

Capital and Debt Maturity Structures of a Firm: Evidence from Selected African Countries

Abstract

The thesis examines the influence of institutional, macroeconomic, industry and firm characteristics on financing decisions of firms in nine select countries in Africa. It develops a battery of econometric models and examines 10 year (1999-2008) data pertaining to 986 non-financial firms and sample countries using various estimation procedures. The results suggest that financing decisions of firms in Africa is not only determined by firm characteristics (such as firm size and profitability, growth opportunities, asset tangibility and/or maturity, earnings volatility, dividend payout and non-debt-related tax-shield) but also by industry, macroeconomic (income group of the country, size of the overall economy and its growth, inflation and taxation) and institutional (legal origin, investor rights protection and law enforcement) factors. The research also demonstrates that firms in Africa face adjustment costs and/or benefits in rebalancing their capital and debt maturity structures to the optimal and such costs depend on select firm, industry, macroeconomic and institutional factors.

Our findings signify that firms in Africa are concerned about transaction, agency and bankruptcy costs; information asymmetry and adverse selection problems; financial flexibility and access to finance issues; tax regimes, investor rights protection and law enforceability, among others in making their financing decisions. It is strongly recommended that governments, policy makers, and other stakeholders should pull their efforts together to come up with legislations, policies and directives that enhance investor rights protection and law enforcement which will in turn boost the confidence of market participants. The study also recommends that governments should use interest rate restraints and reserve and liquidity requirements to enhance financial deepening which will in turn enhance investors' confidence.