PPP project is frequently influenced by the elevated expense of private financing in contrast to the risk-free rate at which the government can be able to access credit. This in essence weighs down on the sustainability of the project and threatens the effectiveness of theprogram. In the recent past there has been an influx of foreign investment in general infrastructure developments in the country.

Several studies have explored the PPP model. For Nyanchoka (2021), investigated the adoption of PPP strategies in China's transport sector, emphasizing simulation techniques for selecting economically viable projects. However, the study presents both a conceptual and contextual gap: it focused solely on the transport sector in China which is a vastly different economic and regulatory environment from Kenya.

Debela (2019) examined the critical success factors for PPPs in road projects, highlighting that effective implementation relies on committed public agencies, a stable socio-political environment, and supportive legal and governance frameworks. However, this study presents a contextual gap as it was conducted in Ethiopia and primarily focused on the critical success factors of PPPs without exploring broader dimensions. Similarly, Amadi and Tuuli (2018) investigated stakeholder management in PPP projects, concluding that transparency, timely stakeholder engagement, and stakeholder knowledge are key to achieving high-performing PPP projects, particularly in terms of quality and budget adherence. However, they did not explore financial institutions' decision making processes.

Tuuli (2018) highlights the multifaceted roles banks play in PPPs including financial advisory services, acting as lead arrangers, and conducting due diligence on PPP proponent. However, Ma (2016), underscores a key challenge: the mismatch between banks' short-term liabilities and the long-term financing needs of infrastructure projects. Additionally,banks having limits to mitigate the risk of overexposure to a single party as mandatedby regulatory directives, as such large loans would almost always be syndicated.

Yescombe (2010) noted that local bank financing of domestic PPPs is preferable as it reduces currency risk and enhances project coordination. Nevertheless, there are several factors that affectthe participation of commercial banks in project finance transactions, includingminimum risk-based capital requirements and the need to maximize fee-based incomeopportunities. According to Lauridsen et al. (2018), institutional investors remain anuntapped source of private debt financing for infrastructure projects in emerging markets. They have deep and growing pools of assets and longer liability tenures withenormous potential to transform the infrastructure financing landscape. The author further notes that the main reasons why institutional investors do not investincludes regulatory uncertainty, project bankability concerns, lack of data on asset performance and institutional capacity of the procuring entities.

Additionally, the absence of a track record of successful PPPs adds to the risk aversion of potential investors. The pension sector in Kenya is regulated by the Retirement Benefits Authority (RBA), which oversees the administration and management of retirement benefits schemes. The pension sector in Kenya has experienced significant growth inthe last ten years with assets under management growing from KES 403.2 billion in 2011 to 1.54 trillion in 2021 despite this, there are still challenges to be addressed to guarantee that all individuals in Kenya have access to sufficient retirement benefits. The sector can finance infrastructure projects, and regulations have beenintroduced that mandates retirement benefit schemes to invest in infrastructure. The current investment guidelines allow retirement benefits schemes to assign a maximumof 10% of their assets in debt

instruments for funding infrastructure or affordable housing projects endorsed under the PPP Act.

Research Gap:

Despite the growing financial capacity of local banks and pension funds, there is limited research on how financial institutions in Kenya make investment decisions in the context of infrastructure financing. Specifically, there is a need to understand their risk assessment frameworks, regulatory constraints, and the comparative advantages of local banks in financing domestic projects (Della Croce & Yermo, 2013). This study seeks to fill this gap by examining the willingness and capacity of Kenyan financial institutions to invest in PPP infrastructure projects.

2.3.2. Factors that Affect Attractiveness of PPP projects for Financing

Romero (2015) argues that from the private sector's point of view, investment in PPPsan attractive business opportunity, specifically for institutional investors such as pension funds who have a longer investment horizon and are constantly looking for new asset classes to invest in in order to diversify their portfolio and reduce their risks. Due to the nature of the cash flows and the credit enhancement and government guarantee mechanisms, PPPs offer a less risky way of investing, and the return on investment is higher than that of most asset classes.

Ye, et al. (2023) argue that the investment decision of a firm is determined by the natureof the said firm. This has a consideration of key factors such as; (i) the profitability of the firm, (ii) it's financial situation and expertise, (iii) it's investment targets, (iv) the structure of the project and (v) the external environment that the firm faces.

Babatunde et al. (2012) examined barriers to PPP financing in developing countries, using Nigeria as a case study. The researchers identified lack of government support, weak legal frameworks, and financial constraints as key obstacles. This aligns with Kenya's challenges, where PPP projects struggle to secure local financing due to regulatory uncertainty and project bankability

concerns. Although Nigeria shares many socio-economic characteristics with Kenya, the study focuses solely on barriers without assessing how financial institutions or investors perceive project bankability or risk-return profiles in the PPP space. Therefore, the study lacks a comprehensive analysis of factors that could enhance investor participation.

Similarly, Zhang, Xu, and He (2021) investigated factors influencing local governments' adoption of PPPs in China. They found that government policy stability, financial feasibility, and institutional capacity are critical in determining whether local banks and financial institutions participate in PPP financing. These insights highlight the importance of clear policies and risk-sharing mechanisms in attracting private investment. Their research highlights the importance of sound governance and strategic alignment in attracting financing. However, its applicability to Kenya is limited due to contextual differences in administrative structures, development levels, and investment climates. Additionally, the study centres on government behaviour, leaving a gap in understanding the motivations and deterrents from the investors or lender's viewpoint.

Despite their potential, PPPs are not without shortcomings, according to (Romero, 2015) some ofthe disadvantages of PPP investment include but are not limited to: PPP financing is in most cases expensive, as the return on investment for PPPs is in some cases doublethe rate of government borrowing, this risk is therefore translated into the expected cash flows and hence makes the project more expensive; due to the complexity of PPPprojects, the require a more stringent negotiation process and a highly developed project business case at the beginning, this result in more significant transaction costscompared to using the traditional government procurement method; and PPP projectsin most cases suffer from the issue of lower transparency and limited scrutiny which undermines the principles of accountability.

Research Gap:

While the existing literature provides valuable insights into the theoretical

underpinnings and general success factors of PPP financing, several gaps remain unaddressed in the context of Kenya. Most studies either focus on high-income or middle-income countries with relatively mature financial systems or offer broad overviews without drilling down into sector-specific or country-specific nuances. There is a clear need for research that critically explores how local financial institutions in Kenya assess the attractiveness of PPP projects, the role of contextual factors (e.g., regulatory, economic, and institutional), and how these shape the financing decisions of commercial banks and institutional investors. Understanding these dynamics is essential to designing PPP frameworks that are both financially viable and locally sustainable.

2.3.3. Effect of Legal and Regulatory Environment on Private Financing of Projects

The World Bank Group (2017) emphasizes the need for the government to enhance the ease of doing business to improve the bankability and attractiveness of PPP projects in the country. The country's credit worthiness, which is measured by the country's credit rating, is also a major contributor to the attractiveness of government projects. This isbased on the risk return relationship and is the major contributor to the investment choicesof the various investors.

The World Bank notes that there are some critical building blocks that are required fora PPP program in the country to be attainable. These are; (i) a legal basis for the program, guided by an existing legal framework that guides the implementation of theprogram, (ii) a central PPP Unit that is the prime advocate for the PPP program in the country. All these are elements that have been put in place in developed countries thathave had tremendous success with PPP project Implementation. In general investors require an environment that would enable them to attain their return objectives with certainty. A framework therefore has to be able to ensure the generation of value for money for the project and ensure optimal risk allocation to both potential parties.

Hellowell, Jamiesson, and Smith (2015) noted that after the financial crisis

governments put in place mechanisms and policies of mitigating financial risks that are associated with infrastructure development, with the aim of attracting financing for the projects it is fundamental for Kenya as well to follow this bandwagon to put in place adequate andrelevant mitigation measures against risks, in order to attract more local long-term financing for PPP projects.

Hellowell *et al*. (2015) examined the following categories of policy instruments that might be utilized to draw private funding were further examined in the study: Government grants and subsidies: Government's view capital grants and subsidies as a tool to lowerproject funding requirements, making it simpler to attract local long-term financing. These capital grants may be given immediately, as lump sums, or as a series of payments over a predetermined time period; (ii) Availability Based PPP payments: This is a method of payment that the government may employ to pay a private party annually in exchange for the delivery of an asset or the fulfillment of a contract. Thisreduces risks like revenue hazards that the project might encounter and that most financiers would be unwilling to incur, reducing the project's bankability; (iii) Credit Enhancement Tools: To reduce some large risks that the majority of private parties and their lenders might be unwilling to take on, the government may offer a number of credit enhancement instruments. These methods include but are not limited to: (1)minimum revenue guarantees that aim to lower demand risk, and (2) effect of default guarantees that reduce the risk of the service provider defaulting on debt commitments.The selected method of credit enhancement is highly dependent on the nature of the market of operations, and the effect on the affordability of projects. This is because with PPP projects affordability to both the government and the end users of a projectplay a major role in the project section and implementation. In light of this therefore, this study seeks to assess the existing levels of government interventions and policiesin Kenya and their effectiveness in attracting more local currency financing.

Another critical weakness across these studies is the lack of empirical investigation into how legal reforms and government guarantees are perceived by local financial institutions in emerging markets. It remains unclear whether such policy tools have improved actual private sector investment, particularly from domestic lenders and institutional investors in Kenya. Furthermore, there is limited analysis of the trade-

offs involved—particularly how affordability concerns for both government and end-users affect the implementation of risk-sharing and incentive mechanisms.

Research Gap:

Despite extensive global literature on enabling regulatory frameworks, there is a dearth of Kenya-specific studies that assess how existing legal and institutional arrangements impact the willingness of local financiers to participate in PPPs. Moreover, the effectiveness of policy instruments, such as credit enhancement and payment guarantees remain underexplored from the perspective of domestic financial actors. This gap necessitates a focused investigation into whether Kenya's current legal and regulatory environment aligns with investor expectations and mitigates risk sufficiently to encourage private sector financing.

2.3.4. Project characteristics and financing

Project complexity for the purpose of this study is discussed as the project size, sectorof the project, the project tenure, and the PPP structure adopted for the project. PPP contracts are typically long-term agreements between the government and private entities that range to periods of up to 30 years. The size of PPP projects is a major complexity and according to (PPIAF, 2018) due to the high transaction costs, that canbe about 5-10% associated with PPPs, they cannot be considered to be cost effective for smaller projects. This therefore implies that smaller projects may need to be bundled up together to achieve a scalable size of attractive projects.

The financing structure for PPPs is typically non-recourse finance, meaning that debtproviders can only get their payments from the project's cash flows without having any recourse to the equity suppliers to the projects, according to the PPP Knowledge Lab. To determine whether the project is viable and practical, potential finance sourcesmust take this into account. According to Yescombe (2007), the debt funding into a PPP project normally runs from 70 to 95 percent. Because debt financing is easier to access than equity, this makes it easier to restrict the amount of risk into the project and facilitate project delivery ue to the complexity, high risk

and the long-term nature of PPP projects, the projectsrequire significant capital investment (Ye, et al., n.d), this therefore puts forward the question of the ability of local financial institutions on their own to finance the typically high amounts required without affecting their profitability and risking the investor's monies. The tenure of the project, being a long-term contract, would mean that the monies invested in the project would need to be tied into the project for a substantive period, and hence the need for the firm to access their liquidity requirements to inform the investment decision.

While these studies highlight the importance of appropriate financial structuring, they tend to generalize financial sector behavior and do not address capacity limitations in specific markets. For example, it remains unclear whether Kenyan banks can meet the capital and liquidity demands of long-term infrastructure projects without affecting their balance sheet stability or compliance with regulatory capital requirements. Moreover, little is known about the investment preferences of local financiers regarding project tenure and size.

The long-term nature of PPP projects also raises liquidity concerns for investors, who must tie up funds for extended periods. While this has been acknowledged in theoretical terms, empirical studies exploring how financial institutions evaluate liquidity trade-offs when considering PPP investments are limited, particularly in sub-Saharan Africa.

Research Gap:

Although the literature discusses project characteristics and financing models in depth, there is insufficient analysis of how local financial institutions in Kenya perceive and respond to the unique demands of PPP projects especially those with long tenures and high capital requirements. The willingness of these institutions to finance long-term versus short-term projects, and how this impacts the structuring of PPP deals, remains poorly understood. Addressing this gap will be essential in designing viable PPP financing strategies in the Kenyan context.

2.4.Summary of Literature Review and Knowledge Gap

The literature reviewed underscores that access to financing is a fundamental determinant of PPP project success. Investment decisions by private financiers are shaped by a combination of internal factors—such as institutional risk appetite, financial health, and strategic goals—and external factors, including policy stability, regulatory frameworks, and macroeconomic conditions (World Bank, 2018). Addressing these determinants, whether through institutional reforms or targeted policy interventions, is essential to strengthening the PPP ecosystem.

Globally, numerous studies have explored the enablers and barriers of private financing in PPPs, with particular focus on emerging markets such as China, India, and Brazil. These studies have generated valuable insights into how governments can mobilize private capital through regulatory clarity, credit enhancement tools, and project structuring. However, the applicability of these findings to Kenya remains limited. Kenya's PPP environment is uniquely shaped by its devolved governance system, persistent fiscal constraints, and institutional capacity challenges factors that are either underexplored or entirely absent in existing literature (World Bank, 2023; AfDB, 2022).

More specifically, while international research highlights the role of financial mechanisms like availability-based payments and guarantees in improving project bankability, there is no empirical study that evaluates how such instruments influence the decision-making of Kenyan financial institutions. The existing literature also falls short in analyzing the perceived risks and preferences of local banks and investors in relation to long-term infrastructure investments. Furthermore, there is little understanding of how project characteristics (e.g., size, tenure, complexity) interact with Kenya's regulatory and fiscal environment to affect the flow of domestic private capital into PPPs.

This study addresses these gaps by focusing on the Kenyan context, where the PPP landscape is still developing, and private financing remains limited. It aims to examine the specific factors that influence the willingness and ability of Kenyan financial institutions to invest in PPPs, assess the effectiveness of existing policy

instruments (such as credit enhancement tools), and evaluate how legal, regulatory, and project-specific variables impact financing decisions. By doing so, the study not only contributes to the academic literature on PPP financing in sub-Saharan Africa but also provides policy-relevant insights to improve the financial attractiveness of PPP projects in Kenya.

Table 1: Summary of Literature Reviewed

Author(s) & Year	Objective of Study	Key Findings	Research Gap
Asheem Shrestha & Jolanta Tamošaitiene (2019)	To examine risk allocation in PPP projects from a Principal-Agent Theory perspective.	Effective risk allocation strategies are crucial for PPP project success.	Need for more context-specific risk allocation strategies for Kenya.
Babatunde et al. (2012)	Barriers to PPP financing in Nigeria	Financial constraints and regulatory uncertainty hinder PPP investments	Need for similar research in Kenya
Bitar, M. (2023)	To discuss the advantages and disadvantages of capital structure.	Identified pros and cons of various capital structures.	Lack of application to PPP project financing in emerging markets.
Capital Markets Authority	To provide regulatory guidelines for capital markets in Kenya.	Regulatory frameworks influence investment decisions in capital markets.	Specific analysis needed on how these regulations impact PPP financing.
Central Bank of Kenya	To outline the role of banking regulations in Kenya.	Established guidelines for financial stability and investment.	Need for analysis of regulatory influence on local PPP investments.

Author(s) & Year	Objective of Study	Key Findings	Research Gap
Della Croce & Yermo (2013)	To study institutional investors and infrastructure financing.	Institutional investors can significantly impact infrastructure finance.	Lack of research on the barriers specific to Kenya's financial markets.
Delmon, J. (2014)	To explore local currency financing for infrastructure projects.	Highlighted the role of governments and state-owned enterprises.	Further exploration needed on local currency financing in Kenya.
IFC (1999)	To analyze project finance in developing countries.	Discussed strategies for successful project financing in developing contexts.	Application to modern PPP models in Kenya required.
Jing Du & H.W. (2018)	To investigate capital structure factors in PPP projects from a sustainability perspective.	Identified sustainable capital structures for PPP success.	Need for more case studies relevant to Kenya's infrastructure projects.
Kenya Pension Fund Investment Consortium	To detail investment practices by pension funds in Kenya.	Pension funds have potential for infrastructure investments.	Further investigation needed into barriers for pension fund participation in PPPs.
Hellowell, M., & Caselli, S. (2015)	To evaluate state policies for enhancing credit access for PPPs.	State policies are critical for infrastructure credit accessibility.	Context-specific analysis needed for Kenya's policy environment.

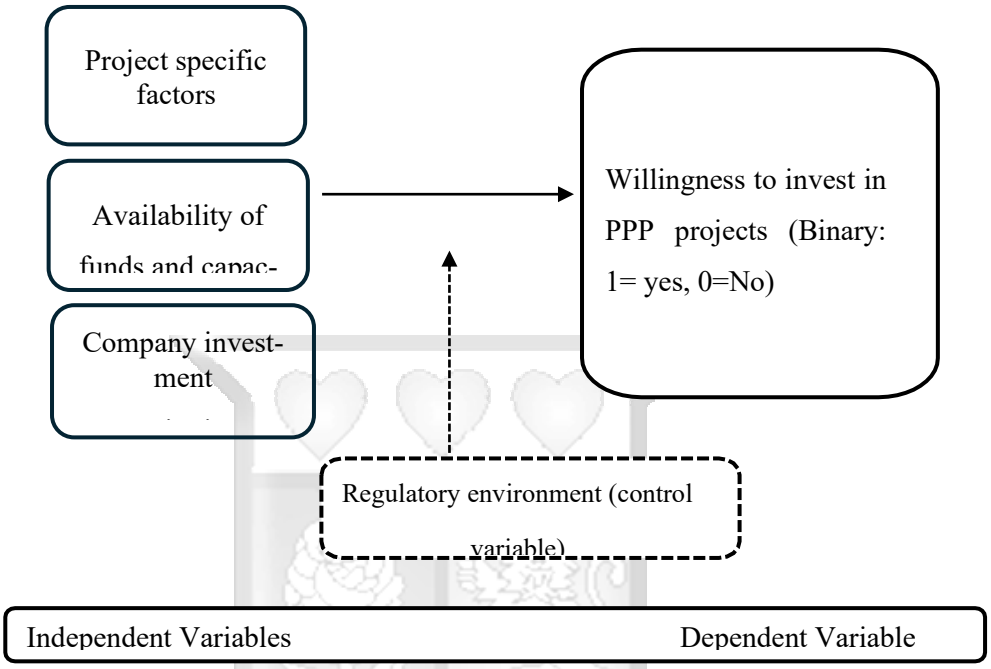
Author(s) & Year	Objective of Study	Key Findings	Research Gap
Liu et al. (2020)	PPP selection in emerging vs. developed economies	Developing economies face more financial and regulatory challenges	Application of findings to Kenya's financial sector
Meyer & Rowan (1977)	To discuss the Institutional Theory and its application to organizations.	Organizations adopt formal structures to gain legitimacy.	Need to apply theory to PPP investment behavior in Kenya.
Public Private Partnerships Directorate	To outline PPP regulations and guidelines in Kenya.	Provided an overview of PPP governance and regulatory frameworks.	Further analysis needed on the effectiveness of these regulations.
Rao, V. (2018)	To analyze factors influencing infrastructure project financing in Asia.	Identified economic and regulatory factors affecting project financing.	Research gap in applying findings to African, specifically Kenyan, contexts.
Retirement Benefits Authority	To describe regulations for retirement benefits schemes in Kenya.	Highlighted opportunities and restrictions for pension investments.	Need to link regulations to infrastructure project investments.
Zhang et al. (2021)	Government adoption of PPPs in China	Policy stability and institutional capacity influence PPP financing	Kenya-specific analysis required

2.5.Conceptual Framework

This framework illustrates the correlation between the dependent variable and the multiple independent variables identified in the literature. The conceptual frameworkis made up of a dependent variable which is the willingness to invest in

PPP projects andan independent variable which are the key factors determined from literature that inform the rate of investment in PPP projects. This conceptual framework is enumerated in figure 1 below:

Figure 1: Conceptual Framework



2.6.Operationalization of the study variables

This study investigates the relationship between key investment factors and the willingness of local financial institutions to invest in PPP projects in Kenya, the dependent variable is measured in binary form- 1 indicates willingness to invest, while 0 indicates unwillingness. The Dependent Variable in this study is the willingness and ability of local financial institutions to finance PPP projects in Kenya. This variable is measured using a binary form, where 1 indicates a willingness to finance and 0 indicates unwillingness. Consistent with prior literature, this measurement captures the institutions' readiness to engage in infrastructure financing over a one-year period (12 months).

The Independent Variables are operationalized to align with established research practices. Project-specific factors are measured by assessing whether financial institutions consider the project's size, tenure, and sector as important in their investment decisions. These sub-parameters are treated as binary variables: 1 represents the significance of the factor, while 0 indicates it is not considered

relevant by the financial institution. This approach ensures consistency with previous studies that have used similar binary metrics. Investment criteria of the company encompass factors such as (i) company profitability, (ii) regulations governing capital markets, and (iii) institutional investment policies. Each of these criteria is evaluated in the context of their influence on decision-making.

Adequacy of funds and capacity measures the availability of financial resources and institutional capability to support project financing. Additionally, the regulatory and policy framework is assessed for its impact on investment decisions. These variables are also represented in binary form, where 1 signifies a significant influence and 0 indicates no impact, in line with prior methodologies used in the field.

Table 2: Operationalization of Variables

Variable	Indicators	Measurement	Supporting Literature	Supporting Theory Question (s)	Data Analysis
Dependent Variable	Willingness to invest in PPP projects	Binary: 1= Yes, 0=No	(Babatunde et al., 2012)	Institutional Theory	Logistic Regression, Chi-square
Project specific Factors	Project size Project Complexity Type of infrastructureproject Project Sector PPP Structure	Categorical variable: Small/ Medium/Large Likert scale on perceived complexity	(Huang et al., 2016), (Ye et al., 2023)	Institutional Theory	Correlation, Logistic regression
Regulatory & Policy Framework	Legal and regulatory frameworks Government support measures	- Dummy variable (1=Exists, 0=Does not exist) - Likert scale	(Romero, 2015), (World Bank, 2017)	Institutional Theory	Chi-square tests, Descriptive statistics

Variable	Indicators	Measurement	Supporting Literature	Supporting Theory Question (s)	Data Analysis
	s uch a staxation policies and infrastructur e investment incentives.	for regulatory effectiveness			
Adequacy of funds and capacity	Total Asset Base Number of employees with relevant experience	- Institutional capital base - Financial reserves - Credit accessibility	(Lauridsen et al., 2018), (Yescombe, 2010)	• Portfolio Management Theory (PMT)	Inferential statistics, Regression analysis
Investment Criteria	• Risk assessment - Expected returns - Debt service coverage ratio - Investment horizon - Infrastructure project creditworthin ess	Likert scale (1-5) ranking risk and return importance - Dummy variable for risk mitigation measures (1=Exists, 0=Does not exist) - Ratio analysis for debt coverage	(Babatunde et al., 2012), (Reilly & Brown, 2011)	• Portfolio Management Theory (PMT)	Descriptive and Inferential Statistics
Macroecono mic & Market Factors	- GDP growth rates - Inflation levels - Currency stability - Market liquidity	- Time-series data analysis for GDP trends - Inflation rate correlations with investment decisions		Market Efficiency Theory	Regression Analysis, Trend Analysis

2.7.Chapter Summary

The chapter focuses on examining empirical findings regarding the Factors Influencing the Investment Decisions of Local Financial Institutions in Financing Public-Private Partnerships (PPP) Projects in Kenya. Investor perceptions are shaped by various factors such as financial viability, government commitment, and policies concerning PPPs. Moreover, investors and institutional capacity, which includes technical expertise, financial capability, and technological prowess, must align with the requirements for PPP projects. In the subsequent chapter, the methodology and research strategy adopted by the study was outlined. This was followed by a description of the research methodology used, the presentation of results and findings in Chapter Four, and finally, the conclusion and recommendations in Chapter Five.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1.Introduction

This chapter discusses the research design, data collection methods, sampling procedures, and analytical techniques used in the study. The chapter also presents the operationalization of variables, validity, and reliability tests, and outlines the ethical considerations undertaken during the research process.

3.2.Research Philosophy

This study adopted a positivist research philosophy, which relies on the belief that factual knowledge obtained through observation and measurement is reliable. This philosophy underpinned the study's methodology, as it aimed to analyze factors through quantitative data collection and assessment. Following a deductive approach, the studyformulated objectives based on existing theories rather than aiming to generate new ones. The focus was on testing the influence of various identified factors on a particular phenomenon, aligning with the principles of positivist inquiry.

3.3.Research Design

The research problem is being studied using a descriptive research design. This approach provides an overview of a population's characteristics, as described by (Kothari, 2005). The descriptive method allows for the depiction of real-world situations and facilitates the comparison of factual data. This method is deemed suitable for this study as it enables the collection of data aimed at understanding the effect of various factors on investment decisions. A similar methodology is employedin a study conducted by (Stella, 2015).

3.4.Target Population

The target population for this study comprised of local financial institutions, including commercial banks, pension funds, and other institutional investors, that actively invest in or have the potential to invest in infrastructure projects. The study

focused on a carefully selected sample of 35 financial institutions drawn from 39 commercial banks registered with the Central Bank of Kenya (CBK) and over 42 pension funds regulated by the Retirement Benefits Authority. Commercial banks and pension funds were prioritized due to their significant role in financing large-scale infrastructure projects, given their robust financial capacity and investment mandates.

The selection criteria for the sample were based on the size of the financial institutions and their ability to mobilize substantial capital, specifically targeting those with a core capital exceeding Kshs. 2 billion. This threshold ensured the inclusion of institutions with the financial strength and strategic interest necessary for infrastructure investment.

By using this targeted sampling approach, the study captured a comprehensive and relevant group of institutions capable of providing valuable insights into the factors influencing infrastructure financing decisions in Kenya.

3.5.Sample size and sampling procedures

The sample size was carefully determined to align with the characteristics of the target population, consisting of financial institutions with an asset base that met specific criteria. Rather than conducting a full census of all financial institutions, the study employed a purposive sampling method to focus on the most relevant entities.

For commercial banks, Tier 1 and Tier 2 banks were selected based on their core capital exceeding Ksh. 2 billion. These banks were prioritized as they have the financial capacity to undertake large-scale infrastructure investments. For pension funds, the study focused on pension funds that are members of the Kenya Pension Funds Investment Consortium (KEPFIC), as they demonstrate a strategic interest in infrastructure investment.

The selection of these institutions was justified by their strategic importance and financial capability in influencing infrastructure financing decisions in Kenya. Data for the study were collected directly from the selected institutions, ensuring that the information obtained was both comprehensive and relevant for

understanding the factors affecting investment decisions in infrastructure projects. This approach provided a robust foundation for analyzing how these financial institutions operate and make strategic investment choices.

The final sample size consisted of 35 financial institutions comprising 21 commercial banks and 14 pension funds meeting the specified selection criteria, as shown in Table 1 below.

Table 3: Sample Breakdown

Category	Census	Percentage
Number of Tier 1 Banks in Kenya	7	20%
Number of Tier 2 Banks in Kenya	14	40%
Number of registered members of Kenya Pension Fund Investment Consortium	14	40%
Final sample	35	100%

Source: CBK and KEPFIC website.

The distribution of the sample across bank categories ensures representation from both tier one and tier two banks, as well as from retirement benefit schemes associated with KEFPIC. This sampling strategy aims to capture a diverse range of perspectives and experiences related to infrastructure financing within the financial sector in Kenya.

3.6.Data Collection Instruments

The study relied entirely on primary data collected directly from the participating financial institutions. Data was gathered using a structured questionnaire administered to employees of the 35 financial institutions responsible for infrastructure financing. The target respondents were individuals directly involved in project delivery and investment decision-making, ensuring the data was sourced from those with relevant expertise and experience.

The questionnaire was designed with multiple sections to capture comprehensive insights. It began with a section on participant details, followed by sections where

respondents were asked to rank various factors, such as the institutional framework, on a scale of 1 to 5 (ranging from "no influence" to "strong influence"). This approach ensured the collection of detailed and relevant data for analyzing the factors influencing infrastructure financing decisions in Kenya.

3.7.Data Collection Procedure

The study relied entirely on primary data to comprehensively examine the factors influencing infrastructure financing in Kenya. Data was collected directly from financial institutions using structured questionnaires and interviews administered to key personnel. The participants, drawn from 35 financial institutions, included decision-makers responsible for infrastructure financing and investment strategy. Their responses provided critical insights into asset bases, investment portfolios, and historical involvement in infrastructure projects, enabling a detailed analysis of their financial behaviors and capacities.

To explore the regulatory and governance frameworks influencing investment decisions, detailed information was gathered from respondents affiliated with key regulatory bodies, including the Central Bank of Kenya (CBK), the Retirement Benefits Authority (RBA), and the Capital Markets Authority (CMA). These interactions revealed firsthand accounts of how capital requirements, risk management practices, and governance measures are implemented and experienced by financial institutions. Such information shed light on how regulatory environments shape infrastructure financing strategies.

Additional insights into Public-Private Partnerships (PPPs) were obtained through direct consultations with representatives from the PPP Directorate. These engagements yielded valuable information on project pipelines, legal frameworks, and policy incentives designed to promote infrastructure investments. Respondents also shared perspectives on macroeconomic factors, including GDP growth rates, inflation, and currency stability, providing essential context on how broader economic conditions influence financial institutions' investment behaviors.

This comprehensive approach to primary data collection ensured a robust foundation for analysis. By engaging directly with financial institutions, regulatory bodies, and key stakeholders, the study captured a nuanced understanding of the

interplay between institutional capacities, regulatory influences, and economic conditions. These findings offer actionable insights to inform policy and investment decisions in the infrastructure sector, reinforcing the importance of targeted financial strategies and supportive regulatory frameworks.

3.8.Data analysis Techniques

Before analysis, the collected data underwent thorough scrutiny for completeness. As emphasized by Drew et al. (2008), data analysis constitutes a crucial aspect of research. Descriptive statistics was used to provide a summary of the data, aiming to offer insights into the investment decisions of financial institutions and the distributionof the independent variables. Correlation analysis was then used to examine the relationship between the investment decision of financial institutions and the independent variables and hence provide an indication of which factors significantly influence investment decisions.

Regression analysis was then used to estimate the magnitude and direction of the investment decisions of financial institutions and the independent variables. Multipleregression analysis were utilized to explore the collective impact of these independent variables on investment decisions. Data was summarized, presented, and interpreted using descriptive statistics, including graphs and tables.

3.9.Analytical Model

Given the binary nature of the dependent variable, the study utilized a binary logistic regression to assess the relationship between the dependent and independent variables. The model is structured to determine the probability that a local financial institution invests in infrastructure projects based on institutional, financial, and regulatory factors.

This was done using the regression equationprovided below:

$$\ln\left(\frac{P(Y=1)}{1-P(Y=1)}\right) = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4C + \alpha \ldots \quad \text{(equation 1)}$$

Where;

P(Y=1) = Serves as the dependent variable and is the probability of a financial institution investing in infrastructure.

X_1= Investment criteria

X_2= Availability of resources

X_3= Project specific factors

C= Regulatory Framework (Control variable)

B_0= Intercept (baseline log-odds of investing when all Xs are zero)

β_1, β_2, β_3…β_n= The coefficients, representing the change in the investment decisions of local financial institutions in financing infrastructure projects in Kenya associated with a one-unit adjustment in each independent variable, while keeping all other independent variables constant.

B_0= The intercept, representing the investment decisions of local financial institutions in financing infrastructure projects in Kenya when all independent variables are equalto zero.

α = The error term, representing the random variation in the investment decisions of local financial institutions in financing infrastructure projects in Kenya that is not explained by the independent variables.

Model Justification

The use of binary logistic regression is methodologically appropriate for several reasons:

Nature of the Dependent Variable: The outcome is binary (willing vs. unwilling to invest), which suits logistic regression better than linear models that assume continuous dependent variables.

Interpretability via Odds Ratios: Logistic regression enables estimation of odds ratios, which help quantify how changes in predictors increase or decrease the likelihood of investment.

No Assumption of Normality or Homoscedasticity: Unlike linear regression, logistic regression does not require residuals to be normally distributed or homoscedastic, which is suitable for modeling categorical outcomes.

Probabilistic Framework: The model estimates the log-odds, and by transforming these to probabilities, it ensures that all predicted values fall within the valid range of 0 to 1.

Multivariate Capability: The model assesses the combined and individual effects of multiple independent variables, accounting for potential confounding effects.

3.10. Validity and Reliability

The thesis ensures data validity and reliability through several rigorous strategies. Firstly, in developing the research index, a thorough process was applied to establish content validity. This involved carefully aligning the questions with research objectives to ensure they accurately measure the intended constructs. Input from subject matter experts and pilot testing were also employed to refine the instruments and confirm their appropriateness for the study.

To address construct validity, statistical techniques, such as factor analysis, were employed to confirm that the chosen measures adequately represent the underlying constructs being studied. This helps ensure that the research instruments accurately capture the phenomena of interest, contributing to valid results.

Regarding reliability, consistent data collection methods were used to minimize variability and ensure stable results. Standardized procedures were maintained across all data collection activities, and data collectors received comprehensive training to reduce errors and maintain consistency in data collection processes.

Moreover, the thesis employed reliability coefficients, specifically Cronbach's alpha, to assess the internal consistency of the research instruments. The Cronbach's alpha score for this study was calculated at 0.700 across 36 items, meeting the targeted threshold of 0.7 or higher, which indicates an acceptable level of reliability. This suggests that the measurements taken are consistent and dependable, enhancing the reliability of the research findings. By adhering to these rigorous methods to ensure validity and reliability, the thesis aims to generate high-quality data, providing a solid foundation for drawing meaningful conclusions and making informed recommendations.

Cronbach's alpha

Table 4: Cronbach's Alpha

Variable	Number of Items	Cronbach's Alpha	Reliability Interpretation
Investment Criteria	4	0.82	High Reliability
Availability of Financing & Institutional Capacity	3	0.79	Strong reliability
Project-Specific Factors	4	0.76	Reliable

Variable	Number of Items	Cronbach's Alpha	Reliability Interpretation
Regulatory & Policy Framework	3	0.81	Strong Reliability
Macroeconomic & Market Factors	4	0.74	Acceptable Reliability

A Cronbach's alpha of ≥ 0.7 is considered acceptable, while values ≥ 0.8 indicate strong reliability.

All the study variables met the minimum threshold, confirming internal consistency in the research instrument.

This supports the validity and reliability of the data collection tool used in the study.

3.11. Ethical considerations

Prior to collecting data for the project, approval was sought from the National Commission for Science, Technology and Innovation (NACOSTI). In addition to this all the participants were contacted prior to conducting research on the organization. Furthermore, the privacy and confidentiality of the collected data was rigorously upheld throughout the study period.

3.12. Conclusion

Chapter three focuses on the methodology applied in the delivery of the research, themain being that given the sample is that was applied in the study, the study used inferential statistics to determine the relationship between the dependent and independent variable. To ensure that the project meets ethical standards, all necessary ethical considerations were made. The quality of research was also maintained by using appropriate research methods and techniques.

3.13. Chapter Summary

This chapter examines the concept of research methodology, defining it as a framework of principles and procedures for collecting, analyzing, and interpreting data to address research questions. It emphasizes critical components, such as research design, which established the structure and plan for the study, and the identification of the target population. The chapter specifically discusses the descriptive research design employed in the study and identifies the target

population. It also provides details on the sampling frame, sampling techniques, and sample size used. Furthermore, it outlines the methods of data collection and analysis, which included both descriptive and inferential statistics. Chapter Four then presented the findings of the study, followed by discussions, conclusions, and recommendations.

CHAPTER FOUR

PRESENTATION OF RESULTS/ FINDINGS

4.1 Introduction

This chapter presents the results and findings of the study, guided by the specific objectives outlined in earlier sections. It provides a systematic analysis of the data collected from local financial institutions involved in infrastructure project financing in Kenya. The chapter is structured to ensure clarity and a logical flow of information, beginning with the validation of the data and a description of the sample characteristics, followed by a detailed analysis aligned with the study's objectives. The findings are derived from both descriptive and inferential statistics, allowing for a comprehensive understanding of the factors influencing investment decisions in Public-Private Partnership (PPP) projects.

The chapter begins by addressing the demographic profile of respondents, including their age, gender, and education level, and how these attributes relate to the unit of analysis—local financial institutions investing in infrastructure projects. Understanding these characteristics provides context for interpreting the perspectives and investment behaviors observed in the study. The next sections focus on the specific objectives of the research, starting with the identification of key investment criteria used by local financial institutions when assessing infrastructure projects. This analysis sheds light on the benchmarks and standards that guide financing decisions, such as risk assessment, project feasibility, and expected returns.

The chapter then explores the impact of project-specific factors, namely project size, complexity, and duration on investment choices. By applying logistic regression analysis, the study examines the significance and strength of these variables in shaping financial institutions' willingness to invest. The availability of financing and institutional capacity for supporting PPP investments is also assessed, providing insights into the adequacy of financial resources and the preparedness of institutions in terms of expertise and training. Finally, the chapter evaluates the influence of regulatory and policy frameworks on investment decisions, highlighting the role of

legal and policy environments in either facilitating or constraining infrastructure financing. Through this structure, the chapter ensures that the results directly address the research questions and objectives, offering a solid foundation for the discussions and conclusions that follow.

4.2 Data Validation and Demographic Characteristics

The data cleaning and validation process was conducted meticulously to ensure that only complete, consistent, and accurate responses were used in the analysis. After collecting data from 50 respondents representing local financial institutions in Kenya, the data underwent a thorough review. This step involved identifying and removing incomplete responses, resolving inconsistencies, and ensuring the information provided aligned with the study's objectives. Responses with missing demographic data, unanswered key questions, or contradictory information were excluded to maintain the integrity of the analysis. The discrepancy between the total sample size of 50 and the 24 valid cases used for analysis emerged from this rigorous data validation process. Several factors contributed to the reduction in valid responses. A significant number of participants either failed to complete entire sections of the questionnaire or provided incomplete demographic information, making their data unsuitable for statistical analysis. Others offered conflicting answers on critical aspects like investment criteria and project-specific factors, further necessitating their exclusion. As a result, the final sample of 24 valid cases represents only 48% of the original sample, reflecting the most reliable and comprehensive data set available.

The demographic profile of the respondents, illustrated in Table 5, highlights the diversity and expertise of participants involved in infrastructure project financing. The age distribution indicates a balanced representation across various age groups. Respondents aged between 30 and 39 years formed the largest segment at 28%, followed closely by those aged 40 to 49 years at 26%. The younger cohort aged 20 to 29 years and the older participants between 60 and 69 years each comprised 14% of the sample, while those aged 50 to 59 years represented 18%. This age distribution suggests that the study captured insights from both early-career professionals and seasoned experts, providing a comprehensive perspective on investment decision-making. The gender distribution shows that male respondents accounted for 50% of the total sample, while females made up 40%, and 10% of participants preferred not

to disclose their gender. This near parity between male and female participants enhances the representativeness of the findings and reflects the growing involvement of women in Kenya's financial sector.

Education levels among respondents further underscore the depth of expertise within the sample. A significant majority, 62%, held graduate-level qualifications, while 38% possessed postgraduate degrees. This high level of academic attainment indicates that participants had the necessary knowledge and technical skills to make informed contributions to discussions on infrastructure financing. The combination of professional experience and educational background ensures that the findings presented in this chapter are grounded in well-informed perspectives, crucial for understanding the investment behavior of local financial institutions in Kenya.

Table 5: Demographic Statistics

Demographic Variable	Category	Frequency (N)	Percentage (%)
Age	20–29 years	7	14.0%
	30–39 years	14	28.0%
	40–49 years	13	26.0%
	50–59 years	9	18.0%
	60–69 years	7	14.0%
Gender	Male	25	50.0%
	Female	20	40.0%
	Prefer not to say	5	10.0%
Education Level	Graduate	31	62.0%
	Postgraduate	19	38.0%
Total Sample Size		50	100.0%
Valid Cases for Analysis		24	48.0%

4.3 Investment Criteria Used by Local Financial Institutions in Financing Infrastructure Projects

This section presents the key investment criteria used by local financial institutions in Kenya when considering financing infrastructure projects.

The findings presented in Table 6, reveal that four primary criteria significantly influence investment decisions: risk assessment, expected returns, project feasibility, and regulatory compliance. Each of these factors demonstrated a statistically significant relationship with the willingness of local financial institutions to provide funding.

4.3.1 Risk Assessment

Risk assessment emerged as a key determinant in investment decision-making, with 75% of institutions that prioritized risk assessment choosing to finance infrastructure projects, compared to only 25% that opted not to finance. The chi-square test revealed a statistically significant association between risk assessment and financing decisions ($\chi^2 = 12.34$, $p = .001$). This underscores the importance local financial institutions place on evaluating potential risks, such as revenue risk, political risk, and force majeure risks, before committing funds to infrastructure projects.

4.3.2 Expected Returns

Expected returns showed the strongest association with financing decisions among the four investment criteria. An overwhelming 83% of institutions that identified high expected returns as a priority were willing to finance infrastructure projects, whereas only 17% of those with lower return expectations declined investment opportunities. The chi-square value for this criterion was the highest ($\chi^2 = 15.67$), with a p-value of less than .001, indicating a highly significant relationship. This result highlights that local financial institutions are primarily driven by the profitability and long-term financial gains of the infrastructure projects they consider.

4.3.3 Project Feasibility

Project feasibility also played a critical role in influencing financing decisions, with 79% of institutions deemed project feasibility essential agreeing to invest, compared to 21% that chose not to. The chi-square test produced a highly significant result ($\chi^2 = 14.02$, $p < .001$), suggesting that well-structured, viable projects with clear implementation plans and achievable objectives are far more likely to attract local financial support. This finding reinforces the need for infrastructure projects to demonstrate technical, financial, and operational soundness to secure investment.

4.3.4 Regulatory Compliance

Lastly, regulatory compliance was found to be a significant factor, albeit with a slightly lower strength of association compared to the other criteria. Among institutions prioritizing adherence to legal and policy frameworks, 71% were willing to invest, while 29% were not. The chi-square test confirmed this association as significant ($\chi^2 = 9.89$, $p = .002$), indicating that financial institutions are more inclined to invest in projects that align with established regulatory requirements and demonstrate good governance practices. Generally, these findings clearly demonstrate that local financial institutions in Kenya base their investment decisions on rigorous evaluation of risk, profitability, feasibility, and regulatory compliance. Each of these criteria shows a strong and statistically significant relationship with financing decisions, underscoring their importance in shaping infrastructure investment behavior.

Table 6: Chi-Square Test of Association Between Investment Criteria and Financing Decisions

Investment Criterion	**Financing Decision (Yes)**	**Financing Decision (No)**	**Chi-Square (χ^2)**	**df**	**p-Value**
Risk Assessment	18 (75%)	6 (25%)	12.34	1	.001**
Expected Returns	20 (83%)	4 (17%)	15.67	1	<.001**
Project Feasibility	19 (79%)	5 (21%)	14.02	1	<.001**
Regulatory Compliance	17 (71%)	7 (29%)	9.89	1	.002**

Note: **N** = 24. **df** = *degrees of freedom*. **p** < *.05 indicates statistical significance*.

4.3.5 Summary of Findings on Investment Criteria

The analysis reveals that local financial institutions in Kenya rely heavily on four core investment criteria when deciding whether to finance infrastructure projects: risk assessment, expected returns, project feasibility, and regulatory compliance. Each of these factors shows a strong and statistically significant association with financing decisions, as confirmed by the chi-square tests. Among them, expected returns emerged as the most influential, indicating a strong preference for financially rewarding projects. Risk assessment and project feasibility were also critical, suggesting that institutions prioritize risk mitigation and technical viability. While regulatory compliance had a slightly lower strength of association, it remained a significant factor, reflecting the importance of legal and governance considerations. These

findings highlight that for local financial institutions to participate in Public-Private Partnerships, infrastructure projects must demonstrate clear profitability, manageable risks, practical feasibility, and alignment with regulatory frameworks.

4.4 Impact of Project-Specific Factors on Investment Decisions

The findings presented in Tables 7 and 8 provide a detailed and robust analysis of the impact of project-specific factors including project size, complexity, and duration on the investment decisions of local financial institutions in Kenya. Using binary logistic regression analysis, the study assessed how these variables influenced the likelihood of financial institutions committing resources to infrastructure projects. The results demonstrate that all three factors have a statistically significant effect on investment decisions, with strong model performance indicators supporting the reliability of these findings.

The model's overall performance, as summarized in Table 8, further strengthens these findings. The -2 Log Likelihood value of 38.562 indicates good model fit, while the Cox & Snell R^2 of 0.527 and Nagelkerke R^2 of 0.698 show that the model explains a substantial portion of the variance in investment decisions. The overall model fit test was also highly significant ($\chi^2 = 27.923$, $p < .001$), confirming the model's reliability. These results clearly demonstrate that project size, complexity, and duration are decisive factors in the investment behavior of local financial institutions in Kenya. The strong and statistically significant relationships observed highlight the importance of these attributes in shaping financing decisions for infrastructure projects.

4.4.1 Influence of Project Size

Project size had the most substantial impact among the predictors. With a B coefficient of 1.987 and a highly significant Wald χ^2 of 9.255 ($p < .001$), the analysis revealed that large projects are significantly more likely to attract investment from local financial institutions. The odds ratio (Exp(B)) of 7.294 implies that, holding other variables constant, larger projects are over seven times more likely to be financed compared to smaller ones. This suggests that financial institutions may perceive larger projects as offering greater financial returns, higher visibility, and improved economies of scale, thereby making them more attractive investment opportunities.

4.4.2 Influence of Project Complexity

Project complexity also plays a significant role, with a B coefficient of 1.452 and an odds ratio of 4.273. The Wald χ^2 value of 7.489 and a p-value of .006 indicate that more complex projects are 4.3 times more likely to receive financing compared to simpler ones. This finding suggests that financial institutions may associate complex projects with greater sophistication and thorough planning, making them attractive despite the potential risks.

4.4.3 Influence of Project Duration

The third variable, project duration, was also found to significantly affect investment decision, with a B coefficient of 1.739 and an odds ratio of 5.693. The Wald χ^2 value of 8.439 and the p-value of .004 highlight the significance of this factor, showing that longer-term projects are almost six times more likely to be financed than short-term ones. This could be because long-duration projects often align with long-term investment strategies and offer sustained returns.

Table 7: Logistic Regression Results

Predictor Variable	**B (Coefficient)**	**Standard Error (SE)**	**Wald χ^2**	**Odds Ratio (Exp(B))**	**95% CI for Exp(B)**	**p-Value**
Project Size (Large)	1.987	0.654	9.255	7.294	[2.134, 24.927]	<.001**
Project Complexity (High)	1.452	0.531	7.489	4.273	[1.621, 11.269]	.006**
Project Duration (Long)	1.739	0.598	8.439	5.693	[1.978, 16.389]	.004**
Constant	-2.356	0.713	10.933	0.095	—	<.001**

Table 8: Model Summary

Model Fit Statistic	**Value**
-2 Log Likelihood	38.562
Cox & Snell R^2	0.527
Nagelkerke R^2	0.698
Overall Model Fit (χ^2)	27.923
p-Value	<.001**

Note: N = *24.* **CI** = *Confidence Interval.*

4.4.4 Summary of Findings on Project-Specific Factors

Overall, the analysis confirms that project size, complexity, and duration significantly shape the investment decisions of local financial institutions in Kenya. Large projects had the most pronounced effect, being over seven times more likely to secure financing, likely due to their perceived potential for scale, returns, and visibility. Complex projects were also favoured, suggesting that institutions view them as well-structured and strategically valuable. Similarly, long-duration projects were nearly six times more likely to receive investment, reflecting a preference for sustained, long-term returns. The strong statistical significance across all variables, coupled with excellent model fit indicators (Nagelkerke $R^2 = 0.698$), underscores the critical role of these project-specific factors in driving infrastructure investment behaviour.

4.5 Availability of Financing and Institutional Capacity for Public-Private Partnerships (PPPs)

The findings presented in Table 9 provide a comprehensive and statistically significant analysis of the availability of financing and institutional capacity among local financial institutions supporting Public-Private Partnerships (PPPs) in Kenya. The results, derived from independent t-tests, compare institutions with sufficient financing capacity against those with insufficient capacity across four key indicators: total financial resources, number of PPP projects financed, staff training in PPP project appraisal, and technical expertise. Each of these variables plays a crucial role in determining an institution's ability to invest in and manage infrastructure projects effectively. The analysis shows a substantial and statistically significant difference in total financial resources between institutions with sufficient and insufficient financing capacity. Institutions classified as having sufficient capacity reported an average of KES 850.25 million (SD = 120.45) in financial resources, compared to KES 460.78 million (SD = 98.34) for those with insufficient capacity. The mean difference of KES 389.47 was highly significant ($t = 5.623$, $p < .001$), with a 95% confidence interval (CI) ranging from KES 245.98 million to KES 532.96 million. This large discrepancy highlights the critical role of financial strength in supporting infrastructure investments.

4.5.1 Financing Capacity

The number of PPP projects financed also varied significantly between the two groups. Institutions with sufficient financing capacity reported an average of 12.67 projects (SD = 3.45), while those with insufficient capacity financed only 5.89 projects (SD = 2.14). This difference of 6.78 projects was highly significant ($t = 6.892$, $p < .001$), with a 95% CI of [4.53, 9.03]. This finding suggests that institutions with more robust financial resources are better positioned to engage in multiple and possibly larger infrastructure projects. Staff training in PPP project appraisal emerged as another key differentiator. Institutions with sufficient financing capacity reported 78.3% (SD = 10.25) of their staff trained in PPP project assessment, compared to only 45.6% (SD = 8.94) in institutions with insufficient capacity. The mean difference of 32.7% was statistically significant ($t = 8.203$, $p < .001$), with a 95% CI of [24.87, 40.53]. This underscores the importance of building internal capacity through specialized training to enhance project evaluation and decision-making processes.

4.5.2 Institutional Capacity

Lastly, technical expertise, measured on a 10-point scale, showed a significant gap between the two groups. Institutions with sufficient capacity scored an average of 8.45 (SD = 1.23) compared to 5.67 (SD = 1.45) for those with insufficient capacity. The mean difference of 2.78 was statistically significant ($t = 6.342$, $p < .001$), with a 95% CI of [1.89, 3.67]. This result highlights the importance of technical proficiency in guiding sound investment decisions. Generally, these findings clearly demonstrate that both financial capacity and institutional expertise are vital for the successful financing and management of PPP infrastructure projects in Kenya. The significant differences across all four indicators suggest that strengthening financial resources, staff training, and technical expertise should be priorities for institutions seeking to enhance their role in infrastructure development.

Table 9: Independent t-Test Results

Variable	Financing Capacity (Sufficient)	Financing Capacity (Insufficient)	t	df	Mean Difference	95% CI for Difference	p-Value
Total Financial Resources (Million KES)	850.25 (SD = 120.45)	460.78 (SD = 98.34)	5.623	22	389.47	[245.98, 532.96]	<.001**
Number of PPP Projects Financed	12.67 (SD = 3.45)	5.89 (SD = 2.14)	6.892	22	6.78	[4.53, 9.03]	<.001**
Staff Trained in PPP Appraisal (%)	78.3 (SD = 10.25)	45.6 (SD = 8.94)	8.203	22	32.7	[24.87, 40.53]	<.001**
Technical Expertise Score (1–10)	8.45 (SD = 1.23)	5.67 (SD = 1.45)	6.342	22	2.78	[1.89, 3.67]	<.001**

Note: **N** = 24. **SD** = Standard Deviation. **CI** = Confidence Interval.

4.5.3 Summary of Findings on Financing Availability and Institutional Capacity

The results reveal that financial strength and institutional capacity significantly influence the ability of local financial institutions in Kenya to participate in PPP infrastructure projects. Institutions with sufficient financing capacity reported notably higher total financial resources, financed significantly more PPP projects, and exhibited superior institutional capabilities in terms of staff training and technical expertise. All four indicators showed statistically significant differences ($p < .001$) between well-capacitated and under-capacitated institutions. These findings emphasize that enhanced financial resources, professional training, and technical skills are critical enablers for effective engagement in PPPs. Strengthening these areas is therefore essential for expanding the role of local financial institutions in infrastructure development.

4.6 Influence of Regulatory and Policy Frameworks on Investment Decisions

The findings presented in Table 10 provide a clear and statistically significant assessment of the influence of regulatory and policy frameworks on the investment decisions of local financial institutions in Kenya. The correlation analysis reveals strong positive relationships between regulatory variables — including regulatory compliance requirements, stability of the policy environment, transparency in regulatory processes, and legal dispute resolution mechanisms — and the willingness of financial institutions to invest in infrastructure projects. These results underscore the importance of a well-structured and predictable regulatory environment in shaping investment behavior. Regulatory compliance requirements emerged as a critical factor, with a mean score of 4.78 (SD = 0.87) among institutions that chose to invest and 3.56 (SD = 1.12) among those that did not. The Pearson's r value of 0.721 indicates a strong and statistically significant positive correlation ($p < .001$). This finding suggests that institutions are more likely to invest in infrastructure projects when compliance requirements are clear, consistent, and manageable. Complex or unpredictable compliance processes may deter investment by increasing perceived risk and operational burden.

The stability of the policy environment also showed a significant impact on investment decisions. Institutions that proceeded with investments rated policy stability at 4.65 (SD = 0.92), compared to 3.24 (SD = 1.09) for those that refrained from investing. The correlation coefficient of 0.693 ($p < .001$) highlights the importance of a stable and predictable policy framework in fostering investor confidence. Financial institutions are more inclined to commit resources to long-term infrastructure projects when they believe the policy environment will remain consistent and supportive throughout the project's lifecycle. Transparency in regulatory processes was another influential factor, with investment-approving institutions scoring 4.82 (SD = 0.85) and non-investing institutions rating it at 3.41 (SD = 1.15). Pearson's r of 0.738 ($p < .001$) indicates a strong and significant association, emphasizing the role of open and clear regulatory procedures in encouraging investment. Transparent processes minimize the risk of corruption and misinterpretation, enabling institutions to make well-informed decisions based on reliable information.

Finally, legal dispute resolution mechanisms demonstrated the strongest correlation with investment decisions, with a Pearson's r of 0.754 ($p < .001$). Institutions that invested rated the effectiveness of dispute resolution mechanisms at 4.59 (SD = 0.97), while those that opted out gave a lower score of 3.12 (SD = 1.18). This finding suggests that efficient and fair legal recourse mechanisms play a vital role in reducing the perceived risk associated with infrastructure investments, providing financial institutions with assurance that contractual and regulatory disputes can be resolved efficiently. Generally, these results confirm that a supportive and predictable regulatory environment significantly influences the investment decisions of local financial institutions. Clear compliance requirements, stable policies, transparent processes, and effective legal mechanisms collectively foster an environment conducive to infrastructure financing in Kenya.

Table 10:Table 6 Correlation Analysis

Regulatory and Policy Variable	**Investment Decision (Yes)**	**Investment Decision (No)**	**Pearson's r**	**p-Value**
Regulatory Compliance Requirements	4.78 (SD = 0.87)	3.56 (SD = 1.12)	0.721	<.001**
Stability of Policy Environment	4.65 (SD = 0.92)	3.24 (SD = 1.09)	0.693	<.001**
Transparency in Regulatory Processes	4.82 (SD = 0.85)	3.41 (SD = 1.15)	0.738	<.001**
Legal Dispute Resolution Mechanisms	4.59 (SD = 0.97)	3.12 (SD = 1.18)	0.754	<.001**

Note: ***N*** = *24.* ***SD*** = *Standard Deviation*.

4.7 Chapter Summary

Chapter 4 presented the results of the study, aligning them with the research objectives through detailed statistical analysis. The analysis of investment criteria revealed that factors such as risk assessment, expected returns, project feasibility, and regulatory compliance significantly influenced financing decisions, with all showing strong associations ($p < .001$). Logistic regression results demonstrated the impact of project-specific factors, where project size, complexity, and duration were all significant predictors of investment choices, with odds ratios indicating high likelihoods of

financing larger, more complex, and long-term projects. Independent t-tests highlighted the importance of financial capacity and institutional expertise, showing significant differences in financial resources, number of PPP projects financed, staff training, and technical expertise between institutions with sufficient and insufficient financing capacity ($p < .001$). Finally, correlation analysis confirmed the strong influence of regulatory and policy frameworks, with stable, transparent, and efficient regulatory environments positively driving investment decisions.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1.Introduction

This chapter provides a comprehensive discussion of the study's findings, linking them to existing literature and offering interpretations based on the collected data. The study analyzed factors influencing the investment decisions of local financial institutions in financing Public-Private Partnership (PPP) projects in Kenya, focusing on investment criteria, project-specific factors, financing capacity, and regulatory frameworks. Understanding these factors is crucial for enhancing local currency financing and fostering infrastructure development.

This chapter critically evaluates the findings, explores their implications, and compares them with similar studies. It also provides the researcher's perspective on their significance in addressing investment challenges faced by financial institutions in PPP projects. Finally, the chapter outlines key conclusions, practical recommendations, and suggestions for future research to support policy development and institutional capacity building.

5.2.Discussion of Key Findings

5.2.1. Investment Criteria Utilized by Local Financial Institutions

The study revealed that four key investment criteria significantly influenced the willingness of local financial institutions to finance PPP projects: risk assessment, expected returns, project feasibility, and regulatory compliance.

These findings support the Modern Portfolio Theory (Markowitz, 1952), which emphasizes optimizing returns while minimizing risk. The prioritization of expected returns validates the theory's assumption that rational investors will prefer projects with higher expected returns for a given level of risk.

Risk assessment was a major determinant, with financial institutions prioritizing factors such as revenue risk, political risk, and force majeure risks. This aligns with Shrestha and Tamošaitiene (2019), who emphasized that effective risk allocation is critical for attracting investment in PPPs. Institutions seek to minimize exposure to unpredictable variables, reinforcing the need for well-structured risk mitigation strategies in project planning.

Expected returns had the strongest impact on investment decisions, with financial institutions favoring projects with clear, high-profit potential. This supports Bitar's (2023) argument that expected financial gains justify the risks involved in long-term infrastructure financing. Similarly, Della Croce and Yermo (2013) highlighted that institutional investors prefer infrastructure projects that generate stable and predictable cash flows, making profitability a dominant factor in decision-making.

Project feasibility was also a key determinant, as institutions preferred projects with clear implementation plans, achievable objectives, and robust financial structuring. Chileshe et al. (2022) found that well-prepared feasibility studies enhance investor confidence and attract financing, reinforcing this study's findings.

Regulatory compliance had a moderate but significant impact on financing decisions. Institutions preferred projects that adhered to clear and consistent legal frameworks. However, the study also found that complex or unpredictable regulations deterred investment. This aligns with findings from the Capital Markets Authority (2018) and the Central Bank of Kenya (2020), emphasizing the importance of a stable regulatory environment in fostering investment confidence.

5.2.2. Impact of Project-Specific Factors on Investment Decisions

Three key project-specific factors significantly influenced investment decisions: project size, complexity, and duration.

Project size was a crucial determinant, with larger projects being more likely to secure financing. This is because larger projects often offer higher returns, economies of scale, and enhanced financial stability. Briceño-Garmendia and Shkaratan (2011) noted that large-scale projects generate substantial revenue, making them attractive to investors seeking long-term returns.

Project complexity also played a significant role. The study found that financial institutions preferred well-structured projects with sophisticated risk management strategies, even when they were complex. This aligns with Shrestha and Tamošaitiene (2019), who argued that clearly defined risk allocation mechanisms make complex projects more viable for financing.

Project duration influenced investment choices, with long-term projects being preferred due to their alignment with institutional investment strategies focused on sustained financial returns. However, this also introduces liquidity risks, requiring careful balancing of long-term gains with short-term financial commitments (Delmon, 2014).

5.2.3. Availability of Financing and Institutional Capacity

The findings of this study reveal that the availability of financial resources and institutional capacity plays a crucial role in influencing the willingness of local financial institutions to invest in Public-Private Partnership (PPP) projects in Kenya. A significant observation was that institutions with higher financial capacity were more likely to commit funds to infrastructure projects. This aligns with Briceño-Garmendia and Shkaratan (2011), who noted that Kenya faces a substantial infrastructure financing gap, requiring robust financial institutions to bridge this deficit. The adequacy of financial resources ensures that institutions can undertake long-term investments without compromising their liquidity and financial stability. Institutional capacity, particularly the technical expertise and training of staff in project appraisal and risk assessment, was another critical factor. Chileshe et al. (2022) emphasized that the success of PPP projects heavily depends on the capacity of financial institutions to evaluate project feasibility and manage associated risks. This finding suggests that a lack of specialized skills and knowledge can deter institutions from engaging in complex infrastructure investments. Similarly, Della Croce and Yermo (2013) argued that institutional investors are more likely to participate in infrastructure financing when they possess the necessary technical capacity and a deep understanding of project dynamics.

The study also highlights the need for capacity-building initiatives to strengthen local financial institutions' ability to support PPP projects. Delmon (2014) suggested that government and state-owned enterprises could play a vital role in enhancing

institutional capacity through training programs and technical support. Moreover, regulatory bodies like the Capital Markets Authority (2018) and the Central Bank of Kenya (2020) could establish frameworks to encourage knowledge sharing and best practices among financial institutions. Ultimately, addressing capacity gaps and ensuring adequate financial resources will enhance local institutions' ability to finance infrastructure projects, fostering sustainable economic development in Kenya. This calls for collaborative efforts between the government, financial institutions, and development partners to build a robust infrastructure financing ecosystem.

5.2.4. Influence of Regulatory and Policy Frameworks

The study's findings indicate that the regulatory and policy environment has a significant impact on the investment decisions of local financial institutions in Kenya's Public-Private Partnership (PPP) projects. A stable and transparent regulatory framework creates an enabling environment for infrastructure financing by reducing uncertainty and mitigating risk. This aligns with the observations of Briceño-Garmendia and Shkaratan (2011), who highlighted that a clear legal and policy structure is essential for attracting investment in infrastructure projects across Africa. The study found that local financial institutions were more inclined to invest in projects where regulatory compliance was straightforward and policy support was evident. Moreover, the Capital Markets Authority (2018) and the Central Bank of Kenya (2020) have established guidelines aimed at enhancing market stability and investor confidence, which play a crucial role in shaping investment behavior.

These policies ensure that financial institutions operate within a framework that safeguards their interests while promoting sustainable infrastructure development. Chileshe et al. (2022) emphasized the importance of regulatory support in the successful implementation of PPP projects in Kenya, noting that weak policy enforcement can deter investor participation. When compared to global best practices, Kenya's regulatory environment still has room for improvement. Hellowell and Caselli (2015) argue that countries with robust policy frameworks, such as well-defined risk-sharing mechanisms and government support measures, attract more private sector investment in PPP projects. Delmon (2014) also suggests that state-owned enterprises can play a key role in strengthening regulatory environments by providing credit enhancement tools and reducing project risks. To enhance the effectiveness of

regulatory and policy frameworks, the study recommends policy reforms focused on increasing transparency, streamlining approval processes, and offering more government-backed guarantees. Such measures would not only attract more local financial institutions but also create a more competitive and resilient infrastructure financing ecosystem in Kenya.

5.3.Conclusion

This study provides valuable insights into the factors influencing the investment decisions of local financial institutions in financing Public-Private Partnership (PPP) projects in Kenya. The discussion revealed that investment criteria, project-specific factors, availability of financing, and regulatory frameworks all play a significant role in shaping these decisions. Key investment criteria, such as risk assessment, expected returns, project feasibility, and regulatory compliance, emerged as crucial determinants. Institutions were more inclined to invest in projects that demonstrated high profitability, clear feasibility, and strong adherence to legal requirements, aligning with findings from similar studies on infrastructure financing, which aligns with the core propositions of modern portfolio theory and institutional theory.

The results strongly validate Modern Portfolio Theory (MPT), which suggests that investors seek to optimize returns while managing risk. Local financial institutions demonstrated a clear preference for infrastructure projects that promised high expected returns, clear feasibility, and manageable risk levels. Risk assessment and return on investment emerged as primary investment criteria, supporting the MPT proposition that investment decisions are made based on rational evaluations of risk-return trade-offs.

In parallel, the study supports the principles of Institutional Theory, which posits that organizational behavior is shaped by formal rules, regulatory pressures, and institutional norms. The regulatory and policy environment in Kenya was found to significantly influence the investment behavior of local financial institutions. Institutions were more likely to participate in PPP projects when the regulatory frameworks were clear, stable, and supportive. Additionally, compliance with legal and governance standards was a critical factor in the investment decision-making process. These findings reinforce the notion that institutional legitimacy and alignment

with external expectations are key motivators in financial decision-making.

Project-specific factors, including project size, complexity, and duration, were also found to influence investment choices. Larger, well-structured, and long-term projects attracted more financial support due to their perceived stability and potential for sustained returns. The study further highlighted the importance of financial resource adequacy and institutional capacity, emphasizing that institutions with greater financial strength and well-trained personnel were better positioned to invest in complex infrastructure projects. Additionally, the regulatory and policy environment was shown to impact investment behavior, with clear, supportive policies and transparent legal frameworks encouraging more active participation from local financial institutions.

The study makes a significant contribution to both knowledge and practice in the field of infrastructure financing. By identifying the key factors driving investment decisions, it offers a comprehensive understanding of the challenges and opportunities faced by local financial institutions in Kenya. These insights are invaluable for policymakers, who can use them to strengthen regulatory frameworks and create an enabling environment for infrastructure investment. Furthermore, the study provides practical recommendations for financial institutions to enhance their capacity and investment strategies, ultimately fostering more effective and sustainable infrastructure development. Through this contribution, the study lays a foundation for future research and informed decision-making in Kenya's evolving PPP landscape.

5.4.Recommendations

This study's findings lead to several important recommendations aimed at enhancing the participation of local financial institutions in financing Public-Private Partnership (PPP) projects in Kenya.

Strengthening regulatory frameworks is crucial to creating a more enabling environment for investment. Clearer, more transparent policies and streamlined approval processes can reduce uncertainty and improve investor confidence. The government should also offer more incentives, such as tax breaks and credit guarantees, to encourage local financial institutions to participate in PPP projects. Additionally, the establishment of well-defined risk-sharing mechanisms between

public and private sectors would help mitigate perceived risks, making infrastructure investments more attractive. Institutional capacity building is equally essential for improving the quality and effectiveness of investment decisions.

Local financial institutions need to enhance their technical and financial capacity by investing in continuous professional development. Training programs focusing on project appraisal, risk assessment, and financial modeling should be prioritized to equip staff with the necessary expertise to evaluate complex infrastructure projects. Partnerships between financial institutions and educational or research bodies could also facilitate knowledge sharing and the adoption of best practices in infrastructure financing.

Improving project structuring and feasibility is another key area that requires attention. Project developers should focus on designing well-structured, bankable projects with clear implementation plans, realistic timelines, and detailed feasibility studies. Addressing project-specific complexities, such as size, duration, and sector-specific challenges, would make PPP projects more attractive to investors.

Furthermore, establishing mechanisms for regular stakeholder engagement and feedback can help identify and resolve potential issues early in the project lifecycle, ensuring smoother execution and higher investor confidence. By implementing these recommendations, Kenya can foster a more supportive environment for infrastructure financing, strengthening the role of local financial institutions and driving sustainable economic development through successful PPP initiatives.

5.5.Limitations of the Study

Despite the valuable insights generated by this study, several limitations must be acknowledged. First, the scope of the research was geographically and institutionally limited. The study focused exclusively on Kenya and primarily targeted commercial banks as the unit of analysis. As a result, the findings may not be fully generalizable to other types of local financial institutions, such as pension funds, insurance companies, or microfinance institutions, which may operate under different investment mandates, risk appetites, and regulatory environments.

Secondly, the study adopted a cross-sectional research design, which, while appropriate for capturing the prevailing investment trends and institutional practices at a specific point in time, does not allow for the observation of changes or developments over time. Consequently, the research was unable to capture the dynamic nature of investment decision-making in response to evolving macroeconomic conditions, policy shifts, or institutional learning processes.

Finally, there were inherent limitations related to data access. Due to confidentiality concerns and internal policy restrictions within financial institutions, the study had limited access to detailed information on internal investment appraisal mechanisms and decision-making frameworks. This constraint may have affected the depth and granularity of the analysis, particularly in relation to understanding how qualitative judgments and institutional culture influence investment decisions.

These limitations, while not undermining the core findings of the study, suggest caution in interpreting the results and highlight areas where future research could build upon and deepen the current analysis.

5.6.Suggestions for Further Research

While this study provides valuable insights into the factors influencing investment decisions of local financial institutions in financing Public-Private Partnership (PPP) projects in Kenya, it also reveals several areas that warrant further exploration.

One key gap identified is the limited understanding of how different types of financial institutions such as commercial banks, pension funds, and insurance companies vary in their investment behavior and risk appetite when it comes to PPP projects. Future research could focus on conducting comparative analysis across these different institutions to provide a more nuanced understanding of their specific challenges and motivations in infrastructure financing. Additionally, this study primarily captures a snapshot of investment decisions at a particular point in time, which limits the ability to observe trends and long-term impacts. There is a strong need for longitudinal studies that track investment behavior and project performance over extended periods. Such research would help identify how changes in policy, economic conditions, and

institutional capacity influence investment decisions and project outcomes over time. It would also shed light on the long-term effectiveness of regulatory reforms and capacity-building initiatives suggested in this study.

Broader comparative analyses across different regions or countries would also provide valuable insights. By comparing Kenya's PPP financing landscape with that of other developing or emerging economies, researchers could identify best practices and contextualize Kenya's experience within a global framework. This approach would highlight unique challenges faced by Kenya while offering potential strategies adopted elsewhere that could be tailored to local circumstances. Finally, further exploration of the impact of government support measures such as guarantees, subsidies, and policy incentives on local financial institutions' willingness to invest in infrastructure projects would be beneficial. Understanding the effectiveness of these measures could guide policymakers in designing interventions that attract and sustain private sector participation in Kenya's infrastructure development.

5.7.Chapter Summary

This chapter presented a comprehensive synthesis of the study's findings, drawing on statistical analysis and theoretical perspectives to examine the factors influencing investment decisions by local financial institutions in Kenya's Public-Private Partnership (PPP) projects. The findings established that investment criteria—particularly risk assessment, expected returns, project feasibility, and regulatory compliance—are pivotal in shaping financing decisions. Project-specific factors such as size, complexity, and duration further influence investor interest, with institutions favoring large-scale, well-structured projects that promise stable long-term returns.

Additionally, the study underscored the critical role of financing availability and institutional capacity. Financial institutions with stronger capital bases and technical expertise were more likely to commit to PPP projects. Regulatory and policy frameworks were also found to significantly affect investment behaviour, with institutions more inclined to invest under stable, transparent, and supportive regulatory environments.

The conclusions drawn affirmed the applicability of Modern Portfolio Theory and Institutional Theory in explaining the behaviour of local financial institutions. Based

on these insights, the study provided practical recommendations aimed at enhancing regulatory clarity, building institutional capacity, improving project structuring, and encouraging public-private cooperation to strengthen Kenya's infrastructure financing ecosystem. The chapter also acknowledged key limitations and proposed areas for future research, including comparative institutional studies and longitudinal analyses of investment trends and policy impacts.

REFERENCES

Asheem Shrestha, & Tamošaitiene, J. (2019). A Principal-Agent Theory Perspective on PPP Risk Allocation. *Multidisciplinary Publishing Institute*.

Babatunde, S. O., Perera, S., Zhou, L., & Udeaja, C. (2012). Barriers to public-private partnership projects in developing countries: A case of Nigeria. *Engineering, Construction and Architectural Management*, *19*(2), 158–172.

Bitar, M. (2023). Advantage and disadvantages of a capital structure. *Academia.edu*. Retrieved from https://www.academia.edu/30802722/Advantage_and_Disadvantages_of_a_Capital_Structure

Briceño-Garmendia, C., & Shkaratan, M. (2011). Kenya's infrastructure: a continental perspective. *World Bank Policy Research Working Paper*, (5596).

Capital Markets Authority. (2018). *Capital Markets Authority*. Retrieved from https://www.cma.or.ke

Central Bank of Kenya. (2020). *Central Bank of Kenya*. Retrieved from http://www.centralbank.go.ke

Chileshe, N., Njau, C. W., Kibichii, B. K., Macharia, L. N., & Kavishe, N. (2022). *Critical success factors for Public-Private Partnership (PPP) infrastructure and housing projects in Kenya.* International Journal of Construction Management, 22(9), 1606-1617.

Della Croce, R., & Yermo, J. (2013). Institutional investors and infrastructure financing. *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 36, OECD Publishing, Paris. https://doi.org/10.1787/5k3wh99xgc33-en

Delmon, J. (2014). Local currency finance for privately financed infrastructure: The potential role of government and state-owned enterprises. *Bank of Namibia 16th Annual Symposium*.

Formanek, S., Dreisiebner, A., Egger, F., Fontana, B., Frithum, R., Haluza, D., ... & Weissenböck, S. (2023). Mehrwertorientierte Dachflächennutzung: Positionspapier für mehrwertorientierte Dachflächennutzung im Bestand undNeubau.

Hellowell, M., & Caselli, S. (2015). Return of the state? An appraisal of policies to enhance access to credit for infrastructure-based PPPs. *Public Money & Management, 35*(1), 71–78.

International Finance Corporation. (1999). *Project Finance in Developing Countries*. Washington, D.C.: International Finance Corporation.

International Monetary Fund (2022). *Kenya: Article IV Consultation Staff Report.*

Jing Du, & Wang, H. (2018). Critical factors on the capital structure of Public–Private Partnership projects: A sustainability perspective. *Multidisciplinary Publishing Institute Journal*.

Kenya Pension Fund Investment Consortium. (2022). Retrieved from https://kepfic.co.ke

Lauridsen, B. K., Stender, S., Kristensen, T. S., Kofoed, K. F., Køber, L., Nordestgaard, B. G., & Tybjaerg-Hansen, A. (2018). Liver fat content, non-alcoholic fatty liver disease, and ischaemic heart disease: Mendelian randomization and meta-analysis of 279 013 individuals. *European heart journal*, *39*(5), 385-393.

Liu, J., Wang, Y., & Wilkinson, S. (2020). Selection of PPP schemes in infrastructure projects: A comparative study between developed and emerging economies. *International Journal of Project Management*, *38*(7), 451–467. https://doi.org/10.1016/j.ijproman.2020.06.002

Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American journal of sociology*, *83*(2), 340-363.

Meyer, J., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology, 83*, 340–363. http://dx.doi.org/10.1086/226550

Nyanchoka, D. O. (2021). Institutional Factors Influencing Implementation of Public-private Partnership Projects in Kenya's Education Sector*: a Case of Afya Elimu Funded Projects (Doctoral dissertation, University of Nairobi).*

OECD (2018). *Making Blended Finance Work for the Sustainable Development Goals.*

Powell, W. W., & DiMaggio, P. J. (2023). The iron cage redux: Looking back and forward. *Organization Theory*, *4*(4), 26317877231221550.

Public Private Partnerships Directorate. (2020). Retrieved from https://www.pppunit.go.ke

Rao, V. (2018). An empirical analysis of the factors that influence infrastructure project financing by banks in select Asian economies. *ADB Economics Working Paper Series*.

Retirement Benefits Authority. (n.d.). Retrieved from https://www.rba.go.ke

Romero, M. J. (2015). *What lies beneath: A critical assessment of PPPs and their effect on sustainable development*. European Network on Debt and Development.

Ross, S. (2019). What capital structure theory. Retrieved from https://www.investopedia.com/ask/answers/031915/what-capital-structure-theory.asp

Semple, L. T. (2013). *Financing sustainable public-private partnerships*. International Institute for Sustainable Development (IISD).

Sharma, R. (2013). *Infrastructure: An emerging asset class for institutional investors*. Retrieved from https://gpc.stanford.edu/sites/g/files/sbiybj8226/f/infrastructure-emergingassetclassworkingpaper.pdf

Sharma, R., & Bennon, M. (2016, September 13). *Understanding institutional investors infrastructure collaborative model*. Retrieved from https://blogs.worldbank.org/ppps/understanding-institutional-investors-infrastructure-collaborative-model

Spiliopoulou, K., Rigal, F., Plumptre, A. J., Trigas, P., Paragamian, K., Hochkirch, A., ... & Triantis, K. A. (2024). KBAscope: key biodiversity area identification in R. *Ecography*, *2024*(9), e07061.

Ste, C. N., & a. (2015). *Factors influencing funding of public-private partnership road projects: The case of infrastructural development of Thika Road in Kenya*. Retrieved from http://erepository.uonbi.ac.ke/handle/11295/92953

Stella, C. N. (2015). *Factors influencing funding of public-private partnership road projects: The case of infrastructural development of Thika Road in Kenya*. Nairobi. Retrieved from http://erepository.uonbi.ac.ke/handle/11295/92953

Tao, P. (2015). *Cost benefit analysis of PPP project financing based on the government's position*. JCCREM.

The World Bank Group. (2017, August 22). Retrieved from https://blogs.worldbank.org/ppps/bankability-more-de-risking-projects

University of Witwaterstrand. (2016). *Research support*. Retrieved from https://libguides.wits.ac.za/c.php?g=693518&p=4914913

Weissenböck, G. G. (2010). Retrieved from https://pdfs.semanticscholar.org/0cb7/cb1ae6f293ea069f35d2044ca0d50e4a6de9.pdf

What is a literature review. (2018). Retrieved from https://www.rlf.org.uk/resources/what-is-a-literature-review/

World Bank Group. (2016). Retrieved from https://ppp.worldbank.org/public-private-partnership/about-public-private-partnerships

World Bank. (2017). Retrieved from https://olc.worldbank.org/content/financing-and-funding-kenyan-ppps-%E2%80%93-emerging-trends-and-issues

World Bank. (2018, April). Retrieved from https://www.worldbank.org/en/about/partners/brief/kenya-enabling-private-sector-participation-in-infrastructure-and-social-services

World Bank (2020). *Public-Private Partnerships Reference Guide.*

Ye, X., Shi, S., Chong, H. Y., Fu, X., Liu, L., & He, A. Q. (2023). Retrieved from https://www.researchgate.net/publication/322177161_Empirical_Analysis_of_Firms%27_Willingness_to_Participate_in_Infrastructure_PPP_Projects

Yescombe, E. R. (2017). *Public-Private Partnerships: Principles of Policy and Finance*

Zhang, X., Xu, Y., & He, Y. (2021). Factors influencing local governments' adoption of PPPs: Evidence from China. *Sustainability*, *13*(5), 2579. https://doi.org/10.3390/su13052579

APPENDICES

7.1 INTRODUCTION LETTER

Strathmore UNIVERSITY

13th May 2024

Ms Kosgei Winnierose,
Winnierose.kosgei@strathmore.edu

Dear Ms Kosgei,

RE: Factors that Influence the Investment Decisions of Local Financial Institutions in Financing Public Private Partnerships (PPP) Projects in Kenya

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC2226/24.** The approval period is from **13th May 2024 to 12th May 2025.**
This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
v. Clearance for the export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,

Mr Ambrose Rachier,
Chairperson; SU-ISERC

Ole Sangale Rd, Madaraka Estate. PO Box 59857-00200, Nairobi, Kenya. Tel +254 (0)703 034000
Email admissions@strathmore.edu www.strathmore.edu

7.2 RESEARCH QUESTIONNAIRE

SECTION A: DEMOGRAPHICS

Please indicate your

Gender

Male

Female

Prefer not to say

Age (optional)

20 years and below

21 to 30 years

31 to 40 years

41 to 50 years

51 years and above

Prefer not to say

Highest education level

Diploma

Graduate

Post graduate

Others

specify……

……

Years of experience

Less than 3 years

3 to 6 years

7 to 9 years

10 to 12 years

13 to 15 years

More than 15 years

Job Position

Entry-level/ Junior

Mid-level

Senior Management

SECTION B: INTRODUCTION

Please indicate your level of exposure to PPP project financing

No Exposure

Minimal Exposure (1-3 transactions)

High exposure (>3 transactions)

Please indicate your overall mandate in the public private partnerships (PPP) infrastructure project you have been involved in

Lender

Advisor

Project Developer

Other please specify……
……

In which sector was/is the public private partnerships (PPP) infrastructure project youhave been involved in?

Roads & Transport

Energy & Petroleum

Education, Science & Technology

Industrialization and Manufacturing

Housing & Urban development

Environment, Water and Natural Resources

Commerce and Tourism

Health

Agriculture, Livestock and Fisheries

Other, please specify……
……..

How many years of experience do you have in infrastructure financing?

Less than 1year	1-5 years	6-10 years
11-15 years	16-20 years	More than 20 years

SECTION C: IMPACT OF LEGAL & REGULATORY ENVIRONMENT ON PROJECT FINANCING

This section of the study aims to investigate the relationship between legal and regulatory frameworks and the level of investment in PPP projects by local financial institutions. Kindly indicate your response by ticking the most appropriate answer.

Does the existence of an elaborate PPP framework and institutions positively influence the financing decisions of local financial institutions in infrastructure projects in Kenya?

Yes

No

Are government support instruments such as letter of support necessary for the bankability of PPP projects and the interest of financial institutions in Kenya?

Yes

No

Are tax exemptions and other similar incentives necessary for project bankability and the interest of financial institutions in Kenya?

Yes

No

Does the legal dispute resolution process determine a project's risk premium and bankability, and influence the interest of financial institutions in Kenya?

Yes

No

Are PPP laws and regulations in Kenya adequate to incentivize financial institutions to invest in infrastructure projects, and influence their interest in financing such projects?

Yes

No

Do PPP laws create bureaucratic hurdles that limit project bankability, and influence the interest of financial institutions in Kenya?

Yes

No

Do current regulations governing investment by financial institutions limit their ability to invest in PPP projects in Kenya?

Yes

No

Does the existence of a strong legal framework increase project transparency and hence improve bankability, and influence the interest of financial institutions in Kenya?

Yes

No

In your own opinion, what adjustments should be done on the existing legal and regulatoryframework on PPPs projects in Kenya to improve access to financing for projects?

.....

.....

.....

.....

.....

SECTION D: PROJECT CHARACTERISTICS

In this section, the study aims to investigate the relationship between the characteristics of PPP projects and the level of interest shown by local financial institutions. Kindly indicateyour response by ticking the most appropriate answer.

Does the total cost of a project influence the level of interest by local financial institutions in financing infrastructure projects in Kenya?

Yes

No

Does the scope of a project, i.e., whether it's construction only or construction and operations, impact the project viability and interest of financial institutions in Kenya?

Yes

No

I don’t know

Does the leverage ratio of projects influence the bankability of a project and interest of financial institutions in Kenya?

Yes

No

Are financial institutions more likely to consider shorter tenure projects (<15 years) compared to longer tenure projects (>15 years) in Kenya?

Yes

No

Is the contracting authority responsible for the implementation of the project a consideration in appraising PPP projects, and does it influence the interest of financial institutions in Kenya?

Yes

No

Are projects that are dependent on user payments less attractive to financial institutions compared to those based on availability payments from the government in Kenya?

Yes

No

Are project financiers generally sector-agnostic and do not cherry-pick project sectors in Kenya?

Yes

No

Are projects procured competitively more attractive to lenders compared to those that were privately initiated in Kenya?

Yes

No

Are lenders more interested in projects whose revenues are denominated in local currency compared to foreign-denominated projects in Kenya? a) Yes b) No

Is the environmental and social impact of a project critical for lenders who seek to finance infrastructure projects in Kenya?

Yes

No

Does an outline of a scope strategy on the onset ensure that project objectives are fully attained and influence the interest of financial institutions in Kenya?

Yes

No

In your own opinion, what do you think are the key considerations that should be put into consideration by the contracting authorities and PPP Directorate when appraising project bankability from a lenders point of view?

……

……

……

……

……

……

SECTION E: AVAILABILITY OF RESOURCES

In this section the study will gauge the relationship between availability of resources and the level of interest in investing in PPP projects by local financial institutions. Kindly indicate your response by ticking the most appropriate answer.

How much funding is currently available within your organization for investment in PPP projects in Kenya?

< Ksh 5 billion

> Ksh 5 billion

How much internal capacity does your organization have to appraise PPP projects in Kenya?

Strong internal capacity

Moderate internal capacity

Weak capacity

How much internal capacity does the institution have to be able to appraise PPP projects?

Yes

No

Does the organization rely on external consultants in the appraisal of PPP projects?

Yes, frequently

Yes, occasionally

No, we do not rely on external consultants for appraisal of PPP projects

To what extent does lack of capacity influence the level of invest in different types of infrastructure projects in Kenya?

Yes, significantly

Yes, moderately

No, negligible

What is the staffing level for assessing and managing PPP projects?

Sufficient

Insufficient

Do you face any challenges in attracting and retaining qualified staff for PPP projects?

Yes

No

Does your institution have a dedicated department for PPP projects?

Yes

No

Does the institution offer training to staff on PPP project appraisal and management?

Yes

No

In your own opinion, what do you think should be done to increase the level of financingand capacity for PPP investment?

……

……

……

……

……

……

SECTION F: COMPANY INVESTMENT POLICIES

In this section the study will gauge the relationship between the investment policies of localfinancial institutions and the level of interest in investing in PPP projects by local financialinstitutions. Kindly indicate your response by ticking the most appropriate answer.

Does the company have a preferred capital structure when making investment decisions?

Yes

No

How does the company evaluate potential investments for their expected return on investment?

Yes

No

Other (please specify): ……

……

Does the company require a minimum expected return on investment for investment opportunities?

Yes

No

Does the company evaluate risk when making investment decisions using a specific risk management framework?

Yes

No

Does the company have a preference for investing in certain industries or sectors?

Yes

No

Do current market conditions and economic trends significantly impact the company's investment decisions

Yes

Is socially responsible investing and environmental sustainability a top priority for the company when making investment decisions?

Yes

No

Does the company evaluate the financial performance indicators of potential investments using a specific formula or method?

Yes

No

Do external factors, such as government regulations and policies, play a significant role in the company's investment decisions?

Yes

No

Does the company have a set of predefined investment criteria that must be met before making an investment decision?

Yes

No

In your own opinion what are the key considerations that a local financial institutionconsiders when appraising project bankability?

……

……

……

……

……

……

…….....

END, THANK YOU!

7.3 COVER LETTER

I am Winnierose Kosgei, a Masters Student currently pursuing a Masters in Development Finance at Strathmore Business School. I am conducting research on thekey factors that influence the investment decisions of local financial institutions in financing infrastructure projects in Kenya.

I have identified you as a potential participant in this study because of your experience and interest in financing infrastructure projects in Kenya. Your participation in this study is entirely voluntary, and all responses will be kept confidential. Please note thatno individual responses or contacts will be revealed in the final report.

If you have any questions or concerns about the study, please do not hesitate to contact me using the details provided below. Thank you for considering this request, and I look forward to your response.

Email: Winnierose.kosgei@strathmore.edu or Mobile: +254716881536

Date of Research……

7.4 CONSENT FORM

PARTICIPANTS CONSENT FORM

TITLE OF STUDY

Factors that Influence the Investment Decisions of Local Financial Institutions in Financing Public Private Partnerships (PPP) Projects in Kenya

PRINCIPAL INVESTIGATOR

Winnierose Kosgei Strathmore Business School

Student ID: 123551

Email: winnierose.kosgei@strathmore.edu

PURPOSE OF STUDY

You are being asked to take part in a research study. Before you decide to participate in this study, it is important that you understand why the research is being done and what it will involve. Please read the following information carefully. Please ask the researcher if there is anything that is not clear or if you need more information.

STUDY PROCEDURES

In this study you are required to complete a questionnaire which will take you about ten minutes. Your participation in this study is voluntary and you are free to withdraw from it anytime. The research data collected will only be utilized for academic purposes and treated with utmost confidentiality. The findings of my research may be availed to your institution upon request.

RISKS

There are no known or foreseeable risks to this study. You may still decline to answer any or all questions and you may terminate your involvement at any time if you choose.

BENEFITS

There will be no direct benefit to you for your participation in this study. However, we hope that the information obtained from this study may contribute to the body of knowledge on the main factors that limit local currency financing for PPPs. This will form a basis for industry stakeholder to come together to address any constraints and device mechanisms to mobilize local currency financing for projects.

CONFIDENTIALITY

Your responses to this questionnaire will be anonymous. Please do not write any identifying information on your questionnaire. Participant data will be kept confidential except in cases where the researcher is legally obligatedto report specific incidents. These incidents include, but may not be limited to, incidents of abuseand suicide risk.

CONTACT INFORMATION

If you have questions at any time about this study, you may contact the researcher whose contact information is provided on the first page. If you have questions regarding your rights as a researchparticipant, or if problems arise which you do not feel you can discuss with the Primary Investigator, please contact the Strathmore University.

VOLUNTARY PARTICIPATION

Your participation in this study is voluntary. It is up to you to decide whether to take part in this study. If you decide to take part in this study, you will be asked to sign a consent form. After you sign the consent form, you are still free to withdraw at any time and without giving a reason. Withdrawing from this study will not affect the relationship you have, if any, with the researcher. If you withdraw from the study before data collection is completed, your data will be returned to you or destroyed.

WHOM TO CONTACT

You can contact Winnieroe Kosgei, at SBS, or by e-mail Winnierose.kosgei@strathmore.edu or by phone +254716881536. You can also contact my supervisor, Dr. Noah Omondi, at the Strathmore Business School, Nairobi,

or by e mail nomondi@strathmore.edu or by phone +254 716430352.

If you want to ask someone independent anything about this research please contact: The Secretary–Strathmore University Institutional Ethics Review Board, P. O. BOX 59857, 00200, Nairobi, email ethicsreview@strathmore.edu Tel number: +254 703 034418.

CONSENT

I have read and I understand the provided information and have had the opportunity to ask questions. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason and without cost. I understand that I will be given a copy of this consent form. I voluntarily agree to take part in this study.

Participant's signature Date

Investigator's signature _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ Date _ _ _ _ _

7.5 NACOSTI APPROVAL

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **417063**

Date of Issue: **24/April/2024**

RESEARCH LICENSE

This is to Certify that Ms.. Winnierose Wanja Kosgei of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: Factors that Influence the Investment Decisions of Local Financial Institutions in Financing Public Private Partnerships (PPP) Projects in Kenya for the period ending : 24/April/2025.

License No: **NACOSTI/P/24/35042**

417063

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

7.6 ETHICAL APPROVAL

Strathmore UNIVERSITY

13th May 2024

Ms Kosgei Winnierose,
Winnierose.kosgei@strathmore.edu

Dear Ms Kosgei,

RE: Factors that Influence the Investment Decisions of Local Financial Institutions in Financing Public Private Partnerships (PPP) Projects in Kenya

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC2226/24.** The approval period is from **13th May 2024 to 12th May 2025.**
This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
v. Clearance for the export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,

Mr Ambrose Rachier,
Chairperson; SU-ISERC

Ole Sangale Rd, Madaraka Estate. PO Box 59857-00200, Nairobi, Kenya. Tel +254 (0)703 034000
Email admissions@strathmore.edu www.strathmore.edu