TAX REFORMS AND FOREIGN DIRECT INVESTMENTS IN KENYA

SUSAN NYAKEO KUNGU

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER 2019

DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

Signature... Date................................

SUSAN NYAKEO KUNGU

D61/7245/2017

This research project has been submitted for examinations with my approval as the university supervisor.

Signed... Date.............................

Dr. Kennedy Okiro

Lecturer,

School of Business,

University of Nairobi.

ACKNOWLEDGEMENT

My sincere thanks goes to all those who in one way or another, directly or indirectly, have played a role in the realization of this project.

First, my special thanks to my supervisor Dr. Okiro Kennedy for his professional guidance and dedication towards shaping my work as well as the whole of the university fraternity. I also express my deep gratitude to the entire family and friends for their support and encouragement during the period of writing this project.

DEDICATION

I dedicate this project to most of all, to the Almighty God who gives me strength and good health and my supervisors at Consolidated Bank for the support for their great moral and also their enormous encouragement throughout my studies.

My study is dedicated to the following: my father, my loving mother and my siblings for their time, prayers, support and patience as well as the encouragement during the entire period of my study.

May God Bless and Grant them a long and healthy life.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATION AND ACRONYMS

ECTS	Electronic Cargo Tracking System
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ITMS	Integrated Tax Management System
KRA	Kenya Revenue Authority
PTMM	Payments of Taxes via Mobile Money
SPSS	Statistical Package for Social Science

ABSTRACT

This study sought to establish the relationship between tax reforms and foreign direct investment in Kenya. Descriptive research design was applied in the study. The primary and secondary data was utilized. Primary data was collected via structured questionnaire while data on foreign direct investment was collected from Ministry of Industrialization website. Secondary data covered the period between 2014 and 2018. The study used the both descriptive statistics and inferential statistics. Finally analyzed data was depicted descriptively through graphs, tables, mean and standard deviation. Inferential statistics was presented by multiple regressions. Statistical Package for Social Science (SPSS) was used for data analysis. Also, Pearson regression was used for showing the relationship between variables. The findings revealed that R-Square was 0.819. This means that 81.9% of the variation in the model used to explain FDI was as a results of the independent variables ITMS, payment of taxes through mobile money, tax mechanisms and electronic cargo. This also suggests that 18.1% of the variation in FDI is explained by other factors not captured in the study and due to error terms. Further, the findings show that the model level of significance is 0.000 which is less than the p value 0.05. Thus, the model is statistically significant in predicting how ITMS, payment of taxes through mobile money, tax mechanisms and electronic cargo affect FDI in Kenya. The study through regression analysis concluded that that integrated tax management system (ITMS), payments of taxes via mobile money, electronic cargo tracking system (ECTS) and tax enforcement mechanisms had an effect on FDI had a positive impact on the FDI in Kenya. However, it was also noted that all the variables influenced FDI with different magnitudes with electronic cargo having the highest impact on FDI and ITMS having the least influence on ITMS. Foreign direct Investment is critical in the growth of any country's economy. The study therefore recommends that the government should be keen in monitoring all factors that influence FDI. This is because foreign investor response is critically shaped by the tax provisions faced by the foreign investor in his home country, and by the effects of tax reform on pre-tax asset return. Thus, this informs the need for dynamism in Kenya tax system in order to fit into the changing international economies.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The current phase of increased globalization activities has developed critical concerns in each country. The increased mobility of firms is leading the national governments of each country to create tax reforms that go in hand with this trend. It is apparent that tax reforms play a significant role in either bringing in or driving away foreign direct investment (FDI) (Edmiston, Mudd & Valev, 2013). It is a possibility that these other forms of tax also have a significant effect on FDIs. Tax policies levied on employees and consumption rates have an overall effect on labor output. In this case, taxes on these two aspects can increase costs on wages for workers which in turn cause local companies to save up capital for payment of wages which could have been used for important investments instead. The extent to which corporation tax affect FDI is a question of global concern and in most countries its impact on economic development is positive as anticipated while its performance in Kenya is quite substandard which is a disappointment, this can be attributed to the unfavorable factors in the country that discourage FDIs (Dhingra et al., 2018).

Various theories have been developed to explain the taxation as a critical aspect in attracting foreign investments. International theory authored by Buckley and Casson in 1976, emphasizes that foreign investors are likely to invest in an environment which favors them economically if the environment allows them to gain competitive advantage hence maximizing profits. It elaborated the importance of a country in coming up with reasonable taxation reforms which intern attracted more foreign investors (Meier, 1994). The neoclassical theory by Alfred Marshall between the year 1842 to 1924, is based on factors that affect future investments with the main aspect being incentives and their impact on returns rates, investment security and the speed firms can withdraw their investments. Tax reforms, investment policies and macroeconomic conditions are significant factors that affecting foreign direct investment (Gajewski, 2017).

The history of Kenya and foreign firms is long and in 1970s it was the favorite country for FDI across East Africa, however, the country has gradually become less appealing to FDI due to a number of inappropriate conditions (Kinuthia & Murshed, 2015).

Nonetheless, with the launch of vision 2030 since 2008, the country seeks to re-establish a global competitiveness which would in turn attract FDIs inclined towards achievement of some of the nation's goals. Most FDI initiatives in Kenya mainly focus on the manufacturing sector, agricultural sector, exports and appropriate market entry strategies. Indicators of FDI in the country include size of the market locally, political factors, economic stability within the country as well as the neighboring countries and bilateral trade agreements with other states. Significant obstacles towards FDIs in Kenya include lack of stability economically and politically, lack of security and high crime rate, organizations challenges such as corruption and delay of licenses (Mwega & Ngugi, 2013). In East Africa, Kenya is the country most affected by a significant decrease of FDI and no important economic development can be attributed to FDI and even despites of favorable conditions set to attract FDI such as incentives, Kenya FDI rate continues to decline. Kenya has therefore lost its appeal to FDI which has significant negative impact on its competitiveness with neighboring countries.

Some important economic development can be attributed to foreign direct investment therefore making it a vital resource for this aspect of a country. Dhingra et al., (2018). There are discussions and arguments raised that wealth drawn from FDIs could come in place to bridge the void between the sought for investment and the domestic mobile capital. The fact that FDIs could be influenced by changes in tax rates has motivated this study to establish the effects associated with tax reforms.

1.1.1 Tax Reforms

There are various definitions established to explain the meaning of tax reforms. First, Yagan (2015) defines tax reforms as the techniques used by the government of a certain country to revise how tax policies should be enforced to its citizens. Another definition by Jones and Temouri (2016) is that tax reforms are proposals to change the tax policy system or a set of adjustments related to tax policies. Also, according to Shephard (2017) tax reforms could mean a process of making adjustments on how tax revenue is organized by the government and this process is commonly carried out with an aim to refine tax regulation. A tax reform can be adjusted in such a way that it reduces taxes collected from every individual by the concerned departments, creating a more accelerating tax system or less accelerating and finally creating a simple tax system that is easy to be understood by every person.

The reason for tax reforms is to enhance efficiency in tax regulation combined with other economic and social advantages which can be accomplished through an appropriate tax system Benzarti & Carloni (2019). The role of taxation in achieving a countries' goals is gaining a global realization, these benefits include economic growth and establishment and maintenance of healthy state relationships. The financial crisis of 2008 led to a short-term decline of aid rates by the concerned organizations and this caused these department to concentrate their efforts on aid efficacy and also mobilized donors to encourage developing states to raise their own revenue through various initiatives. Tax reforms help to ensure that every involved individual pays their tax returns appropriately with the set time margins hence reducing the rate at which these people evade tax, it also enables tax collectors to ensure that the collection process is fair and affective, also, the collection agencies are able to allocate revenues from tax returns appropriately to ensure maximum economic development in terms of infrastructures, providing quality services and goods to the general public. An appropriate tax collection system can ensure maximum revenue collection leading to a more sustainable growth, the country involved can therefore be able to reduce its dependence on foreign donors and can promote revenue drawn from natural resources (Benzarti & Carloni, 2019).

1.1.2 Foreign Direct Investment

Foreign direct investment can be defined as a situation where a country intends to gain long-lasting ownership by investing in various economic aspects of another country that is not their state of resident (Dellis, Sonderman & Vansteenkiste, 2017). A long lasting ownership points to establishment of healthy relationship on a long term basis between the direct investors and the investment itself and also a high level of control on the investment is anticipated. Another definition of FDI by Tang and Zhang (2016) is the vested interests by a company or a person in business enterprises based in a foreign country. FDI can happen when an entrepreneur opens up businesses in another country or gets possession of firms' resources making him/her have a substantial level of control over the foreign firm. The last definition of FDI is an investment made in a way that makes the investor gain a controlling power on the invested business operation in the foreign country (Rehman, 2016). The concept of direct control helps distinguish FDI from portfolio investments.

FDI is a significant element for revenue flow in most countries providing a range of benefits to every individual involved which include workers, direct customers and firms as well (Tang & Zhang, 2016). However, the benefits may be different from each country depending on a number of country specific conditions and the quantity of investments established. FDIs are an important source of employment as well as increased wages to many jobless individuals who gets employed to work in business enterprises established by foreigners which lead to the overall improved standards of living. Also, FDIs helps in increasing production rates which promotes maximum customer satisfaction in economy by providing the required goods and services at the right time. An effective and efficient cost of capital is established because FDI provides investors with various risk management strategies. FDI is also an opportunity for the host country because the investor may decide to invest on other important economic elements that promote overall growth. Another impact of FDI is on establishing a sustainable funding system to firms because most investments are not in liquid form making them escape the risk of rollover. Credit offered to foreign investors may include terms that are not harsh hence a reduction of risks (Tang & Zhang, 2016).

1.1.3 Kenya Revenue Authority

The Kenya Revenue Authority was established in the year 1994 where it became functional in 1995 Gitaru (2017). It was formed as independent tax regulation agency with full liberty from the treasury under an Act of Parliament Cap. 469. Kenya Revenue

Authority (KRA) is recognized for its responsibility to collect taxes imposed on the Kenyan citizens by the government in which revenue gathered is used in funding services to a population of around fourth four million people which is estimated to rise by 1,000,000 every year. The key function of the KRA department is to ensure efficient allocation of revenue raised by the Kenyan government through taxes, promote effective tax regulation techniques and ensure sustainability when collecting revenue. Initially, these specific responsibilities were under the control of various units formed by the ministry of finance.

The core function of KRA was deal with organizations issues that were perceived to the obstacles towards effective tax reforms administration. The treasury has a role in creating tax policies while KRA has the responsibility to see that these policies are successfully imposed on the relevant individuals and firms. Some of the functions particularly for the KRA agency is to make an evaluation, collection and report for all revenues which should be according to the set rules during the first part of the schedule and revenue clauses during the second schedule, address and give possible solutions to concerning any issue on implementation and collection of taxes according to the written rules and the last function is to carry out any function directed to them by minister of finance. To ensure maximum cooperation of the citizens in filling returns, the agency employ various strategies which may include automation of its operations. The use of the Simba system is also another effective technique in ensuring a big number of people comply with the tax regulation. For instance, in 2015/16, the agency was able to collect revenue that contributed to 18.2 percent GDP ratio for total taxes and 17.3 percent on treasury revenues. Effective revenue collection promotes quality service delivery to the citizens of the Kenyan country (Gitaru, 2017).

1.1.4 Tax Reforms and Foreign Direct Investment

Recent studies have established that the sensitiveness of FDI to taxation is highly dependent on the conditions set by the host country and the flexibility of business operations in accordance with the tax rates (Bailey, 2018). For instance, a situation where a certain firm rips the advantages of situating business operations in an expanded market helps helps it cut off costs associated with trade which may include transport costs but fails to take into consideration that some aspects may be left in an inertia state in such a market. The advantages accrued from the host country combined with capital fixity only suggests that there is a possibility for profits to be taxed up to a certain extent without necessarily affecting investments negatively Bailey (2018). For instance some countries like Japan and the US have large market shares locally and globally and rip high revenues from FDIs are associated with high rates of corporate taxes. Some studies suggest that business tax rates may decline with reduction in costs of trade and increased mobility of capital. Such is the case where various states will create tax reforms that are low on business operations that are more mobile. Studies carried out on the effects of tax reforms on FDI fail to incorporate tax planning techniques employed by investors.

However, there is a high number of tax planning operations while the OECD continue to mobilize analysts to also focus on the influence of tax formulation processes when evaluating the effect of tax rates on FDI. Concentration on this aspect is anticipated to bring some substantial benefits which may include making the appropriate estimates when it comes to tax rates and FDI sensitivity to tax. Another vital observation of the relationship between tax reforms and FDI is the fact that competition for the two elements is increasingly high globally. This has an impact in that firms or investors will make a decision on where to invest by making a comparison of the country with the most favorable taxation conditions for business growth which include location and size of the market (Jones & Temouri, 2016).

1.2 Research Problem

There are various aspects that affect how business operations. The impact of tax on foreign direct investments is quite significant. Taxes influences the investment choices the firm or investor may make. This may include a situation where the investor decides not to hold stock with an expectation that capital gain taxes may rise. Also taxes influence business decisions such as choosing when to do business according to tax rates and when to purchase certain assets. Also, taxes may have a more significant impact on some aspects of the business more than others Jones & Temouri (2016), for instance high taxes on wage income on FDI is quite negative compared to tax rates on consumption. Alternatively, high taxes on capital earnings on FDI are quite positive. However, these tax rates vary from time to time depending on the available economy conditions.

Most countries especially the developed ones are greatly affected by the fact that the rates of fertility are less compared to rates at which people are getting old which has led to the assumption that saving rates may decrease combined with the fact that there is increasing competition for capital globally (Long, Yang & Zhang, 2015). The reforms meant to eliminate any obstacle hindering capital and labor mobility have provoked a stiff competition for foreign direct investments (FDIs) in global markets amongst governments which has also led to development of the appropriate tax policies in order to gain the competitive advantage. The realization that foreign direct investments lead to an improved economy hence more growth has made countries to formulate favorable strategies that attract FDIs.

Various studies have been done on this area global studies include the following, Skabic (2015) in his study sought to establish factors that determine FDI attractiveness specifically on the Southeast European countries focusing on corporate taxation degrees. The findings are that size of the market, GDP, rate of development and wages are the key determinants for FDI in these SEE countries. Jones and Temouri (2016) in their study establish factors that determine tax rates on FDI in 14, 209 OECD countries. The findings suggests that capitalism and the area where a business is located plays a major role on the decision made on rates to be taxed. Heineman et al., (2018) examine the impact of the United States tax reforms on the earnings between Europe and US FDI. The findings reveal that countries in Europe categorized as high-tax are likely to affect the most from the overall flows of FDI. Bailey (2018) in his study attempts to investigate the existing relation between institutional characteristics and FDI attractiveness. The study finds that institutional characteristics such as democracy and stability in politics appeal to FDI while other negative characteristics such as corruption and tax rates drive away FDI.

Local research in consistent with this concept include: Kinuthia and Murshed (2015) sought to examine FDI determinants by carrying out a critical comparison between Kenya and Malaysia. The results were that the industrial achievement in Malaysia attract FDI unlike Kenya. Stability macroeconomic and trade strategies differences in the two countries play a major role on FDI inflows. Kinyanjui (2014) in his study reveal how terrorism affects FDIs in Kenya. Terrorists' activities have a negative impact on FDI inflows because investor confidence is reduced to high degree. Mwega and Ngugi (2013) explores factors that hinder the flows expected from FDI in Kenya and the techniques the country utilizes to respond to these obstacles. The results are that countries in Africa most affected by poverty are unlikely to attract the market seeking type of FDI. Non- market seeking FDI is mainly characterized by production process in the host country and later exporting the finished products to other countries. Nyamwange (2015) in his study to investigate core determinants of FDI choices in the Kenyan country and the association of FDI and economic development find that, population, macroeconomic stabilization and availability of skilled labor determine FDI inflows in Kenya. The research studies presented above presented a knowledge gap. This study therefore, sought to fill the conceptual by answering the following research question; is there a relationship between tax reforms and foreign direct investments in Kenya?

1.3 Research Objective

This study sought to establish the relationship between tax reforms and foreign direct investment in Kenya.

1.4 Value of Study

This study had significance in practice because it was been able to establish taxation reforms that affect FDI in Kenya. By providing a critical analysis of the relationship of these two aspects, academicians and researchers could use it as a source of reference when carrying out further research.

This study was also of great use to the Kenyan policy makers because they would be able to understand that gaining a competitive advantage is not only associated with factors of economic strategies but also improving factors on democracy, security through appropriate laws among other things hence they would be able to formulate policies in line with these conditions.

The managers at the Kenya revenue authority were also aided with skills from the findings of this study where they would be able to get an insight of the effect of tax reforms on FDIs hence enable them develop strategies that aid proper management of foreign enterprises within the country.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

In the following chapter, literature was reviewed concerning the study topic. The following were discussed, section one was the theoretical review, section two the determinants of the tax reforms and foreign direct investments, empirical reviews and finally, a summary of the literature review. Here, studies both local and global which were related to the study topic were used in understanding the framework to the topic.

2.2 Theoretical Framework

In this section, three theories were discussed which are related to the study topic, they are going to give more insight on the study topic. The following theories was discussed, The internalization theory, Neoclassical theory and finally, Keynesian theory.

2.2.1 Internalization Theory

The theory was propounded by Buckley and Casson in 1976, whereby they asserted that for internalization theory is composed of firm-specific advantage, knowledge base and intangible assets which enables the firm to be competitive advantage to another firm, have transactional cost which is in favor of public goods and finally, the firm is efficient since it has organizational ability (Rugman, 1981 and Hennart, 1982). Meier (1994) asserts that the foreign investors prefer putting their foreign investments internally because they want to control the market risk and retain the shares of the market, in conclusion, they are aiming to secure the internalized advantage of the host country.

Internalization theory was relevant to the study since it elaborated the importance of a country in coming up with reasonable taxation reforms which will intern attract more foreign investors. Foreign investors are likely to invest in an environment which favors them economically if the environment allows them to gain competitive advantage hence maximizing profits, they opt to choose it, rather than an environment which requires them to pay overwhelming revenues for sustaining them in the market, hence incurring losses rather than profits. Hadjikhani (1997) Criticized the theory since the foreign investors enters a country to gain more profits through competitive advantage, which is as a result of favorable taxation reforms and exports the goods outside the host country hence making it became provider-driven rather than customer driven, therefore the host country is not benefiting much, for this reason, host countries impose high revenues for discouraging the FDI in their countries so as to promote the locally produced commodities hence economic up drift.

2.2.2 Neoclassical Theory

According to Musau (2012), the theory was propounded by Alfred Marshall between the years 1842 to 1924; the theory entails the flow of the international capital to increase the capital return through buying and selling hence maximization of profit in different rates across countries. Arguments were emphasized on some of the factors which affect the FDI; they include, tax regime, the expected return rate, microeconomic policies, investment guidelines and security of investment. Besides, most of the investors tend to prefer investing in developing countries because of the expectation of gaining more profits compared to investing in developed countries (Gajewski, 2017). According to Kimonye (2014) neoclassical theory aims at examining the effects of taxation on domestic and cross-border direct investment, it also emphasizes on taxation reforms which influence the FDI.

Neoclassical theory was relevant to this study since it can assess the long-term effects of tax reforms to the FDI and how the following trends can be changed to better the economy of a country. The theory illustrated the difference in the international capital flow across countries and asset the difference in the capital flow. Finally, the policymakers of the taxation reforms can use the theory in assessing how the past reforms have influenced the FDI and predict how to make the tax reforms favorable for them and also for the foreign investors in the achievement of the economic growth. Groenewegen (2007) criticized the theory by arguing that, one should understand the income supply rate to supply the rate of a firm for determining the income rate of FDI, here taxation reforms are not applicable.

2.2.3 Keynesian Theory of Economics

The theory was propounded by John Maynard Keynes in 1963, which focuses on the direct gain of foreign investors in making massive profits without putting into consideration the gain of the host country in which they want to invest (Keynes, 2018). Keynes (2018) further illustrated that developing countries are supposed to be transformed from unproductive societies to dynamic societies which are characterized by economic growth. Tomonori (2012) asserts that the aid provided by the developed countries to the developing countries is aimed at creating equilibrium in both economies. This fails to be achieved since the role of FDI as capital providence is not making the economies stable by improving the living standards of individuals but it is aimed at improving the sustainability of the economy.

The theory was relevant to the study since it outlines the results that come forth due to creating employment opportunities by foreign investors and whether it has an impact on economic growth. According to the theory, the FDI has harmed the economy, since the foreign investors tend to satisfy their needs for gaining high profits; therefore, the government should implement high taxation reforms for ensuring that the profit merges gained by the foreigners earn the government revenue. Keynes (2018) criticized the theory by asserting that the theory is contrary to the observed facts in case of inflation, the theory assumes that the foreign investors are likely to be making high-profit merges but in case of inflation and imposition of unfavorable taxation reforms, they are likely to experience losses hence their businesses are likely to fail. Therefore, the theory should not assume that in all circumstances foreign investors are likely to perform better in developing countries.

2.3 Determinants of Taxation Reforms and Foreign Direct Investment

2.3.1 Market Size

Market size is the number of available receivers in the market who can gain sell and buy commodities for a firm to ensuring its growth. Market size is the biggest determinant of FDI, it is used to determine both the vertical and the horizontal market. Foreign investors tend to shift to the larger markets because they are likely to gain more returns on their capital investments, due to the massive purchase that is as a result of the larger market. Assets that are in large markets enable the investors to efficiently utilize the resources in the economy for their advantage of increasing the profits. Market size enables the researchers to be able to exploit the market fully by profit-taking, investors who tend to determine the size of the market so that they can understand the trends that come up with profit making in the market effectively. Before a foreign investor invests in the local market, they should consider the size of the market and also making their products unique for reducing the competitive advantage between the local investors and foreign investors.

Odi (1997) in his study, it was discovered that FDI has a relationship to the size of the firm; this intern affects the GDP of the country, therefore affecting the average income level and hence the growth rate of the FDI. The finding indicated that, for a small market, the FDI is likely to fall due to the reduced growth rate. The growth rate is encompassed with high GDP, therefore an increase in GDP leads to an increase of the FDI hence economic up thrift. In conclusion, for economic growth, there has to be an increase in the GDP which is accelerated by an increase of FDI, since FDI leads to employment creation hence improving the living standards of individuals.

2.3.2 Openness

This is whereby the national economy is affected by the growth of imports and exports. Economic openness of the country results in the growth of the GDP, which is a result of FDI. A country should focus on opening its economic burden to the outside world so that they can give investors opportunities to invest in their economy hence increasing the GDP of the country. For the determination of economic growth, a countries extent of openness to international trade is key.

Jordan (2004) in his study assessed the effect of openness to FDI in the investment type, of a business. The findings indicated that, in an open market, for the achievement of a positive FDI, the trade restriction should be limited since they hinder the openness of the market. The relevant of this state is unrealistic in countries, since the government hinders the market openness with high taxation reforms, hence discouraging the investors and therefore resulting in the closure of the market to FDI, this harms economic growth since it contributes to the hindrance of the GDP growth. In conclusion, the government should come up with reforms that will encourage market openness in FDI, therefore, improving GDP hence economic growth.

2.3.3 Labor Costs and Productivity

It is defined as the output of individuals in a given economy or business which contributes to its growth. In the case of entrepreneurship in an SME, the owner of the business ensures that they can maximize productivity at an affordable labor cost. When Foreign direct investors invade in a country’s economy, they tend to create employment to as much as many individuals they can have using fewer resources hence affordability. This makes them increase the GDP of the economy; hence FDI has a direct effect on the GDP hence economic growth. Labor cost and productivity directly influences the FDI hence economic growth. The government should ensure that they encourage FDI in the countries which have a problem of unemployment if they want to increase the living standards of the people, hence economic growth.

Chakrabarti (2001) assets that labor cost and productivity are one of the determinants of FDI concerning the economic g6rowth of a country and taxation reforms can influence the absorption of foreign investors in the economy hence hindering the creation of employment. The findings indicated that, if a country is offering cheap labor effectively due to unemployment, they are likely to attract the FDI, who will be advantageous since they are using less capital in gaining many profits hence their growth. The countries that offer cheap labor are likely to have high taxation reforms which are discouraging the investors from investing in their countries. This hinders the growth of GDP and therefore the economic growth of the country. In conclusion, the government should discover where their weakness is in establishing economic growth of the country, if it is the creation of employment, they should formulate favorable taxation reforms that will encourage the FDI and hence the growth of the GDP of their countries through the creation of employment. Also, they should be able to create a partnership with the FDI to ensuring that they also earn revenues through the same business.

2.3.4 Taxes

This is a contribution in terms of monies that the citizens and the non-citizen of a country have to contribute compulsorily to the government for the assessment of the government facilities and security which is provided by the government. The government imposes taxes on individuals gaining from its services depending on the aggregable percentage cut of the income received by an individual. The taxes are essential because they are the main hindrance of FDI in a country, this is because they control the economy of the country either positively or negatively depending on what the state wants to achieve economically. Taxes are imposed on the FDI in terms of tariffs which come as a result of importation and exportation policies, therefore taxation reforms harm the FDI.

Masca and Demirhan (2018) researched on the determinants of FDI in Turkey generally. Among the findings, it determines that taxation was one of the determinants of FDI and it was the major determinant. In this study, most of the literature was reviewed on different studies that were done by a variety of researchers which are related to the study topic. The findings indicated that mostly taxation reforms harm the FDI especially in the corporate sectors both locally and globally, while other studies reported that taxation reforms do not affect the FDI. In assessing the relationship between FDI and taxation reform, it was determined that the key determinant of the relationship to the growth of the economy is the government and not the investors since the government is responsible for the country's growth. In conclusion, if the government wants to achieve economic growth the following has to be put in a store concerning the taxation reforms; trade barriers, exchange rate, labor costs, and trade balance. Therefore, the study recommends that the government has to involve the policymakers in the implementation of favorable taxation reforms which will contribute to economic growth.

2.4 Empirical Review

Chaves (2013) researched how taxes affect international trade and Foreign Direct Investments in the United State of America. The study aimed at assessing the four types of taxes and the impacts it has on international trade and FDI. The researched aimed at hypothesizing if the four taxes have an impact on the decrease of exports and also if it has effects on decreasing FDI. The study adopted a descriptive research design; whereby the secondary data collection method was used. It comprised of the records from the revenue authority board of the USA between the year 2009 to 2012 and also from similar studies done by different scholars on the same topic. The findings indicated that the four taxes had an effect on the international trade circulation and also on the FDI, it was noted that, the implementation of the four taxes, harms the flow of international trade across different countries and also, FDI. In conclusion, the government should ensure that they can implement the taxation reforms which favor the investors hence attracting more investors in the country for economic growth. They should also consider the fact that investors are just developing themselves and not the host country, therefore agreeing with the investors for the adoption of strategies that deal with the partnership, this will ensure that the host country gains fully as a result of FDI hence both the government and investor are gaining directly.

Swenson (2014) conducted a study which focused on the effect of taxation reforms on foreign direct investment in the United State. The study purpose was to determine whether the taxation reforms influence foreign direct investment. The study used descriptive research design, whereby it adopted both the primary and secondary data collection method, whereby, the empirical review for different studies was assessed and the conclusion made. The studies were between the years 2010 and 2013. They were administered questionnaires through drop and pick technique and data was analyzed through content analysis, whereby the SPSS was used, also for determining the relationship between the variables, regression analysis was used. The findings to the study confirm that, the response of the foreign investors in critically influenced by the provision of tax hence affecting the foreign investors directly in their home country. This means that, before deciding on investment by the foreign investors, they should understand the tax reforms in a country where they are going to invest for assessing if they are favorable or not for investment purposes and to avoid making losses. In conclusion, the foreign direct investment can be influenced by the taxation reforms, therefore, before a foreigner invests, they should assess the taxation reforms to avoid making losses.

Baccini and Li (2014) researched on whether corporate tax cut is related to foreign direct investments in Russia. The study sought out to examine the relationship between accurate policy tax formulation for cutting off the corporate task and the effect it has on foreign direct investment. The study adopted the quasi-experimental design, whereby the difference-indifference estimation and the synthetic control method was used for assessing the relationship between the two variables that is the corporate tax cut and the foreign direct investments. Different tax policies were reviewed from the Russian governmental records of the year 2003 onwards. From the findings, discriminatory governmental tax off policies has an indirect influence on the investment profits hence reduction of the FDI, which became evident that the government sanctions negatively influence the FDI when the tax is reduced. The research study is important to the investors since it informs them about the taxation policy designs adopted by different governments for ensuring that the investors gain minimum profits and also the government gains from the FDI.

Oyedokun and Azeez (2018) researched on how the tax policy incentives are related to foreign direct investment in Nigeria. The study sought out to establish the effect of tax policy incentives on the incoming FDI in Nigeria. The study adopted the secondary data collection method, whereby records of the central bank of Nigeria between the years 1994 to 2016. Ex-post facto was used as the research design, the multi-regression analysis was used for the determination of the relationship between variables and data was later data analysis for secondary data was done through correlation methods. The findings revealed that custom and excise duties and value-added tax incentives had significant effects respectively on foreign direct investment in the country, while the company's income tax and petroleum profit tax incentives showed insignificant impact respectively on foreign direct investment in Nigeria. In conclusion, taxation policy incentives control the FDI entry in the country's economy, therefore the study recommended that the government should formulate taxation policy reforms which are to the advantage of the country's economy, so as the FDI, cannot affect the economic growth of a country.

Imbayi (2013) conducted a study in Kenya, where it focused on the Impacts of taxation and foreign direct investments in Kenya, the purpose of the study was to examine of taxation has an effect on the foreign direct investment, this is due to globalization which has led to the emergence of mobile which has created a need for the government to bend their taxation reforms for accommodation of everyone in the economy. The descriptive research design was adopted, where the study adopted the secondary data collection method, materials used were between 1999 to 2002 which were collected from the Investment Promotion Centre and Chamber of Commerce and industry, which is the target population. Both the dependent variable that is the FDI and the independent variable that is the taxation reforms were determined through the regression model. The findings indicated that taxation and taxation reforms have an impact on the flow and location of FDI, this is because the government can influence the FDI, because of frequent competition in the economy. The study is recommending that the policymakers who come up with taxation reforms are supposed to formulate and implement policies that hinder or rather control inflation because inflation has a direct impact on FDI.

Kimonye (2014) researched on foreign direct investment and taxation, which is empirical analysis. The study sought out to establish whether the taxation reforms are related to foreign direct investments and also examining the trends of FDI in the Kenyan market. The study became relevant since it outlines the importance of governmental taxation reforms in attracting foreign investors in the Kenyan market. The government should ensure that it revises its loan taxation reforms for attracting foreign investors to contribute to the growth of the economy of the country. The study adopted the secondary data collection technique, whereby, data from 1980 to 2012 were used which included information on the gross domestic products, taxation, trade openness, exchange rates, and inflation. The findings reveal that taxation reforms have positively affected the foreign direct investment and inflation harms foreign investments. The study recommends that policy should be formulated for ensuring that inflation is controlled so that the foreign direct investors can be allowed in the Kenyan market for contribution to economic growth, this will positively have an impact on the country’s economy in absorbing economic shocks.

Omoro and Orinda (2018) researched whether the taxation of administrative reforms and foreign direct investments are related to Kenya. The study sought out to establish the relationship between the taxation administrative reforms and foreign direct investments. The study adopted the exploratory literature review, whereby studies from different scholars were used for data collection; the data was analyzed through the content analysis. The findings indicated that the taxation of administrative reforms is related to the FDI, it harms FDI. Implementation of the reforms, discourage foreign investors from investing in Kenya's economy, this is because they are likely to experience low profits due to the high imposition of taxa. The study made the following conclusion; the government should ensure that they work together with the foreigners in ensuring that the economy is unified through much coordination with the investors and frequent consultation between both parties. Achievement of this will lead to economic growth since both parties' interests are met and satisfied since they are united by common agreements between them hence avoidance of conflict.

Gumo (2013) researched the impact of tax incentives on foreign direct investment a case study of Kenya as a country. The study sought out to achieve the influence of tax incentives on foreign direct investment. The study adopted a descriptive research design; the secondary data collection method was achieved through the records of Kenya Revenue of Authority the Kenya National Bureau of Statistics. For assessing the relationship between variables, the multi-regression analysis was used and finally, for data analysis, statistical inferences were used for the achievement of the objective. The findings revealed that the tax incentives have an impact on FDI when the taxation incentives are implemented on an economy, they tend to affect the rate at which the FDI inflow in the market of Kenya. This is because high taxation discourages the investors since their profit merge will reduce. In conclusion, taxation reforms affect the FDI negatively and the government should reduce the tax that they are imposing on the foreigners for encouraging them to occupy the Kenyan market. They should also ensure that the foreigners invest by increasing economic growth rather than interfering with the local market which reduces the economic growth of the country.

2.5 Summary of the Research Gaps

Gumo (2013) research faces limitations since, the literature review suggests that the influence of tax on FDI is complex and depends on several difficult to measure factors, with additional empirical work required to better understand the role of taxation amongst key factors influencing FDI location decisions. Also, for policy-makers and academic researchers alike, accurate estimates of the FDI response to host country taxation are difficult to make, given the need to consider jointly tax and non-tax factors in different locations, and the prospect that the tax elasticity of FDI may vary considerably across business activities, host countries and time.

One of the main limitations that this study faced was the inconsistency of data from various sources. The data for similar variables was different from the different sources that were used. This poses the problem of data reliability. The government needs to regulate the available data sources for data originating from within the country for uniformity (Kimonye, 2014).

Data from the government from Kenya is analyzed and stored by different entities, thus no centralization. Conclusive data for economic growth was retrieved from the Ministry of Planning and National Development while figures for foreign direct investment are under the custody of the Central bank. Values for the rest of the variables were available from different sources including the World Bank. Data relating to inflation, exchange rate and terms of trade are inadequate in some government sources. Finally, there is the limitation of the time allocated for the study (Musau, 2010).

2.6 Conceptual Framework

The relationship between tax reforms and foreign direct investment was shown in the figure 2.1. The dependent variable was represented by Foreign direct investment while independent variable is represented Tax reforms (Integrated tax management system, payment of taxes via mobile money, electronic cargo tracking system, tax enforcement mechanisms).

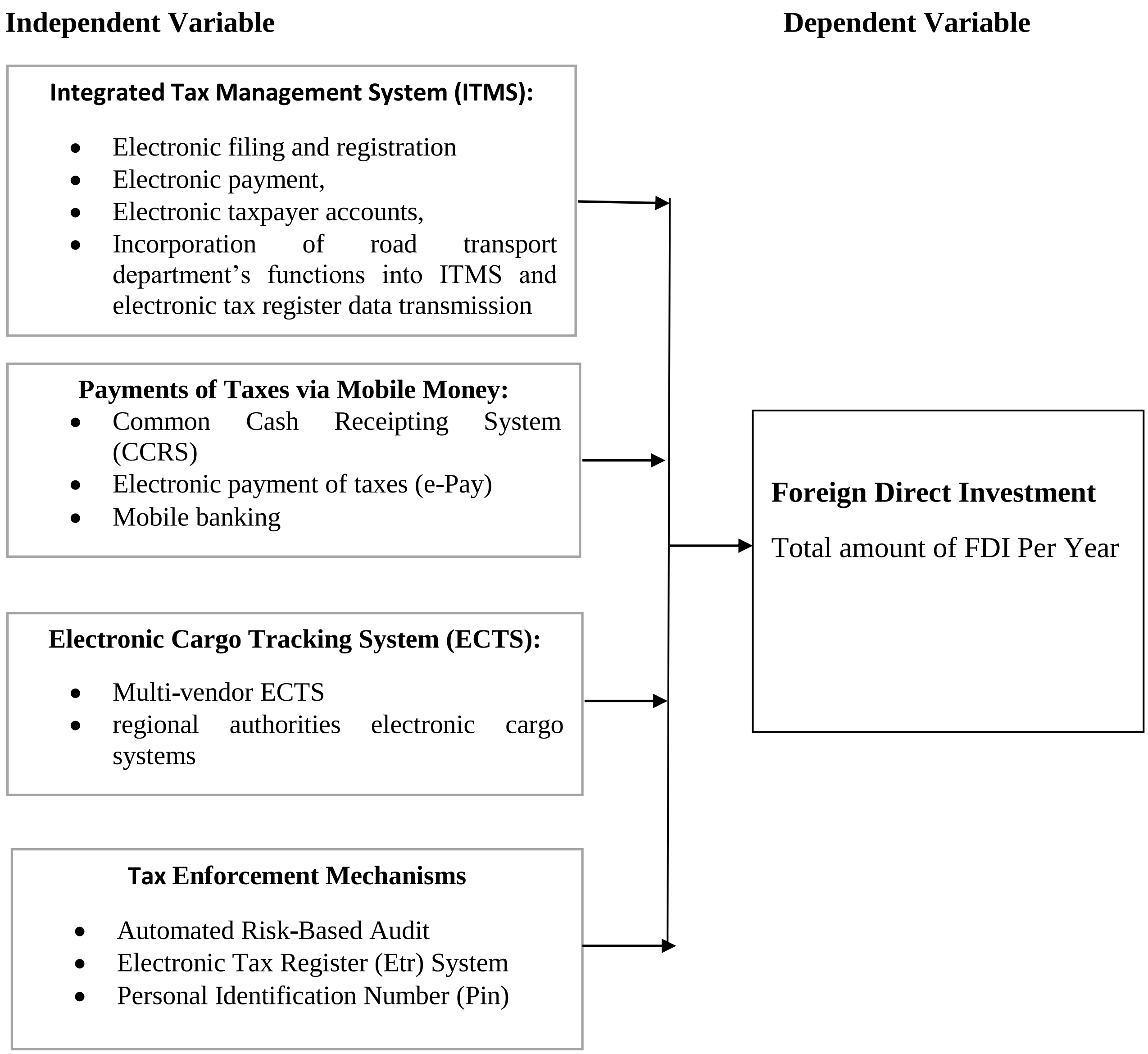

Figure 2.1: Conceptual Framework

2.6 Summary of the Research Gaps

Gumo (2013) research faces limitations since, the literature review suggests that the influence of tax on FDI is complex and depends on several difficult to measure factors, with additional empirical work required to better understand the role of taxation amongst key factors influencing FDI location decisions. Also, for policy-makers and academic researchers alike, accurate estimates of the FDI response to host country taxation are difficult to make, given the need to consider jointly tax and non-tax factors in different locations, and the prospect that the tax elasticity of FDI may vary considerably across business activities, host countries and time.

One of the main limitations that this study faced was the inconsistency of data from various sources. The data for similar variables was different from the different sources that were used. This poses the problem of data reliability. The government needs to regulate the available data sources for data originating from within the country for uniformity (Kimonye, 2014).

Data from the government from Kenya is analyzed and stored by different entities, thus no centralization. Conclusive data for economic growth was retrieved from the Ministry of Planning and National Development while figures for foreign direct investment are under the custody of the Central bank. Values for the rest of the variables were available from different sources including the World Bank. Data relating to inflation, exchange rate and terms of trade are inadequate in some government sources. Finally, there is the limitation of the time allocated for the study (Musau, 2010).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the following methodology was adopted for achieving the research methodology. The study includes the following sections, research design adopted, data collection instrument and procedures and finally data analysis by adopting the following methodology ensured that the research problem is achieved.

3.2 Research Design

Mugenda and Mugenda (1999) defined research design as the technique adopted by the researcher in which they have to develop strategies to solve a specific research problem. The research design is essential because it is time efficient, it allowed the researcher to do prior planning before execution of the project and finally, it offers assurance to the researcher through documentation hence giving them confidence and satisfaction for the project they want to adopt. The following study will use a descriptive research design.

Kothari (1990) defined a descriptive research design as that which describes either qualitative or quantitative data and is essential for data collection since it easily describes data for analysis. This research design was adopted because it can be used in the collection and analysis of studies which is involving a big group of people. It was also accurate and hence effective and efficient; it allows the collection of in-depth data which is crucial to the study. Finally, it was used for the identification and discrepancy of the main variables.

3.3 Data Collection

The following study relied on primary and secondary data. Primary data was collected via structured questionnaire while data on foreign direct investment was collected from Ministry of Industrialization website. Secondary data covered the period between 2014 and 2018. The researcher used these sources because of their relevance to achieving the study objective.

3.4 Data Analysis

The study used the both descriptive statistics and inferential statistics. Finally analyzed data was depicted descriptively through graphs, tables, mean and standard deviation. Inferential statistics was presented by multiple regression. Statistical Package for Social Science (SPSS) was used for data analysis. Also, Pearson regression was used for showing the relationship between variables.

3.4.1 Analytical Model

The multiple regression models to determine the relationship between tax reforms and foreign direct investment in Kenya. The model of this study is as follows:

$Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3 + \beta_4X_4 + \varepsilon$

Where: Y = Dependent variable (FDI)

X1, X2, X3, and X4 = Independent variables β1, β2, β3, β4 = Regression coefficients or change included in Y by each X value

X_1= Integrated Tax Management System (ITMS):

X_2= Payments of Taxes via Mobile Money:

X_3= Electronic Cargo Tracking System (ECTS):

X_4 = Tax Enforcement Mechanisms

α = Constant, ϵ = error term

Interval level of measurement and likert-scale was used to measure the following variables Integrated Tax Management System (ITMS), Payments of Taxes via Mobile Money, Electronic Cargo Tracking System (ECTS), Tax Enforcement Mechanisms, and while foreign direct investment will be measured by natural log of annual FDI.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

The purpose of this study was to investigate the relationship between tax reforms and foreign direct investment in Kenya. This chapter focused on data analysis, interpretation, and presentation by presenting a discussion of background information, descriptive statistics, regression analysis and a discussion of the findings.

4.2 Presentation of the Findings

This subsection presents demographic data collected from the respondents. This was guided by general information that constituted of age, gender, the length of period respondents had worked in the company, the department they worked and the period they had been working in the department. This information was important because it provided a basis of understanding the respondents' comprehension of tax reforms and thus validating their competency of providing valuable data.

4.2.1 Response Rate

The researcher administered the questionnaire to 60 people. Out of the 60, 52 questionnaires were dully filled and returned. According to According to Mugenda and Mugenda (2003), in research a response rate of 50 percent is adequate for analysis and reporting; a rate of above 60 percent is good excellent. The table 4.1 presents the findings.

Table 4.1 Response Rate

Questionnaires	**Frequency**	**Percent (%)**
Dully Filled	52	86.67%
Not Filled	8	13.33%%
Total	60	100%

Source: Primary Data, 2019

The study achieved a response rate of 86.67%. Thus, the figure was adequate to allow analysis, interpretation and inference of the data.

4.2.2 Age of the Respondent

The study asked respondents to indicate the age group bracket to which they belonged. Findings from the study are as presented in the figure 4.1.

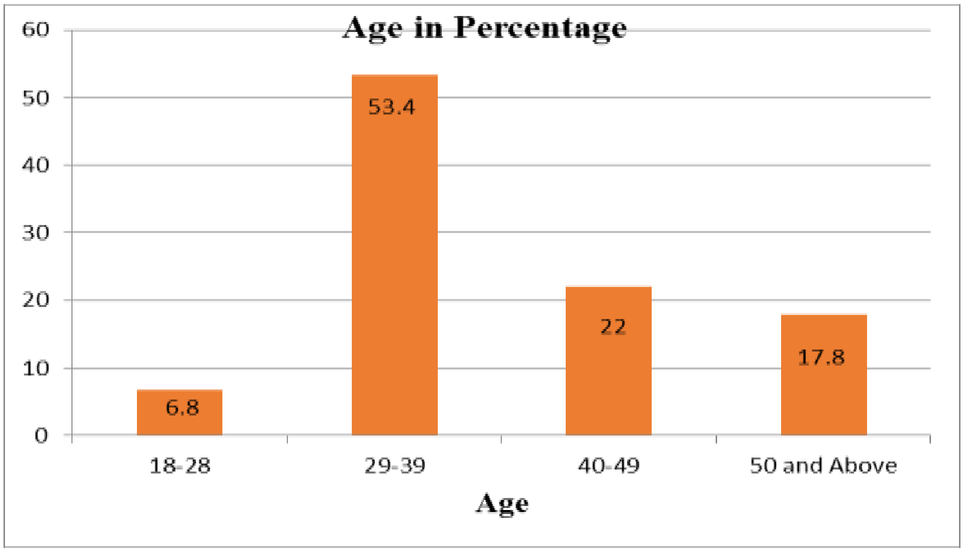

Figure 4.1: Age of the respondent

Source: Primary Data, 2019

From the figure 4.1 there was a clear indication that a majority of the respondents were between 29-39 years of age (53.4%), this group was followed by those aged between 40-49 years (22%). 17.8% of the respondents were aged 5o years and above while 6.8% of the respondents were aged between 18-28 years of age.

4.2.3 Gender

The study also sought to understand the gender composition of the individuals participating in the study. Figure 4.2 presents the results.

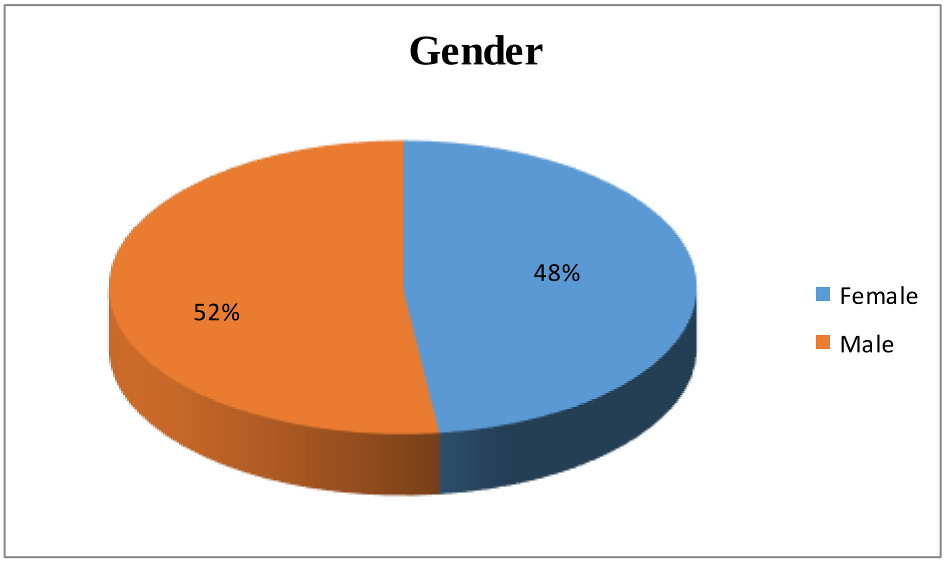

Figure 4.2: Gender

Source: Primary Data, 2019

Figure 4.2 shows that the study almost achieved a gender balance in the respondents. 52% of the study participants were male while 48% of the respondents were female.

4.2.4 Length of Period Working in Company

The study also sought to determine for how long the respondents had worked in the company. The findings of the study are as presented in the figure 4.3

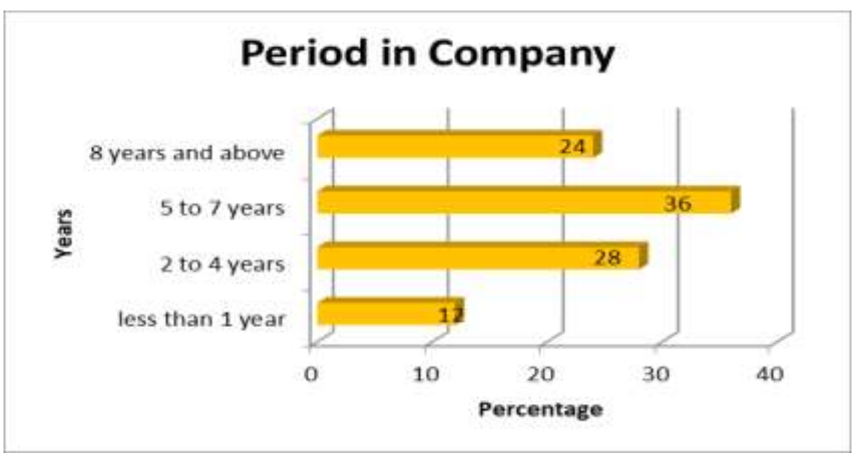

Figure 4.3: Period in Company

Source: Primary Data, 2019

The study established that most of the respondents (43%) had worked in the company for a period of 5 to 7 years. 27% of the respondents had worked for the company for 8 years and above, 24% of the respondents had worked for 2 to 4 years while only 6 percent of the respondents had worked for a period less than a year.

From these finding it can be deduced that most of the respondents were well vested with information about the company due to the lengthy time period that they have been working in the organization.

4.2.5 Department

The study wanted to find out the various departments in which the respondents worked. The findings of the study are as shown in figure 4.4.

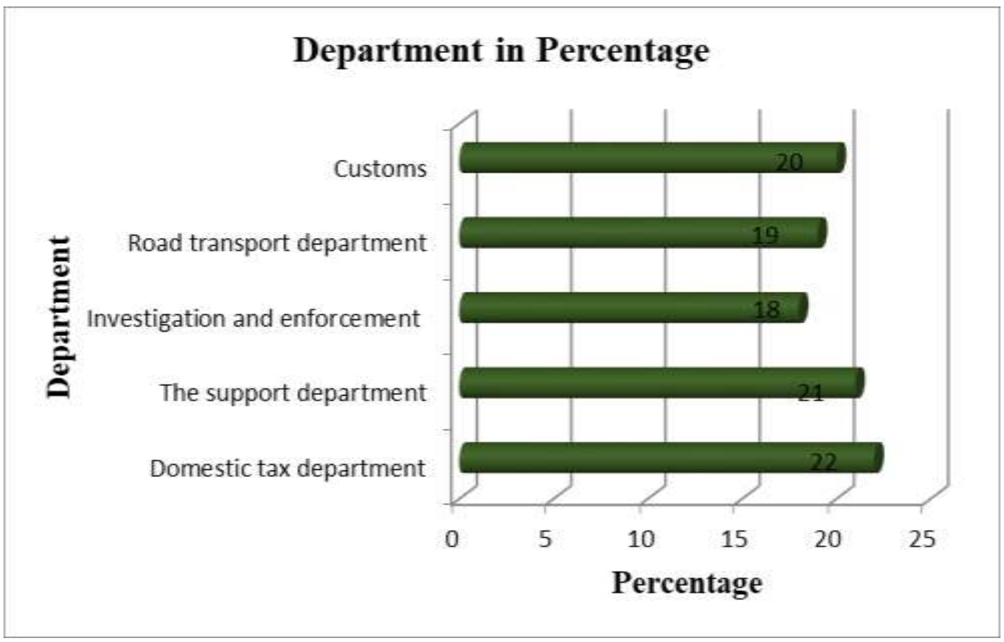

Figure 4.4 Department

Source: Primary Data, 2019

Figure 4.4 revealed that 22% of the respondents worked in the domestic tax department, 21% worked in the support department, 20% worked in the customs department, 19% worked in the roads transport department and 18% worked in the investigation and enforcement department.

Thus it can be inferred that the study was well equipped to investigate tax reforms since the various respondents came from different departments. This is because different departments experience different tax reforms and having different departments would imply a pool of knowledge on the various tax reforms.

4.2.6 Length of Period in Department

The study sought to establish how long the individual respondents had worked in their various departments. Figure 4.5 presents the findings.

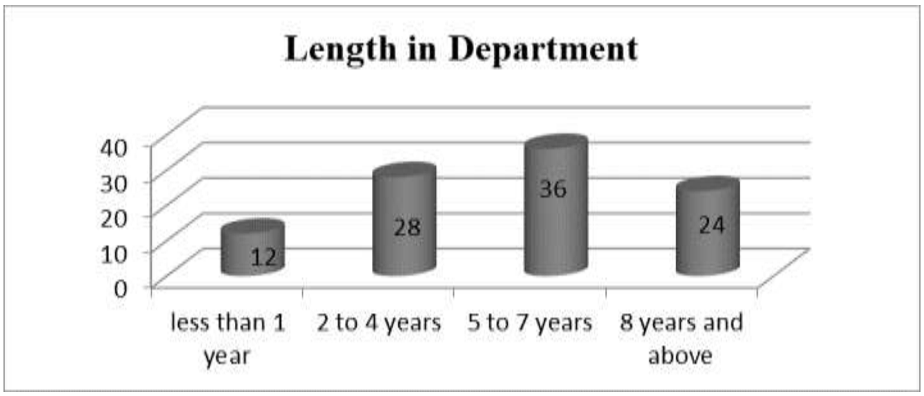

Figure 4.5: Length in Department

Source: Primary Data, 2019

The findings established that 36% of the respondents had worked in their various departments for a period between 5 to 7 years, 28% of the respondents had worked for 2 to 4 years in their departments, 24% of the respondents had worked for 8 years and above and 12% had worked for a period of less than 1 year.

Thus it can be deduced that a majority of the respondents 60% had been working in their departments for more than 5 years. This means that they have been in their departments long enough to understand tax reforms and its effects on FDI inflows therefore they were equipped with knowledge that could help the study.

4.3 Effect of Tax Reforms on FDI

This section sought to determine the effect of tax reforms on FDI. The various aspects of tax reforms that were captured included: integrated tax management System (ITMS), payments of taxes via mobile money**,** electronic cargo tracking system (ECTS) and tax enforcement mechanisms. To measure the various aspects of tax reforms the researcher used a likert scale in which the study was able to derive a mean and standard deviation. The mean showed the average opinion of the respondents while the standard deviation wasn't used to gauge the similarity of the respondents' opinions. The data was analyzed and the findings presented.

4.3.1 Effect of Integrated Tax Management System on FDI

In order to access the effect of integrated tax management system on FDI the study employed the use of a likert scale to rate respondents feelings towards various aspects of the ITMS. The Likert scale was divided into five points where; 1= No Extent, 2 Little Extent, 3=Moderately, Extent, 4= Great Extent, 5= Very Great Extent. The findings are presented in the table 4.2.

Table 4.2: ITMS

Integrated Tax Management System	**N**	**Mean**	**Standard Deviation**
Has electronic filling and registration affected the FDI	52	4.69	0.53
Has electronic payment of taxes influenced FDI	52	4.43	0.558
Has electronic taxpayer account influenced FDI	52	4.34	0.802
Has incorporation of road transport functions in ITMS influenced FDI	52	4.29	0.667
Has electronic tax register data transmission influenced FDI	52	4.17	0.514
Has tax return process affected FDI	52	4.11	0.676
Has taxpayer services portal influenced FDI	52	4.11	0.583
Has having accounts for taxpayers influenced FDI	52	4.09	0.612
Has ITMS improved compliance and monitoring of taxes hence affected FDI	52	3.74	0.741
Has security management in taxation influenced FDI	52	3.66	0.591
Has central management parameters in taxation influenced	52	3.6	0.651
Has workflow management in taxation influenced FDI	52	3.6	0.599

.**Source: Primary Data, 2019**

Respondents were asked to rate statements in regards to ITMS which would have an effect on foreign direct investment. The respondents indicated to a very great extent that electronic filing and registration had affected the FDI as indicated by a mean of 4.69 and standard deviation of 0.53.

The respondents stated to a great extent that electronic payments of taxes influenced FDI as indicated by a mean of 4.43 and standard deviation of 0.553. The respondents also acknowledged that to a great extent that electronic taxpayer account influenced FDI as shown by the mean of 4.34 and standard deviation of 0.802. The respondents stated to a great extent that incorporation of road transport functions in ITMS influenced FDI as indicated by the mean of 4.29 and standard deviation of 0.667. The respondents also admitted that electronic tax register data transmission influenced FDI as pointed out by the mean 4.17 of and standard deviation of 0.514. The respondents also stated to a great extent that tax return process affected FDI as shown by the mean of and standard deviation of 4.11 and standard deviation of 0.676. The respondents also attested to a great extent that taxpayer services portal influenced FDI this was indicated by the mean of 4.11 and standard deviation 0.583. The respondents suggested to a great extent that having accounts for taxpayers influenced FDI as shown by the mean of 4.09 and standard deviation of 0.612.

The respondents stated that ITMS improved compliance and monitoring of taxes hence affected FDI to a great extent as revealed by the mean of 3.74 and standard deviation of 0.741. The respondents noted that security management in taxation influenced FDI to a great extent as indicated by the mean of 3.66 and standard deviation of 0.591. The respondents acknowledged to a great extent that central management parameters in taxation influenced this was pointed out by a mean of 3.6 and standard deviation of 0.651. The respondents further agreed to a great extent that workflow management in taxation influenced FDI as indicated by a mean of 3.6 and standard deviation of 0.599.

It is important to note that all standard deviations were less than the mean and less than 1 indicating consistency of the opinions of the respondents towards the statements.

4.3.2 Effect of Payments of Taxes via Mobile Money on FDI

To access the effect of payment of taxes via mobile money on FDI the researcher employed the use of a likert scale. The Likert scale was divided into five points where; 1= No Extent, 2 Little Extent, 3=Moderately, Extent, 4= Great Extent, 5= Very Great Extent. The findings are presented in the table 4.3.

Table 4.3: Payment of Taxes via Mobile Money

Payments of Taxes via mobile money	N	Mean	Standard Deviation
Has common cash receipting system of payment influenced FDI	52	4.73	0.707
Has electronic payment of taxes(e-pay) influenced FDI	52	4.57	0.739
Has mobile banking payment of tax influenced FDI	52	4.57	0.948
Has inclusion of Mesa in tax payment influenced FDI	52	4.36	0.833
Has tax payment via the mobile KRA portal influenced FDI	52	4.28	0.923
Has integration CCRS with CBK influenced FDI	52	4.21	0.733
Has enhancement of CCRS in incorporating electronic payment improved FDI	52	4.18	0.676
Has payment via mobile money influenced FDI	52	4.13	0.789
Has mobile money taxes repayment collected high revenue	52	4.05	0.562

Source: Primary Data, 2019

Table 4.2 above indicates that respondents agreed to a very great extent that common cash receipting system of payment influenced FDI as indicated by the mean of 4.73 and standard deviation of 0.707. The respondents also acknowledged to a very great extent that electronic payment of taxes (e-pay) influenced FDI with a mean of 4.57 and standard deviation of 0.739. The respondents also stated to a very great extent that mobile banking payment of tax influenced FDI with a mean of 4.57 and standard deviation of 0.948. The respondents also attested to great extent that inclusion of Mesa in tax payment influenced

FDI as indicated by the mean of 4.36 and standard deviation of 0.833. The respondents stated to a great extent that tax payment via the mobile KRA portal influenced FDI as shown by the mean of 4.28 and standard deviation of 0.923. The respondents acknowledged to a great extent that integration CCRS with CBK influenced FDI as revealed by the mean of 4.21 and standard deviation of 0.733. Respondents states to a great extent that enhancement of CCRS in incorporating electronic payment improved FDI with a mean of 4.18 and standard deviation of 0.676. The respondents further noted to a great extent that payment via mobile money influenced FDI as indicated by the mean of 4.13 and standard deviation of 0.789. Respondents also agreed to a great extent that mobile money taxes repayment collected high revenue with a mean of 4.05 and standard deviation of 0.562.

The standard deviations were less than 1 suggesting that there were similarities in the respondents of in the study. Thus, this implies that the means derived from the responses were not due to chance.

4.3.3 Effect of Tax Enforcement Mechanism on FDI

The study sought the respondents' opinion on effect of tax enforcement mechanism on FDI by using a Likert Scale. The Likert scale was divided into five points where; 1= No Extent, 2 Little Extent, 3=Moderately, Extent, 4= Great Extent, 5= Very Great Extent. The findings are presented in the table 4.4.

Table 4.4: Effect of Tax Enforcement Mechanism

Tax enforcement mechanism	N	Mean	Standard Deviation
Has automated risk audit influenced FDI	52	4.91	0.751
Has electronic tax register systems influenced FDI	52	4.82	0.281
Has implementation of Personal Identification number have an influence on FDI	52	4.81	0.311
Has renewing of TEM have an impact in addressing cyber crimes	52	4.72	0.341
Has renewing of TEM safeguarded taxation hence influenced FDI	52	4.52	0.371
Has renewing of TEM led to compliance of taxpayers	52	4.32	0.401
Has inclusion of full information of referral guidelines improved taxation	52	4.12	0.431
Has implementation of custom regime for detecting under-valuation affected FDI	52	3.92	0.461
Has enhancement of enforcement tools such as scanners influenced FDI	52	3.72	0.491
Has usage of automated third-party information, ease detection of unregistered tax payers	52	3.52	0.521

Source: Primary Data, 2019

From the findings it was deduced that the highest mean score was 4.91 and a highest standard deviation of 0.751 in which the respondents agreed to a very great extent that automated risk audit influenced FDI. The median score was 4.32 and had a standard deviation of 0.401 which implied that respondents agreed to a great extent that renewing of TEM led to compliance of taxpayers. The least score for the mean was 3.52 and had a standard deviation of 0.521 which means that respondents agreed to a great extent that usage of automated third-party information, ease detection of unregistered tax payers.

The standard deviations were less than the mean implying that they were concentrated around the mean. The fact that they were less than 1 also meant that there was consistency in the respondents feelings towards the statements asked.

4.3.3 Effect of Electronic Cargo Tracking System on FDI

The study also tried to find out the effect of electronic cargo tracking system on FDI. To access this effect the researcher employed the use of a Likert scale. The Likert scale was divided into five points where; 1= No Extent, 2 Little Extent, 3=Moderately, Extent, 4= Great Extent, 5= Very Great Extent. The findings are presented in the table 4.5.

Table 4.5 Electronic Cargo Tracking System

Electronic cargo tracking system	**N**	**Mean**	**Standard Deviation**
Has multi-vendor ECTS influenced FDI	52	4.45	0.287
Has regional authority's cargo systems influenced FDI	52	4.37	0.395
Has the integration of RACS with other systems influenced FDI	52	4.29	0.503
Has RACS improved monitoring of the cargos effectively	52	4.21	0.611
Has rolling out of ECSTS to other service providers affected FDI	52	4.13	0.719
Has ECSTS cost effectiveness affected FDI	52	4.05	0.827
Has ECSTS improved theft and vandalism of cargo	52	3.97	0.935
Has ECSTS provided cargo visibility	52	3.89	0.939
Has technology contributed to the effectiveness of taxation and FDI	52	3.81	0.958
Has governmental policies improved the usage of ECSTS	52	3.73	0.977

Source: Primary Data, 2019

The highest mean score was 4.45 with a standard deviation of 0.287 in which the respondents attested to a great extent that multi-vendor ECTS influenced FDI. The respondents also agreed to a great extent that rolling out of ECSTS to other service providers affected FDI with a mean of 4.13 and a standard deviation of 0.719. The issue of governmental policies improving the usage of ECSTS had the least mean of 3.73 and had a standard deviation of 0.977 implying that respondents also agreed to that statement to a great extent. The standard deviations were less than 1 implying the respondents' consistency in the respondents' opinions towards the various statements in question.

4.4 Regression Analysis

Regression analysis is a powerful method that helps identify which variables have an effect on the topic of interest. The process of performing a regression allows the researcher to confidently determine which factors matter most, which factors can be ignored, and how these factors influence each other. The study carried out a regression analysis to help determine how tax reform variables affected FDI. The results of the analysis are presented in model summary, Anova table and coefficients table. The model summary explains how much variation of the dependent variable is caused by the independent variables fitted in the model. The ANOVA evaluates the significance of the model based on the levels of variability within the model. The coefficient table tells which variables had a positive or negative impact on the dependent variable and by what amount.

Table 4.6: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905[a]	0.819	0.793	0.24895

a. Predictors: (Constant), ITMS, Taxes via Mobile, Tax Mechanisms, Electronic Cargo

Source: Primary Data, 2019

The findings revealed that R-Square was 0.819. This means that 81.9% of the variation in the model used to explain FDI was as a results of the independent variables ITMS, payment of taxes through mobile money, tax mechanisms and electronic cargo. This also suggests that 18.1% of the variation in FDI is explained by other factors not captured in the study and due to error terms.

Table 4.7 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2104.129	4	526.0323	18.691	.000[b]
	Residual	1350.879	48	28.1433		
	Total	3455.008	52			

a. Dependent Variable: FDI

b. Predictors: (Constant), ITMS, Taxes via Mobile, Tax Mechanisms, Electronic Cargo

Source: Primary Data, 2019

The findings show that the model level of significance is 0.000 which is less than the p value 0.05. Thus, the model is statistically significant in predicting how ITMS, payment of taxes through mobile money, tax mechanisms and electronic cargo affect FDI in Kenya.

Table 4.8 Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.735	0.458		5.189	0.001
	ITMS	0.031	0.059	0.05	0.517	0.000
	Taxes via Mobile	0.122	0.093	0.142	1.351	0.034
	Electronic Cargo	0.543	0.102	0.572	5.298	0.006
	Tax Mechanisms	0.262	0.039	0.39	6.643	0.019

Source: Primary Data, 2019

From the findings it was deduced that the model for predicting FDI based on integrated tax management system (ITMS), payments of taxes via mobile money, electronic cargo tracking system (ECTS) and tax enforcement mechanisms can be written as;

$Y=2.735+0.031X_1+ 0.122X_2+0.543X_3+0.262X_4$

Where;

Y= FDI

X_1= Integrated Tax Management System (ITMS):

X_2= Payments of Taxes via Mobile Money:

X_3= Electronic Cargo Tracking System (ECTS):

X_4 = Tax Enforcement Mechanisms

From these findings it can be deduced that the constant value for FDI is 2.735. This means that if integrated tax management system (ITMS), payments of taxes via mobile money, electronic cargo tracking system (ECTS) and tax enforcement mechanisms were held constant then the value of FDI at any particular point would be 2.735. ITMS had a weak and positive impact on FDI as implied by the beat coefficient of 0.031. This means that for very unit increase in ITMS, FDI goes up by 0.031 units. Payment of taxes via mobile money had a weak but positive impact on FDI as indicated by the beta coefficient of 0.122. This means that FDI goes up by a value of 0.122 for every unit increase in payment of taxes via mobile money. Electronic cargo also had a positive impact on FDI as shown by the beta value of 0.543. This suggests that for every additional unit increase in electronic cargo the value of FDI goes up by 0.543. Tax mechanisms also had a weak and positive impact on FDI as revealed by the beta value of 0.262. This means that for every unit increase in measures on tax mechanisms the value of FDI goes up by a value 0.262.

4.5 Discussion of the Findings

From the findings it can be deduced that integrated tax management system (ITMS), payments of taxes via mobile money, electronic cargo tracking system (ECTS) and tax enforcement mechanisms had an effect on FDI. The fitted model containing these four variables explained 81.9% of the total variation in FDI.

Further the study found out that all the variables under study had a positive influence on FDI. ITMS had positive impact on FDI as implied by the beat coefficient of 0.031. Payment of taxes via mobile money had a positive impact on FDI as indicated by the beta coefficient of 0.122. Electronic cargo also had a positive impact on FDI as shown by the beta value of 0.543. Tax mechanisms also had a weak and positive impact on FDI as revealed by the beta value of 0.262.

The findings of this study concur with those of Olaoye et al (2016) whose study confirmed that a series of tax reforms in Nigeria were highly influential on the present level of foreign direct investment drive in the country.

The findings of the study were also in agreement with Kimonye (2014) who notes that the government tax reforms were key and essential in attracting foreign direct investment in Kenya.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary, conclusion and recommendations of the study based on the research objective. The purpose of the study was to investigate the relationship between tax reforms and foreign direct investment in Kenya. The chapter further presents the limitations of the study and gives suggestions for further research.

5.2 Summary of Findings

The study was carried out with the aim of investigating the effect of tax reforms on foreign direct investments. On accessing whether ITMS had an effect on FDI findings revealed that respondents indicated to a very great extent that electronic filing and registration had affected the FDI as indicated by a mean of 4.69 and standard deviation of 0.53. The respondents stated to a great extent that electronic payments of taxes influenced FDI as indicated by a mean of 4.43 and standard deviation of 0.553. The respondents also acknowledged that to a great extent that electronic taxpayer account influenced FDI as shown by the mean of 4.34 and standard deviation of 0.802. The respondents stated to a great extent that incorporation of road transport functions in ITMS influenced FDI as indicated by the mean of 4.29 and standard deviation of 0.667. The respondents also admitted that electronic tax register data transmission influenced FDI as pointed out by the mean 4.17 of and standard deviation of 0.514. The respondents also stated to a great extent that tax return process affected FDI as shown by the mean of and standard deviation of 4.11 and standard deviation of 0.676. The respondents also attested to a great extent that taxpayer services portal influenced FDI this was indicated by the mean of 4.11 and standard deviation 0.583. The respondents suggested to a great extent that having accounts for taxpayers influenced FDI as shown by the mean of 4.09 and standard deviation of 0.612. The respondents stated that ITMS improved compliance and monitoring of taxes hence affected FDI to a great extent as revealed by the mean of 3.74 and standard deviation of 0.741. The respondents noted that security management in taxation influenced FDI to a great extent as indicated by the mean of 3.66 and standard deviation of 0.591. The respondents acknowledged to a great extent that central management parameters in taxation influenced this was pointed out by a mean of 3.6 and standard deviation of 0.651. The respondents further agreed to a great extent that workflow management in taxation influenced FDI as indicated by a mean of 3.6 and standard deviation of 0.599.

Findings on the effect on payment of taxes through mobile money indicated that respondents agreed to a very great extent that common cash receipting system of payment influenced FDI as indicated by the mean of 4.73 and standard deviation of 0.707. The respondents also acknowledged to a very great extent that electronic payment of taxes (e-pay) influenced FDI with a mean of 4.57 and standard deviation of 0.739. The respondents also stated to a very great extent that mobile banking payment of tax influenced FDI with a mean of 4.57 and standard deviation of 0.948. The respondents also attested to great extent that inclusion of Mesa in tax payment influenced FDI as indicated by the mean of 4.36 and standard deviation of 0.833. The respondents stated to a great extent that tax payment via the mobile KRA portal influenced FDI as shown by the mean of 4.28 and standard deviation of 0.923. The respondents acknowledged to a great extent that integration CCRS with CBK influenced FDI as revealed by the mean of 4.21 and standard deviation of 0.733. Respondents states to a great extent that enhancement of CCRS in incorporating electronic payment improved FDI with a mean of 4.18 and standard deviation of 0.676. The respondents further noted to a great extent that payment via mobile money influenced FDI as indicated by the mean of 4.13 and standard deviation of 0.789. Respondents also agreed to a great extent that mobile money taxes repayment collected high revenue with a mean of 4.05 and standard deviation of 0.562.

Investigation on the effect of tax mechanism on FDI established that the highest mean score was 4.91 and a highest standard deviation of 0.751 in which the respondents agreed to a very great extent that automated risk audit influenced FDI. The median score was 4.32 and had a standard deviation of 0.401 which implied that respondents agreed to a great extent that renewing of TEM led to compliance of taxpayers. The least score for the mean was 3.52 and had a standard deviation of 0.521 which means that respondents agreed to a great extent that usage of automated third-party information, ease detection of unregistered tax payers.

The study determination of the effect of electronic cargo on FDI deduced that highest mean score was 4.45 with a standard deviation of 0.287 in which the respondents attested to a great extent that multi-vendor ECTS influenced FDI. The respondents also agreed to a great extent that rolling out of ECSTS to other service providers affected FDI with a mean of 4.13 and a standard deviation of 0.719. The issue of governmental policies improving the usage of ECSTS had the least mean of 3.73 and had a standard deviation of 0.977 implying that respondents also agreed to that statement to a great extent.

Findings form the regression analysis showed that ITMS had positive impact on FDI as implied by the beat coefficient of 0.031. Payment of taxes via mobile money had a positive impact on FDI as indicated by the beta coefficient of 0.122. Electronic cargo also had a positive impact on FDI as shown by the beta value of 0.543. Tax mechanisms also had a weak and positive impact on FDI as revealed by the beta value of 0.262.

5.3 Conclusion

The study through regression analysis concluded that that integrated tax management system (ITMS), payments of taxes via mobile money, electronic cargo tracking system (ECTS) and tax enforcement mechanisms had an effect on FDI had a positive impact on the FDI in Kenya. However, it was also noted that all the variables influenced FDI with different magnitudes with electronic cargo having the highest impact on FDI and ITMS having the least influence on ITMS.

5.4 Recommendations

Foreign direct Investment is critical in the growth of any country's economy. The study therefore recommends that the government should be keen in monitoring all factors that influence FDI. This is because foreign investor response is critically shaped by the tax provisions faced by the foreign investor in his home country, and by the effects of tax reform on pre-tax asset return.

Thus, this informs the need for dynamism in Kenya tax system in order to fit into the changing international economies.

5.5 Limitations

Among the challenges that the study faced was time constraints. Because of the limited amount of time set aside to carry out the research the researcher was not able to achieve 100% coverage of the sample size.

The other major challenge the study received was the issue of biasness. Although the researcher had identification to allow him to carry out the research some of the respondents were reluctant in giving out information as evidenced by some of the questionnaires that were not dully filled.

5.6 Suggestions for Further Research

The study established that tax reforms based integrated tax management system (ITMS), payments of taxes via mobile money, electronic cargo tracking system (ECTS) and tax enforcement mechanisms influenced FDI by 81.9%. This it would be paramount for researchers to investigate other factors that might have an impact on FDI and accounts for the remaining 18.1% of the variation in FDI.

In addition corruption and governance are key factors that influence tax reforms in the country. Thus, it is important for researchers to investigate how these two factors affect tax reforms and what could be their long term implication of FDI.

REFERENCES

Artige, L., Nicolini, R. (2005), "Evidence on the Determinants of Foreign Direct Investment: The Case of Three European Regions." http://pareto.uab.es/wp/2005/65505.pdf

Bailey, N. (2018). Exploring the relationship between institutional factors and FDI attractiveness: a metaanalytic review. *International business review*, 27 (1), 139-148.

Benzarti, Y., & Carloni, D. (2019). Who really benefits from consumption tax cuts? Evidence from a large VAT reform in France. *American economic journal: economic policy*, 11 (1), 38-63.

Charkrabarti, A. (2001), "The Determinants of Foreign Direct Investment: Sensitivity Analyses of Cross-Country Regressions." Kyklos, 54(1), 89-114.

Chaves, A. (2013). *The impact of taxes on international trade and foreign direct investment.* Ph.D. thesis, University Of Delaware, , 300 pages; 3423-312

Dellis, K., Sonderman, D., & Vansteenkiste, I. (2017). Determinants of FDI inflows in advanced economies: does the quality of economy structures matter? *ECB working paper.*

Dhingra, S. et al., (2018). UK trade and FDI: a post-brexit perspective. *Papers in regional science*, 97 (1), 9-24.

Edmiston, K., Mudd, S., & Valev, N. (2013). Tax structures and FDI: the deterrent effects of complexity and uncertainty. *Fiscal studies*, 24 (3), 341-359.

Gajewski, J. D. (2017). Theoretical models of taxation of holding companies in member states of the European union. *Warsaw forum of economic sociology*, 8 (1(15)), 69-85.

Gitaru, K. (2015). The impact of system automation on revenue collection in Kenya Revenue Authority. (a case study of SIMBA).

Godwin Emmanuel Oyedokun, T. A. (2018). Taxation policy incetives and foreign direct investments in Nigeria. *Research gate journal* , 1-25.

Groenewegen, P. (2007). *Alfred Marshall: Economist 1842-1924*. NewYork: Palgrave Macmillan.

Gumo, M. S. (2013). *The effect of tax incentives on Foreign direct investment in Kenya.* Nairobi: Uon Repository.

Hadjikhani, A. (1997). *A note on the criticisms against the internationalization process model.* Uppsala: Företagsekonomiska Institutionen Uppsala Universitet, Department of Business Studies Uppsala University.

Hartman, D. G. (1994), "Tax Policy and Foreign Direct Investment in the United States." National Tax Journal, 37 (4), pp. 475-488

Heinemann, F. et al., (2018). Implications of the US tax reform for transatlantic FDI. *Intereconomics*, 53 (2), 87-93.

Hennart, J. F. (1982). *A theory of multinational enterprise*. Ann Arbor: University of Michigan Press.

Imbayi, G. T. (2013). *An Investigation on the effects of taxation on foreign directi investiment in Kenya.* Nairobi: Uon Repository.

Jones, C., & Temouri, Y. (2016). The determinants of tax haven FDI. *Journal of world business,* 51 (2), 237-250.

Jordaan, J. C. (2004), "Foreign Direct Investment and Neighbouring Influences." Unpublished doctoral thesis, University of Pretoria

Keynes, J. M. (2018). *The general theory of employment, interest, and money*. Cambridge :Palgrave Macmillan.

Kimonye, T. G. (2014). *Foreign Direct Investments and taxation reforms in Kenya.* Nairobi: uon Repository.

Kinuthia, K. B., & Murshed, S. M. (2015). FDI determinants: Kenya and Malaysia compared. *Journal of policy modelling,* 37 (2), 388-400.

Kinyanjui, S. (2014). The impact of terrorism on foreign direct investment in Kenya. *Imternational journal of business administration,* 5 93), 148-157.

Kothari, C.R. (1990) Research Methodology: Methods and Techniques Wishwa. Prakashan, New Delhi.

Leonardo Baccini, Q. L. (2014). Corporate tax cuts and foreign direct invetsments. *Journal of Policy Analysis and Management, 33(4),* , 977-1006.

Long, C., Yang, J., & Zhang, J. (2015). Institutional impact of foreign direct investment in China. *World development,* 66, 31-48.

Masca, E. D. (2018). *Determinants of foreign trade investment flows to developing countries ; a cross sectional analysis.* Afyonkarahisar: Afyon Kocatepe University, Faculty of Economics and Administrative Sciences, Afyonkarahisar.

Mugenda, O.M. and Mugenda, A.G. (1999) Research Methods: Quantitative and Qualitative Approaches. Acts Press, Nairobi

Musau, K. A. (2010). *The relationship between foreign direct investments and economic growth in Kenya.* Nairobi: Uon Repository.

Mwega, F., & Ngugi, W. R. (2013). Foreign direct investment in Kenya. *Foreign direct investment*.

Nyamwange, M. (2015). Foreign direct investment in Kenya.

ODI (1997), "Foreign Direct Investment Flows to Low-Income Countries: A Review of the Evidence." http://www.odi.org.uk/publications/briefing/3_97.html.

Omoro, R. O. (2018). Tax administration reforms and foreign direct investment: Acritical literature review. *International Journal of Economics, Commerce and management, 6(10),* 1-6.

Rehman, U. N. (2016). FDI and economic growth: empirical evidence from Pakistan. *Journal of economic and administrative sciences,* 32 (1), 63-76.

Shephard, A. (2017). Equilibrium search and tax credit reform. *International economic review,* 58 (4), 1047-1088.

Skabic, I. K. (2015). The importance of corporate taxation for fdi attractiveness of southeast European countries. *Panoeconomicus*, 62 (1), 105-122.

Swenson, D. L. (2014). The Impact of U.S tax reforms on foreign direct investment in the United States. *Journal of Public Economies, 54(2),* 243-266.

Tang, Y., & Zhang, H. K. (2016). Absorptive capacity and benefits from FDI: evidence from Chinese manufactured exports. *International review of economics & finance,* 42, 423-429.

Tavares-Lehmann, A. T., Coelho, Â., & Lehmann, F. (2012). *Taxes and Foreign Direct Investment Attraction: A Literature Review.* Progress in International Business Research, 7, 89-117.

Yagan, D. (2015). Capital tax reform and the real economy: the effects of the 2003 dividend tax cut. *American economic review,* 105 (12), 3531-63.

APPENDIX: QUESTIONNAIRE

Section A: BACKGROUND INFORMATION

1. What is your age?	Between 18 to 28 Years	[ ]	Between 29 to 39 yrs	[ ]
	Between 40 to 49 Years	[ ]	50 and above	[ ]
2. What is your gender	Male	[ ]	Female	[ ]
3. How long have you worked in the company	less than 1 year	[ ]	2 to 4 years	[ ]
	5 to 7 years	[ ]	8 years and above	[ ]
4. Which department do you belong	Domestic tax department	[ ]	Investigation and enforcement	[ ]
	The support department	[ ]	Road transport department	[ ]
	Customs department	[ ]		
5. How long have you worked in your department	less than 1 year	[ ]	2 to 4 years	[ ]
	5 to 7 years	[ ]	8 years and above	[ ]

SECTION B: TAX REFORMS AND FDI

Below are several statements on the effects of Taxation reforms on Foreign direct investment in Kenya. Use a scale of 1-5 where; 1= No Extent, 2 Little Extent, 3=Moderately Extent, 4= Great Extent, 5= Very Great Extent

Integrated tax management system	**1**	**2**	**3**	**4**	**5**
Has electronic filling and registration affected the FDI					
Has electronic payment of taxes influenced FDI					
Has electronic taxpayer account influenced FDI					
Has incorporation of road transport functions in ITMS influenced FDI					
Has electronic tax register data transmission influenced FDI					
Has tax return process affected FDI					
Has taxpayer services portal influenced FDI					
Has having accounts for taxpayers influenced FDI					
Has ITMS improved compliance and monitoring of taxes hence affected FDI					
Has security management in taxation influenced FDI					
Has central management parameters in taxation influenced					
Has workflow management in taxation influenced FDI					
Payments of Taxes via mobile money					
Has common cash receipting system of payment influenced FDI					
Has electronic payment of taxes(e-pay) influenced FDI					

Has mobile banking payment of tax influenced FDI					
Has inclusion of Mesa in tax payment influenced FDI					
Has tax payment via the mobile KRA portal influenced FDI					
Has integration CCRS with CBK influenced FDI					
Has enhancement of CCRS in incorporating electronic payment improved FDI					
Has payment via mobile money influenced FDI					
Has mobile money taxes repayment collected high revenue					
Tax enforcement mechanism					
Has automated risk audit influenced FDI					
Has electronic tax register systems influenced FDI					
Has implementation of Personal Identification number have an influence on FDI					
Has renewing of TEM have an impact in addressing cyber crimes					
Has renewing of TEM safeguarded taxation hence influenced afdi					
Has renewing of TEM led to compliance of taxpayers					
Has inclusion of full information of referral guidelines improved taxation					
Has implementation of custom regime for detecting under- valuation affected FDI					
Has enhancement of enforcement tools such as scanners influenced FDI					

Has usage of automated third-party information, ease detection of unregistered tax payers					
Electronic cargo tracking system					
Has multi-vendor ECTS influenced FDI					
Has regional authority's cargo systems influenced FDI					
Has the integration of RACS with other systems influenced FDI					
Has RACS improved monitoring of the cargos effectively					
Has rolling out of ECSTS to other service providers affected FDI					
Has ECSTS cost effectiveness affected FDI					
Has ECSTS improved theft and vandalism of cargo					
Has ECSTS provided cargo visibility					
Has technology contributed to the effectiveness of taxation and FDI					
Has governmental policies improved the usage of ECSTS					

THANK YOU