FACTORS THAT INFLUENCE THE CONTRIBUTION OF FOREIGN DIRECT INVESTMENT TO THE GROWTH OF TELECOMMUNICATIONS SECTOR IN KENYA

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DECLARATION

This project is my original work and has never been submitted for examination in any other University or College.

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REG. NO. D61/P/8284/2006

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

This research project has been submitted for examination with my approval as the University supervisor.

SUPERVISOR: DR. JOHN YABS

Signature........................................ Date.....................................
DEDICATION

I dedicate this work to my parents for the immense sacrifices they made for me and having shown me how to find strength and wisdom to keep on reading & researching.
ACKNOWLEDGEMENT

I take this opportunity to thank God for the good health and for bringing me this far. I also want to register special gratitude to my supervisor for the great partnership we made. His guidance, encouragement and patience in reading, correcting, re-reading and refining this work, require great applause. I highly acknowledge my parents for implanting the seed of knowledge in me and my family for their continued support and missing my presence.

Thanks to all my lecturers in all the subjects for delivering learning with all the humor which made it a joy to learn. Thanks to my colleagues for often taking me as a team member in the various assignments and sharing the workload together. There are also a lot of people who made my study easier including but not limited to assisting me in typing and submitting assignments.

A number of people contributed to the success of this research paper. My sincere thanks go to many people who helped me directly and indirectly with the preparation of the research project particularly the respondents who made time to answer the lengthy questionnaire.
ABSTRACT

Foreign Direct Investment not only provides countries with much needed capital for domestic investment, but also creates employment opportunities, help transfer of managerial skills and technology all contributing to economic development. Governments, having appreciated the critical role the FDI plays, have established mechanisms geared towards attracting it. In theoretical literature, the role of FDI is that of a carrier of foreign technology that can boast economic growth (Findlay (1978) Romer (1993). FDI in Kenya Telecommunication sector have dropped as a result of the rigid policy on company ownership and investments. There is a need therefore for the Kenyan government to work towards implementing measures that will attract FDIs in Kenya.

The study aims were to identify the factors that affect the role of FDIs in the growth of the telecommunication sector in Kenya. This was aimed at shedding light to the various beneficiaries of foreign direct investment i.e. the government, the labor force, macroeconomists and institutions, macro & micro enterprises among others.

There population for the study was leading Internet Services Providers, Data Carrier Network Operators and Mobile telephone operators in Kenya. The population of study targeted by the researcher comprised of key personalities in the telecommunications sector, principal personalities in the mobile telephony companies and those drawn from the Internet Services Providers and Data Carrier Network Operators. The research design was a survey with the major instrument of this survey being self administered questionnaires. The researcher took a sample of 35 respondents whereby 32 of them responded to the questionnaire constituting 84% response rate.

From the findings Foreign Direct Investment not only provides countries with much needed capital for domestic investment, but also creates employment opportunities, help transfer of managerial skills and technology all contributing to economic development. There is a need therefore for countries to work towards creating an attractive environment for FDIs. This will be achieved by working on measures like: - Infrastructure, The licensing regime for all the providers, the governmental policies towards FDIs and corruption.
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<td>Communication Commission of Kenya</td>
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<td>ERS</td>
<td>Economic Recovery Strategy</td>
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<td>FDIs</td>
<td>Foreign Direct Investments</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ICAP</td>
<td>Investment Climate Action Plan</td>
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<td>KDN</td>
<td>Kenya Data Networks</td>
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<td>M&amp;A</td>
<td>Merger and Acquisition</td>
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<td>MDGs</td>
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<td>OPIC</td>
<td>Overseas Private Investment Cooperation</td>
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<td>Private Sector Development Strategy</td>
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CHAPTER 1:
INTRODUCTION

1.1 Background

Telecommunications sector in Kenya has exhibited tremendous growth following its liberalization by the government. The establishment of the Communications Commission of Kenya to regulate the sector has seen the introduction of competition and the end of the monopoly enjoyed by Telkom Kenya before the year 1999. This has resulted in increased investment by both local and foreign investors. This paper will seek to identify the factors that influence the role of FDIs in the growth of the telecommunications sector in Kenya.

There are various factors that affect FDI in any one given sector of an economy. Such factors range from those unique to the host economy to factors that exert external influence on the performance of an economy. An example of a factor external to a host economy would be seen in the global financial crisis experienced in the last quarter of the year 2008.

1.2 Conceptual framework

In Kenya, the key factors that affect the role of FDIs in the telecommunications sector include Infrastructure, the political environment, the licensing regime, the governmental policies towards FDIs, the competitive environment in the industry, Limited Bandwidth capacity and Frequencies resources, Technological challenge, Corruption and reduced disposable incomes for a large segment of the population. The CCK is yet to implement Service Provider Number Portability (SPNP) which is critical in enhancing the competitive framework by enabling consumers to choose the desired provider in a seamless manner without fear of losing one’s contacts. SPNP allows consumers to switch between various service providers and retain their phone line number. It is important to note that the Commission has opened up public consultations with an aim of having SPNP operational by the last quarter of the year 2009.
The role of FDIs can be seen from a myriad of perspectives. In the telecommunications sector, FDIs is a key source of funding for development and a means of acquiring new technology. It is important to note that the transfer of skills, ideas and information are more important than technology. FDIs is also a mechanism with which a national telecoms sector; and by extension the larger economy, becomes integrated into the international community hence playing a much more central role in the international flow of goods and services. This is especially critical in filling in shortages in the local goods and services markets where domestic suppliers are weak and underdeveloped. Such filling of gaps has a wider effect of shifting the economies productive focus towards comparative advantages. The above notwithstanding, FDIs have costs associated with them and benefits, but with a supportive and well implemented regulatory environment, the net sector benefits are substantial.

FDI is characterized by the existence of a long term relationship between a direct investor, an enterprise and a significant degree of the investor’s influence on the management of the enterprise. (IMF, 1993). A direct investor may be a firm, a multinational company, or a government. Where funds to set up a new entity abroad are raised from the direct investors of home country, an FDI is referred to as Greenfield investment. FDI may also be described as cross-border or international merger and acquisition (M&A) where there is a transfer of a local ownership of local productive activity and assets from a domestic to a foreign entity (United Nations, 1998). A country is poised to reap more immediate benefits in the case of a greenfield investment as it directly impacts on job creation and capital injection. The installation of a new industry in a foreign country adds to this latter existing capital stock and entails job creation. Profits not repatriated by direct investors but kept in the host country to finance future ventures constitute a type of FDI called retained earnings (Kenwood and Lougheed, 1999).
FDI can be considered an instrument of international aid whenever an investor would not have entered into a developing country without some form of assistance, such as concessional loans or special government guarantees. Development agencies provide assistance/incentives to encourage investors because of the positive externalities and long-run economic benefits that may accrue to the host country.

The telecoms sector in Kenya has registered substantial growth in the recent past, thanks to the competition introduced in most market segments by the industry regulator, the Communications Commission of Kenya (CCK). Based on data available from the Commission, table 1, the number of licensed operators in the sector had risen tremendously by close of the year 2004/2005. It is important to note that the figures have since risen through the year 2006/2007; 2007/2008 to date. The growth of the Mobile GSM subscriber base has been enormous, with the sub-sector market leader, Safaricom Limited, enjoying 84% market share, with 10.2 million subscribers. (Year 2008 fiscal year highlights). The growth in the Market is expected to continue in the positive territory following the re-branding of Celtel Kenya to Zain, the launch of the Orange brand and the launch of the Yu brand by the fourth Mobile GSM operator, Econet Wireless in November 2008.

The internet services subsector has also witnessed increased FDI flows; notable in this regard is the establishment of the 100 million dollars ATMT fund, which has invested in Wananchi Group of Companies. The fund has 50 million dollars worth of capital injection from Overseas Private Investment Cooperation (OPIC), an agency of the United States of America. Telkom Kenya has also seen massive FDI flows, following the acquisition of 51% ownership stake in the company by France Telkom. Similar trend has also been witnessed at Kenya Data Networks (KDN) and Access Kenya Group which has since been listed in the Nairobi Stock Exchange.

With the expected landing of the fiber optic cable by the third quarter year 2009; both the Seacom Cable and the TEAMs Cable, the country will have access to cheaper and massive bandwidth capacity. These massive volumes of bandwidth will witness robust
growth of the Telecoms sector; affordable broadband services, Voice over Internet Protocol (VOIP) services, Video on Demand services (VOD) and IPTV.

1.2.1 FDIs and Telecoms in Kenya

The impressive economic performance Kenya experienced immediately after independence was not sustained due to macroeconomic imbalances caused by oil crises (1973-74; 1979; 1990-1991; and 2003), droughts (1979; 1984; 1992; 1994; and 2004), withdrawal of donor support (1992 and 1997) and political changes. The effects have included unfavorable balance of payments, increased current account deficits, exchange rate depreciation and accelerating inflation rates. Subsequently, production costs increased, investment growth reduced and Gross Domestic Product (GDP) slowed.

The election of a new government in 2002 led to major economic re-alignments meant to resuscitate the economy. The re-alignments are spelt out in the government’s Economic Recovery Strategy for Wealth and Employment Creation (ERS) formulated in 2003, and the country’s strategy to meet the millennium development goals (MDGs) as spelt out in the 2002 millennium declaration. The government has also formulated Vision 2030 which aims at transforming Kenya into a middle income economy. It is critical to note that the government since the year 2002 has developed strategies aimed at reducing reliance on foreign borrowing and expand the private sector.

In 2004, the government formulated the Private Sector Development Strategy (PSDS) and the Investment Climate Action Plan (ICAP) to support private investment and address insecurity, improve roads, rationalize licensing procedures, improve business registration and improve customs and tax administration. Public-Private partnerships are also being encouraged through e.g. The Privatization Bill (2003).

Reforms meant to improve the efficiency of the public sector include the introduction of the Results Based Management (RBM) system; performance contracts; anti-corruption initiatives; improved public procurement and the reduction of the wage bill. The government has also prepared a comprehensive financial sector strategy aimed at

1.3 Statement of the problem

Private investment contributes to economic growth and development. Investment leads to growth of incomes, adoption of new technology, creation of employment opportunities and improvement of living conditions of citizens. Long term solutions to technology deficiency, unemployment and poverty in developing countries can be created through investment.

The conventionally agreed wisdom among economists holds the opinion that if a country engages in huge capital spending, growth will surely follow. Such countries should enjoy better growth than those that do not up to the level of diminishing marginal returns. Only a few theoretical growth models make a clear distinction between private and public investments, though there is increased consensus that, at a margin and in most countries, private investment is more efficient and productive than public investment. A number of research studies have concluded that private investment (of which FDI is a subset) has a larger impact on growth than public investment, among them Khan and Reinhart (1990), Coutinho and Gallo (1991), and Serven and Solimano (1990). The three studies concluded that private investment and public investment have a statistically significant positive association with growth. Generally however, it was established that private inflows have a far stronger effect relative to public inflows.

A functioning private sector requires the rule of law; enforcement of proprietary rights and contracts; an independent strong judiciary; transparent tax systems; and strict enforcement of bank prudential regulations. These are the hallmarks of good governance. Fostering such an environment not only reduces corruption but also stimulate saving and investment, thereby laying the foundation for long term economic growth. A predictable economic environment is crucial for private investments. Where investors are assured that enterprise and investment create returns for the investor and the entrepreneur, investment is more likely to ensue.
In summary, the literature converges on the consensus that private capital inflows, which foreign direct investment is a subset, are more important than public investments. Any development assistance that targets private investment necessarily fosters economic growth on a more effective basis than merely assisting governments of emerging markets. The problem of this study is to identify what factors affect the role of FDI in the growth of the telecommunications sector in Kenya.

1.4 Objective of the study

The objective of the study was to identify the factors that affect the role of FDIs in the growth of the telecommunication sector in Kenya.

1.5 Importance of the study

FDIs channeled through Private enterprises often exhibit more diverse additionality effects in the host economy making them more attractive as opposed to resources channeled through the government. Such resources are often directly associated with the growth and development of related business enterprises; both locally owned and multinationals, development and expansion of academic institutions and supplement to a large extent governmental efforts in infrastructural development. The robust growth currently been exhibited in the telecommunications industry can largely be credited with the massive resources that are currently been directed in advertisement spends. This constitutes one among many other spill-over effects that can be associated with the capital inflows in the telecommunications sector. The key beneficiaries of FDIs in the telecommunications sector can be seen to include;

1.5.1 The labour force/Social effects

This benefit is one many social outcomes that are associated with increased private capital inflows in the telecoms sector. Such investments are often equal opportunity employers and foster benefits for women in the work place, promoting the full participation of women at all levels of the project. This is important as most host economies depict gender disparities hence minimal participation of women in the
economy. Increased FDIs in the telecoms subsector often result in a net increase of the numbers of employees that are recruited over time. The nature and skills requirements range from administrative roles to highly sophisticated technical level jobs. Other areas where social effects are evident include community involvement and development which results in a net positive impact on the livelihood of various households, this could take the form of direct incomes, especially to individuals with monthly incomes directly, or through a catalytic role. Investments in marginalized areas, corporate sponsorships of events, general education programs and environmental concerns also act as forms through which job opportunities, and hence incomes, are generated for individuals and households.

1.5.2 The Government

This cuts across physical, financial and socials areas. Private inflows provide avenues where private sectors can build upon, expand their business and economic activities ensuring that this role is not left entirely to the government. The result of these is the enhancement of the economic productivity and the strengthening of a host country social fabric. Investments in the telecoms subsector require heavy capital spending which further requires that the government sets aside a substantial portion of its capital expenditures. Increased FDI inflows thus meet part of this requirement, for instance, TEAMS (East Africa Marine Fibre), which is an undersea marine fibre optic cable, is now been financed through a consortium, where 10 licensees in the telecoms subsector in Kenya have bought shares hence raising 80% of the required capital spend, i.e. 80% of the required US$ 130 million with the government only raising 20%. The completion of this project is expected to drastically reduce the cost of doing business in Kenya through reduced communication costs, create employment both directly and indirectly, allow access to the internet to a huge population, this to be realized through the establishment of the digital villages that the government is setting in all districts among other benefits to the governments, and indeed for the national good.
1.5.3 Macroeconomic and Institutional impacts

FDIs impact directly on the macroeconomic stability and strong institutions which are benchmarks for a country's development. The main sources of FDIs are the developed countries in North America, the European Union and the developed economies in Asia, for instance Japan & China. These countries are often characterized by strong macroeconomic and strong institutions both in the public and private sectors. This framework tends to be a requirement in the various in economies where their resources are invested which applies to Kenya. As such, as a requirement to invest in the Kenyan telecommunications sector, there has been a lot of push for de-regularization which has the effect of opening up the sector to fair competition and often increased ethical practices by the employees and the regulatory authority. Fiscal impact of private capital is important as local governments are able to raise funds for other projects. The accountability of players in local institutions is also key in the use of revenues collected either directly or indirectly and their subsequent employment in the economy.

1.5.4 The management Technology and Knowledge transfer

This relates to the flow of competences and expatriate knowledge and techniques to the host country's economy. During the investment decision process, a detailed due diligence process is often a requirement. The gaps that are noted in the management are normally addressed through increased training either at the work place or in various institutions across the globe. To realize the returns on the huge capital inflow that is injected, part of the resources are directed to training of the management and indeed employees at the operational levels. In some cases, through FDI, companies opt to bring in expatriates on a contracted basis to assist in the technology and technological skills transfer to employees. This includes dissemination of innovative management practices, marketing and distribution expertise, and new production technologies. Employee exchange programmes are also used where local staffs are posted on various work assignments in various stations around the world.
CHAPTER TWO:
LITERATURE REVIEW

2.1 Introduction

Foreign Direct Investment not only provides countries with much needed capital for domestic investment, but also creates employment opportunities, help transfer of managerial skills and technology all contributing to economic development. Governments, having appreciated the critical role the FDI plays, have established mechanisms geared towards attracting it. In theoretical literature, the role of FDI is that of a carrier of foreign technology that can boast economic growth (Findlay (1978) Romer (1993). Empirical studies however provide differently with the role of FDI been divisive. In a study, Aitken and Harrison (1999) found that the net effect of FDI on productivity is quite small. Borensztein et al (1998) and Carkovic and Levine (2005) also arrived at similar results. Haddad and Harrison (1993), Kokko et al. (1996) and Alfaro et al. (2004) concluded that FDI can boast economic growth in the host country by transfer of technology.

FDI in Kenya ICT’s sector have dropped as a result of the rigid policy on company ownership and investments. Kenya ICT’s policy requires international companies to seek local partnerships. This has become a major hindrance to FDI inflows. In most cases, a foreign investor is required to get local partnership up to 20% of the invested capital. This at times becomes difficult to raise especially in heavy capital projects, most of the foreign companies prefer to hold local ownership though the stock market. These policies contradict the Kenyan government market oriented economic policy, which emphasize openness to the world economy and export-oriented goal of economic development. This policy necessitates a more universal and reliable telecommunications network than would be needed had Kenya attempted an in-ward looking, centrally-directed economic strategy similar to those adopted by other African countries.

Several studies have pointed out the critical role that a country’s absorption capability plays in the determining the effect of FDI in an economy. For Instance, Blomstrom et al. (1994) state that FDI is positive and significant only for higher income countries and that
it has no impact on lower income countries. Borensztein et al. (1998) points out that the effect of FDI to in economy is enhanced by its interaction with the level of human capacity in the host country. The role of FDIs in a host country is often analyzed by a study of the following three concepts; (i) Human capacity building, (ii) Private sector development, and (iii) Leveraging impacts.

2.1.1 Human capacity building

These include job creation, job complexity (labor/technical/managerial), and the presence and nature of training. A review of this shows the impact of the resources injected in the receiving economy. There is a general understanding that employment creation can act as a stimulus for economic growth and development and the improvement of the overall welfare of the population. Private capital flows also tend to create a host of technical, professional and managerial employment positions against the often unskilled. The frequency and depth of training is a key objective of private capital flows.

2.1.2 Private Sector Development

Local ownership of projects resources is often encouraged to promote private sector growth and sustainable development. Private capital flows help stimulate the private sector by creating new markets and demand for products and services. Such demand often tends to promote enterprise development or expansion in the host countries economy. Notable here is that demand for most if not all of goods tends to have a multiplier effect on the demand levels and generating demand for complimentary goods effect of which is benefiting the local suppliers and vendors. Realization of this objective can be evaluated through an analysis on the stake of local ownership in a project, whether the projects involves or supports privatization, supports or promotes opportunities for individual property ownership e.t.c
2.1.3 Leveraging Impacts

Private capital inflows aim at playing a catalytic role in leveraging private sector resources for development. An analysis of projects that are not financed through private capital inflows, complementary impact with respect to other developmental institutions, and the promotion of private-public partnerships through involvement of local development banks and ministries can be done to establish the realization of this objective.

2.2 Factors affecting the role of FDIs in the telecommunications sector

The extent to which positive externalities from FDIs are achieved in practice are likely to be affected by a variety of factors at the macro-economic and micro-economic levels, including the general climate for business development and the strategies used by individual enterprises. In this regard, it is important for policy makers to recognize that any investment by a foreign firm must make sense, without depending on support from publically funded initiatives. Although there is considerable evidence that FDIs have sector specific positive influence on its growth and development, there are a number of factors that tend to influence the extent to which this benefits accruing form FDI in a sector can be realized; both in the short term and in the long run. Some of these factors have been discussed hereunder.

2.2.1 Exchange rate

A negative relationship exists between FDI flows into an economy and the rate of exchange. Economic theory holds the view that if the local currency of a country becomes more and more undervalued, investments in the local economy should increase. The change in the effective foreign exchange value of the Kenya shilling is therefore a proxy for the anticipated returns on investment in Kenya. A continuous depreciation of the Kenya shilling would mean an increase in the anticipated profit rate associated with the investment in Kenya, which will appeal to the traditional FDIs sources. When the
Kenya shilling goes down, comparative advantage shifts in favor of Kenya because it becomes a low-cost place doing business.

Depreciation in the host country’s exchange rate will have a positive influence on flows of horizontal investment it receives through reduced cost of capital. Appreciation of the currency on the other hand will have a positive influence on horizontal inflows since consumers have a higher purchasing power.

2.2.2 Economic Growth

According to Lipsey, (2000) and Salvatore, (2001), economic growth is positively related to FDI. Aliber (1993) argued that changes in the relationship between growth rates in different countries impact on the pattern of international capital movement. Capital will move from countries experiencing downturn in their economic growth towards countries with higher economic growth rates. According to neoclassical growth theory, long run economic growth stems from technological progress and labour force growth, factors assumed to be exogenous. Economic growth is more likely to be experienced in host economies that adopt liberalized trade regimes, improve education and thereby human capital conditions, encourage export-oriented FDI, and maintain macroeconomic stability.

FDI flows in an economy driven by economic growth can be been in two ways. Market-seeking FDI, made by multinational firm with two or more branches in different countries, is induced by market accesses to host countries for efficient utilization of resources and exploitation of economies of scale. (Markusen et al.,1996). Export oriented FDI is motivated by factor-price differentials (e.g., cheap labour in host countries) along with human capital and infrastructure conditions (Zhang and Markusen, 1999). Rapid economic growth leads to high level of aggregate demand that stimulates greater demand for investments including FDI. Moreover, better economic performances in host countries provide a better infrastructural facilities and greater opportunities for making profits, and so greater incentive for FDI.
2.2.3 Market Size

Many empirical works have borne out of the role played by host country’s size as a determinant of FDI. Scarparlanda and Mauer (1969) studying the determinants of US direct investments in the European Economic Community (EEC), found the size of the EEC as the only significant variable after many simulations. Other factors noted to affect the role of FDIs are; degree of openness, labor cost, privatization, trade linkages and boarders, risk and macroeconomic stability. (Holland and Pain, 1998; Lansbury et al 1996; United Nations, 1998; wheeler and Mody, 1992).

2.2.4 Political Environment

A favourable political environment is critical if a country is to attract foreign direct investments and realize meaningful results. The government must seek to establish a regulatory framework that encourages owners of capital to invest in a country. This includes cutting down on bureaucracy and reducing to the very minimum barriers to entry. Red tape, and particularly corruption present the biggest disincentive to investment in Kenya. The government has moved to reverse this trend. In 2003, the government passed the Anti-Corruption and Economic Crimes Act, setting the rules for accountability and transparency, and defining graft and abuse of office among other measures.

2.2.5 Trends in Foreign Direct Investments

The year 2007 saw a record high in the world’s FDI flows reflecting the fourth successive year in Growth. FDI inflows registered a high of $1,833 billion surpassing the record set in the year 2000 by a total of $400 billion. These figures are however slightly inflated due to depreciation on the US Dollar relative to the values registered using local currencies, especially in the Euro zone and South East Asia.

The continued rise in FDI largely reflected relatively high economic growth and strong economic performance in many parts of the world. Increased corporate profits for parent
companies provided funds to finance investment and reduced the impact of reducing loans from banks affected by sub-prime credit crisis. Profits from foreign affiliates contributed to higher reinvested earnings. These profits are increasingly generated in developing economies as opposed to developed economies.

Growth in FDIs was also driven by cross boarder M&A activity which expanded across countries and sectors. In Kenya, this was especially seen in the telecommunications sector, notably the acquisition of 51% stake in Telkom Kenya Ltd by France Telkom and the investment in Wananchi Group of companies by the ATMT fund. The growth in M&A activity in recent years was due to sustained economic growth in most regions of the world, high corporate profits and competitiveness pressures. These compelled Transnational Corporations to acquire foreign firms to consolidate their market share and remain competitive.

However, the current crisis in the world’s financial markets has dampened activity in money and debt markets. This liquidity crisis has begun to depress the M&A business in 2008, especially leveraged buyouts transactions (LBOs), which normally involve private equity funds. It is worth noting that doubts have arisen in the recent past over the sustainability of FDIs by private equity funds. This has been occasioned by among other factors the review of the favorable taxation structure offered to private equity firms by authorities in some jurisdictions and the risks associated with the financial behavior (e.g. high leverage) of such firms, particularly due to the concerns about the availability of credit in the aftermath of the sub-prime mortgage crisis. There are also discussions in some jurisdictions on the possibility of the regulation of the private equity market participants.
2.2.6 Global Patterns of Foreign Direct Investments

2.2.6.1 Developed Countries

The year 2007 witnessed the growth in FDI flows in the developed economies. Flows to the United Kingdom, France and the Netherlands were particularly buoyant. The United States of the America lead as the largest FDI recipient while EU as a whole continued to be the host region within the developed country grouping. Continued robust corporate profits and raising equity prices further stimulated cross-border M&As.

2.2.6.2 Developing Countries

There was a general increase in the FDI inflows in the region recording a 21% increase to register a record high of $500 billion Dollars. FDI inflows to LDCs alone recorded a high of $13 billion. In Africa, FDIs inflows in 2007 rose to a historic high of $53 billion. This situation was particularly boosted by the rise in the world’s commodity prices. Cross-border M&A in the extraction industries and related services continued to be a major source of FDI inflows. There has also been a growing M&A activity in the banking industry; Nigeria, Egypt, South Africa and Morocco were the greatest recipients.

FDIs inflows in South, East, South-East Asia and Oceania maintained their upward trend in year 2007 receiving half of the total FDI inflows in the developing countries. In West Asia, inward flows increased by 12% sustaining a period of steady growth in FDI flows. In this region, Saudi Arabia becomes the largest host economy overtaking Turkey. FDIs in the Latin America and the Caribbean increased by 36%, to record level of $126 billion. Inflows in this region double in the Brazil and Chile.

2.3 Developments in Foreign Direct Investments policies

Most world economies have continued to uphold policies designed to attract FDIs inflows; this against growing concerns and political debate for protectionism UNCTAD’s annual survey on changes in national laws and regulations that may influence the entry and operations of TNCs suggest that policy makers have continued to seek ways of
making investment climate in their countries more attractive. In many countries new measures to attract FDI, such as offering various incentives or the establishment of special economic zones (SEZs) were observed. Both in the developed and developing countries, a tendency to lower corporate taxes were witnessed with increasingly many countries enacting flat tax regimes.

2.4 Prospects of Foreign Direct Investments

After four years of high GDP growth, a slowdown is expected in 2008 due to the financial and credit crisis which are now affecting a number of countries worldwide (IMF, 2008b). High prices of energy and food prices may aggravate this situation. Economic growth in developing countries is expected to drop from 7.8% in 2007 to 6.5% in 2008, although this rate remains higher than the average in recent decades (World Bank 2008a). Based on data on 75 countries whose FDI data was surveyed, annualized FDIs for the whole of 2008 are estimated to be 10% less than 2007. Data on cross-border M&As for the first half of 2008 also show a fall of 29% compared to the second half of 2007.

2.5 Summary and Implications of Literature review

From the literature review, variables of interest include private investment, GDP real growth rate, interest rate, inflation, public investment, external debt, foreign debt, savings, international trade openness, exchange rate and foreign external reserves. Africa has seen increased FDI inflows for the last three years ending 2007. This trend has been boosted by vibrant commodities markets, raising profitability of corporate investments and increasingly FDI friendly environment. Despite the improved legislative framework in Africa, more still need to be done to enhance the national productive capacities in the region. Given the strong global commodity markets and pending payments for concluded cross-border M&A, prospects for increased FDI for the fourth year running is almost certain.

In East Africa, new prospects in the primary sector in non-traditional producer countries pushed the FDI inflows to $4 billion in 2007 up from $2.4 billion in 2006. Tanzania
received FDI in several natural-resource exploration projects already in operation. There were significantly higher inflows in Kenya; this was especially due to large privatization sales in the telecommunications industry and investments in the railways.

From the literature review, it appears more likely that FDI will continue to play an increasing role in the growth and development of national economies especially in the LDCs. This is particularly clear in countries that have to make huge investments in the infrastructural lay out. Kenya is therefore bound to develop a legislative and institutional framework that not only attracts FDI inflows but also cuts down on the red tape and assures return on investments (ROI).
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research design was a survey. The major instrument of this survey was self-administered questionnaires which were completed by key personalities in the telecommunications sector; principal personalities in the mobile telephony companies and those drawn from the Internet Services Providers were selected for the purposes of completing the said questionnaires. The questionnaires were posted either by email or hand delivered to the persons selected for this purpose.

3.2 Population

The study focused on the role FDI has played in explaining the robust growth the telecommunications sector has witnessed over the recent past. Particular attention was made to the leading Internet Services Providers and Mobile telephone operators in Kenya. It was important to note that a positive trend in the sector under study had been replicated in the three major economic groupings in the world; developed countries, developing countries and the transitional economies of the South East Europe and the Commonwealth of Independent States (CIS). Across these economic groupings in the world, increased inflows were witnessed for the last four years, reaching a record high of $1,833 billion in 2008 (World Investments Report 2008), with a substantial chunk of these resources having made their way in the sector under study. It was worth noting that the increased FDI inflows characterized increased economic growth and strong corporate performance in many parts of the world.

3.3 Data Collection

The study made use of primary data collected from the survey. Secondary data was also used to establish investment trends. Secondary sources of the data were the World Investment Reports, The Central Bank of Kenya (CBK) Reports, Statistical Abstracts from the Central Bureau of Statistics (CBS), Kenya, United Nations Development Programme (UNDP) and the International Monetary Fund (IMF) among other sources.
3.4 Data Analysis

The data collected was analyzed to establish patterns, trends and make future estimations and projections. Statistical Package for Social Sciences (SPSS) and conceptual analysis techniques were used in the data analysis process. The former was used to establish trends and unique characteristics of the collected data while the later was to be instrumental since the research borrowed heavily from predictive analysis for various scenarios.
CHAPTER FOUR:
DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter discusses the research findings, analysis and interpretation. The study aimed at investigating the factors that influence the contribution of foreign direct investment in the growth of telecommunications sector in Kenya. The researcher took a sample of 35 key personalities in the telecommunications sector; principal personalities in the mobile telephony companies and those drawn from the Internet Services Providers and Data Carrier Network Operators whereby 32 of them responded to the questionnaire constituting 84% response rate. Data analysis was done through Statistical Package for Social Scientists (SPSS). Frequencies, percentages and Likert Scales were used to display the results which were presented in tables, pie charts as well as bar graphs.

4.2 Demographic Profile of Respondents

This section dealt with when the respondent’s company was formed, how many of its offices/branches are located within & outside of Kenya, respondent’s company structure, their company’s corporate growth strategy description and the majority shareholding in the company. This information helped the researcher to understand well the respondents’ background in regard to the organization and therefore making them judge whether they choose the right sample for the research.

Findings from this section indicates that, majority of the respondent organization were formed in the late 1990s when the Telecommunication sector was in high growth following the liberalization of the sector by the government and the establishment of the Communications Commission of Kenya to regulate the sector. Further the research gave out the following findings in regard to the number of offices/branches located within & outside of Kenya. Majority of the respondents indicated they had majority of their company’s offices in Kenya but for companies like Zain who operated in several countries they indicated they had a number of offices outside Kenya.
On the same note, the respondents gave the following findings in regards to their company. According to table 4.1 and figure 4.1, majority of the respondents (51.6%) indicated that their organizations were private and limited by shares, 29.0% indicated that their organizations were publically listed, 12.9% said their organizations were Joint Ventures while only 6.5% said their organizations were partnerships. Therefore the majority of the organizations were private companies.

Table 4.1: Statement that best describes Respondent’s Organization

<table>
<thead>
<tr>
<th>Statement</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Company (limited by shares)</td>
<td>16</td>
<td>51.6</td>
</tr>
<tr>
<td>Public Company (Publically Listed)</td>
<td>9</td>
<td>29.0</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>4</td>
<td>12.9</td>
</tr>
<tr>
<td>Partnership</td>
<td>2</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

In regard to the company’s capital structure, all companies indicated that their structure was a combination of Equity & Debt. They further indicated that their Debt to Equity ratio was between 38% and 42%. The debt/equity ratio is an indicator of financial...
leverage and a higher debt equity ratio indicates greater financial leverage. Therefore majority of these companies had financial power.

Further on who held the majority shareholding in the respondent’s company, the respondents gave out the findings as per table 4.2 and figure 4.2. According to these findings, 64.5% of the respondents indicated that their companies were foreign owned, 25.8% said their companies had the locals forming majority shareholding while only 9.7% said their companies majority shareholding was held in trust by a Kenyan as a nominee of a foreign entity/person. Thus majority of the respondent companies were foreign owned.

Table 4.2: Majority Shareholding in the respondent’s company

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locals (Person &amp;/or company)</td>
<td>8</td>
<td>25.8</td>
</tr>
<tr>
<td>Foreign owned</td>
<td>20</td>
<td>64.5</td>
</tr>
<tr>
<td>Held in trust by a Kenyan as a nominee of a foreign entity/person</td>
<td>3</td>
<td>9.7</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure 4.2: Majority Shareholding in the respondent’s company
Finally in regard to the respondent’s organizations corporate growth strategy, the respondents indicated that their company’s strategy for growth was a regional and a national strategy and they were aiming at expanding to cover almost all areas in Kenya to make telecommunication accessible to all.

4.3 Findings in regard to the concept of foreign direct investment

To begin with all the respondents indicated they were aware of the concept of foreign direct investment and they further identified the following statement to best describe foreign direct investment; Foreign direct investment occurs when an investor based in one country (at the home country) acquires an asset in another country (the host country) with the intent to manage the asset.

Further there was mixed feelings in regard to whether Kenyan government has created a favorable environment that attracts foreign direct investments. According to table 4.3 and figure 4.3, 58.1% of the respondents said the government has not created a favorable environment that attracts foreign direct investments while only 41.9% said the government has created a favorable environment that attracts foreign direct investments. Therefore majority of the respondents said the government has not created a favorable environment that attracts foreign direct investments.

Table 4.3: Whether Kenyan government has created environment that attracts FDIs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>13</td>
<td>41.9</td>
</tr>
<tr>
<td>No</td>
<td>18</td>
<td>58.1</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure 4.3: Whether Kenyan government has created environment that attracts FDIs
In connection to the aspect of foreign direct investment in Kenya and in regard to the telecommunication sector, the respondents thought the telecommunications regulator (CCK) should adopt a strategy aimed at attracting FDI inflows. In their opinion some of the elements that such a strategy should be based on included the following:

- Infrastructure
- The licensing regime for all the providers
- The governmental policies towards FDIs
- The competitive environment in the industry
- Bandwidth capacity and Frequencies resources; currently they are very limited
- Technological challenge
- Corruption
- Implementation of Service Provider Number Portability (SPNP) which is critical in enhancing healthy competitive framework for mobile telephony users.
On another perspective, the researcher was interested in finding out the degree to which the following factors participate in country’s attractiveness to FDIs.

Table 4.4: Degree to which do the following participate in countries attractiveness to FDIs

<table>
<thead>
<tr>
<th>Political Stability</th>
<th>Very Low</th>
<th>Moderately Low</th>
<th>Moderate</th>
<th>Moderately High</th>
<th>Very High</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>20</td>
<td>4.6</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Market Attractiveness and accessibility</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>10</td>
<td>15</td>
<td>4.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Financial Incentives (funds from local government)</td>
<td>0</td>
<td>2</td>
<td>8</td>
<td>14</td>
<td>7</td>
<td>3.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Fiscal Incentives (Exemption from import duties)</td>
<td>0</td>
<td>2</td>
<td>8</td>
<td>14</td>
<td>7</td>
<td>3.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Repatriation of Profits</td>
<td>10</td>
<td>8</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>2.5</td>
<td>1.4</td>
</tr>
</tbody>
</table>

A five point Likert scale was used to interpret the rating of the statements ranging from Very Low to Very high. According to the scale the factors rated very low were awarded 1 while the factors rated very high were awarded 5. Within the continuum are 2 for moderately low, 3 for moderate and 4 for moderately high. Also mean and standard deviation was used to analyze the data. According to the researcher those statements with a mean close to 1 were considered rated very low while those with a mean close to 5 were considered to be rated very high. On the same note the higher the standard deviation the higher the variations among the responses. According to the table most of the respondents rated Political Stability (4.6) very high indicating that it participated highly in influencing a country’s attractiveness to FDIs. Other factors rated moderately high were Market Attractiveness and accessibility (4.3), Financial Incentives (funds from local government) (3.8) and Fiscal Incentives (Exemption from import duties) (3.8). However repatriation of
Profits (2.5) was rated moderate implying it participated moderately in influencing a country’s attractiveness to FDIs. On the other hand there occurred high variations in regards to repatriation of profits reason it had a high standard deviation (1.4). The figure 4.4 gives the same findings.

Figure 4.4: Degree to which do the following participate in countries attractiveness to FDIs

On the same note the researcher wanted to establish the degree to which implementation of the following measures in the telecommunications sector by the Kenya government would attract more resources in form of foreign direct investments. The findings are as per table 4.5 and figure 4.5

Table 4.5: Degree to which implementation of the following would attract more of FDIs
<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Low</th>
<th>Moderately Low</th>
<th>Moderate</th>
<th>Moderately high</th>
<th>Very high</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removal of minimum capital requirements</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>20</td>
<td>4.6</td>
<td>0.5</td>
</tr>
<tr>
<td>International taxation; lower rate on foreign source income,</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>22</td>
<td>9</td>
<td>4.3</td>
<td>0.5</td>
</tr>
<tr>
<td>unilateral relief from double taxation, DTTs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic taxation; investment deductions, withholding taxes on agency fees</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>18</td>
<td>13</td>
<td>4.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Regional market access</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>25</td>
<td>6</td>
<td>4.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Human resources; more flexibility on work permits</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>25</td>
<td>6</td>
<td>4.2</td>
<td>0.4</td>
</tr>
</tbody>
</table>

From the findings most of the respondents rated Removal of minimum capital requirements very high with a mean of 4.6. This indicated that implementing of the measure in the telecommunications sector by the Kenya government would attract very high resources in form of foreign direct investments. All the other factors were rated moderately high with mean ranging between 4.2 and 4.4. This indicated that implementing of the measures in the telecommunications sector by the Kenya government would attract moderately high resources in form of foreign direct investments. All the respondents were in agreement in regard to the various factors reason there did not occur high standard deviations.
Finally the researcher sought to identify to what degree each of the given factors affected FDI.
Table 4.6: Degree to which the following factors affect FDI

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Low</th>
<th>Moderately Low</th>
<th>Moderate</th>
<th>Moderately high</th>
<th>Very high</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>11</td>
<td>11</td>
<td>4.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Political environment</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>22</td>
<td>4.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Licensing regime</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>11</td>
<td>4.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Governmental policies towards FDIs</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>15</td>
<td>11</td>
<td>4.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Competitive environment</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>19</td>
<td>2</td>
<td>3.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Limited bandwidth capacity</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>15</td>
<td>7</td>
<td>3.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Limited frequency resources</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>8</td>
<td>3</td>
<td>3.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Official corruption</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>8</td>
<td>3</td>
<td>3.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Reduced disposable incomes</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>25</td>
<td>6</td>
<td>4.2</td>
<td>0.4</td>
</tr>
</tbody>
</table>

According to the findings in table 4.6 and figure 4.6 most of the respondents rated political environment as very high indicating that it had a high degree of influence on foreign Direct investment. Others which were rated moderately high included Infrastructure (4.1), licensing regime (4.4), Governmental policies towards FDIs (4.2), Competitive environment (3.7), Limited bandwidth capacity (3.9), Limited frequency resources (3.5), official corruption (3.5) and reduced disposable incomes (4.2). This
indicated that the entire factors influenced foreign direct investment to a moderately high degree. All the respondents were in agreement in regard to the various factors reason there did not occur high standard deviations.

Figure 4.6: Degree to which the following factors affect FDI

![Graph showing the degree to which factors affect FDI. The factors include infrastructure, political environment, licensing regime, governmental policies towards FDIs, competitive environment, limited bandwidth capacity, limited frequency resources, official corruption, and reduced disposable incomes. The graph displays the mean and standard deviation for each factor.](image-url)
CHAPTER FIVE:
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

On the demographics, the study noted out that out of all the respondents’ majority of the respondent organization were formed in the late 1990s when the Telecommunication sector was in high growth following the liberalization of the sector by the government and the establishment of the Communications Commission of Kenya to regulate the sector. Majority of the respondents also indicated that they had majority of their company’s offices in Kenya but for companies like Zain who operated in several countries they indicated they had a number of offices outside Kenya.

On the same note, majority of the respondents (51.6%) indicated that their organizations were private and limited by shares, 29.0% indicated that their organizations were publically listed, 12.9% said their organizations were Joint Ventures while only 6.5% said their organizations were partnerships.

In regard to the company’s capital structure, all companies indicated that their structure was a combination of Equity & Debt. They further indicated that their Debt to Equity ratio was between 38% and 42%. Therefore majority of these companies had financial power.

Further on who held the majority shareholding in the respondent’s company, 64.5% of the respondents indicated that their companies were foreign owned, 25.8% said their companies had the locals forming majority shareholding while only 9.7% said their companies majority shareholding was held in trust by a Kenyan as a nominee of a foreign entity/person.

Finally in regard to the respondent’s organizations corporate growth strategy, the respondents indicated that their company’s strategy for growth was a regional and a national strategy and they were aiming at expanding to cover almost all areas in Kenya to make telecommunication accessible to all.
Findings on the concept of foreign direct investment indicated that all respondents were aware of the concept of foreign direct investment and they further identified the following statement to best describe foreign direct investment; Foreign direct investment occurs when an investor based in one country (at the home country) acquires an asset in another country (the host country) with the intent to manage the asset.

Further there was mixed feelings in regard to whether Kenyan government has created a favorable environment that attracts foreign direct investments. In this regard 58.1% of the respondents said the government has not created a favorable environment that attracts foreign direct investments while only 41.9% said the government has created a favorable environment that attracts foreign direct investments.

In connection to the aspect of foreign direct investment in Kenya and in regard to the telecommunication sector, the respondents thought the telecommunications regulator (CCK) should adopt a strategic aimed at attracting FDI inflows. In their opinion some of the elements that such a strategy should be based on included the following:-

- Infrastructure
- The licensing regime for all the providers
- The governmental policies towards FDIs
- The competitive environment in the industry
- Bandwidth capacity and Frequencies resources; currently they are very limited
- Technological challenge
- Corruption
- Implementation of Service Provider Number Portability (SPNP) which is critical in enhancing healthy competitive framework for mobile telephony users.

On another perspective, finding on the given factors participation in country’s attractiveness to FDIs revealed that, political stability participated high in influencing a country’s attractiveness to FDIs. Other factors with moderately high influence were
Market Attractiveness and accessibility (4.3), Financial Incentives (funds from local government) (3.8) and Fiscal Incentives (Exemption from import duties) (3.8). However repatriation of Profits (2.5) was rated moderate implying it participated moderately in influencing a country’s attractiveness to FDIs.

On the same note the researcher wanted to establish the degree to which implementation of the following measures in the telecommunications sector by the Kenya government would attract more resources in form of foreign direct investments. From the findings, most of the respondents rated Removal of minimum capital requirements very high with a mean of 4.6. This indicated that implementing of the measure in the telecommunications sector by the Kenya government would attract very high resources in form of foreign direct investments. All the other factors were rated moderately high with mean ranging between 4.2 and 4.4. This indicated that implementing of the measures in the telecommunications sector by the Kenya government would attract moderately high resources in form of foreign direct investments.

Finally the researcher sought to identify to what degree each of the given factors affected FDI. According to the findings, most of the respondents rated political environment as very high indicating that it had a high degree of influence on foreign direct investment. Others which were rated moderately high included Infrastructure (4.1), licensing regime (4.4), Governmental policies towards FDIs (4.2), Competitive environment (3.7), Limited bandwidth capacity (3.9), Limited frequency resources (3.5), official corruption (3.5) and reduced disposable incomes (4.2). This indicated that the entire factors influenced foreign direct investment to a moderately high degree.

5.2 Conclusion

Foreign Direct Investment not only provides countries with much needed capital for domestic investment, but also creates employment opportunities, helps transfer of managerial skills and technology all contributing to economic development. Governments, having appreciated the critical role the FDI plays, have established mechanisms geared towards attracting it. In theoretical literature, the role of FDI is that of a carrier of foreign technology that can boast economic growth (Findlay (1978) Romer
FDI in Kenya Telecommunication sector have dropped as a result of the rigid policy on company ownership and investments. There is a need therefore for the Kenyan government to work towards implementing measures that will attract FDIs in Kenya.

5.3 Recommendations

From the findings the researcher would wish to make the following recommendations:

To begin with the researcher was interested in investigating the factors that influence the contribution of foreign direct investment in the growth of telecommunications sector in Kenya. In this regard he found out that 64.5% of the respondents indicated that their companies were foreign owned, this could imply that these companies were managed and controlled by foreign investors. The researcher would thus recommend that the telecommunication companies to create more access for FDIs to enjoy fully the benefits of these investments.

Secondly the findings revealed that majority of the respondents said the Kenyan government has not created a favorable environment that attracts foreign direct investments. Therefore the researcher recommends that the Kenyan government works on creating an attractive environment for foreign direct investment. This will involve more on the government ensuring political stability in the country.

Thirdly the researcher found out that the telecommunications regulator (CCK) was one of the factors that influence the contribution of foreign direct investment in the growth of telecommunications sector in Kenya. This was through elements like the licensing regime of the providers and the capital requirements for foreign direct investments. In this regard the researcher wishes to recommends CCK to adopt a strategy aimed at attracting FDI inflows.

Finally the researcher would recommend the Kenyan government to encourage foreign direct investment in the country to favor among other sectors the Telecommunication sector.
5.4 Suggestion for Further Study

As a result of the study the researcher observed that there is need for further study on the topic with a measurable scenario where one can calculate the effect of foreign direct investment on overall performance of a given Company in the sector.
REFERENCES


## Type of Service Provider

<table>
<thead>
<tr>
<th>Type of Service Provider</th>
<th>Number Licensed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendors &amp; Contractors</td>
<td>184</td>
</tr>
<tr>
<td>Technical Personnel</td>
<td>30</td>
</tr>
<tr>
<td>Cyber Cafes/Telephone Bureau</td>
<td>-</td>
</tr>
<tr>
<td>Internet Service Providers</td>
<td>43</td>
</tr>
<tr>
<td>Internet Exchange Point Providers</td>
<td>-</td>
</tr>
<tr>
<td>Paging Service Providers</td>
<td>12</td>
</tr>
<tr>
<td>Value Added Service Providers</td>
<td>-</td>
</tr>
<tr>
<td>Public Data Network Operators</td>
<td>1</td>
</tr>
<tr>
<td>Public Switched Network Operators</td>
<td>1</td>
</tr>
<tr>
<td>Commercial VSAT Hub Operators</td>
<td>1</td>
</tr>
<tr>
<td>Regional Telecoms Operators</td>
<td>-</td>
</tr>
<tr>
<td>Internet backbone &amp; Gateway Operators</td>
<td>1</td>
</tr>
<tr>
<td>Local Loop Providers</td>
<td>-</td>
</tr>
<tr>
<td>Call centres</td>
<td>-</td>
</tr>
</tbody>
</table>

Table 1: Source; Kenya Communication Commission website
GSM Operators

Safaricom
Orange/Telkom Kenya Ltd
Celtel Kenya Limited/Zain
Essar Telekom

Telecom Companies (ISPs, DCNOs, etc)

Wananchi Group (Kenya) Limited
Access Kenya Limited
Kenya Data Networks
Swift Global
Nairobi Net
SimbanNet Com Limited
Trunking System Limited
Jamii Telekom Limited
Internet Solutions
Tangerine
Onecomm
Questionnaire
Masters Research Project Questionnaire
Instructions
Please answer the questions appropriately by checking in the appropriate check box and/or filling in the appropriate text response.

**ORGANIZATIONAL PROFILE**

When was your organization formed?

How many offices/branches are located within & outside of Kenya?
  - Within Kenya
  - Outside Kenya

Which of the following best describes your organization?
  - Private Company (limited by shares)
  - Public Company (Publically Listed)
  - Joint Venture
  - Partnership

Which of the following best describes your company’s capital structure?
  - Equity
  - Debt
  - A combination of Equity & Debt, if yes, what is the ratio in percentage?
  - Others (please specify)

Who holds the majority shareholding in your company?
  - Locals (Person &/or company)
  - Foreign owned
  - Held in trust by a Kenyan as a nominee of a foreign entity/person

How would you best describe your?
  - A regional strategy
  - A national strategy
  - An East African Strategy
  - A Pan African Strategy
CONCEPT OF FOREIGN DIRECT INVESTMENT

Are you aware of the concept of foreign direct investment?

Yes
No

Below are three statements that describe foreign direct investment. Please tick the response that you feel best describes foreign direct investments;

- Foreign direct investment is the investment of foreign assets into domestic structures equipments and organizations.
- Foreign direct investment occurs when an investor based in one country (at the home country) acquires an asset in another country (the host country) with the intent to manage the asset.
- Foreign direct investment is that investment, which is made to serve the business interests of the investor in a company, which is in a different nation distant from the investor’s country of origin.

Do you think the Kenyan government has created a favorable environment that attracts foreign direct investments?

Yes
No

If ‘No’ above, do you think the telecommunications regulator (CCK) should adopt a strategic aimed at attracting FDI inflows?

Yes
No

If ‘Yes’ above, what are in your opinion some of the elements that such a strategy should be based on?

1. ...............................................................................................................
2. ...............................................................................................................
3. ...............................................................................................................
4. ...............................................................................................................
5. ..............................................................................................................
To what degree do the following participate in countries attractiveness to foreign direct investments?

<table>
<thead>
<tr>
<th></th>
<th>Very Low</th>
<th>Moderately Low</th>
<th>Moderate</th>
<th>Moderately High</th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Political Stability</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>b. Market Attractiveness and accessibility</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>c. Financial Incentives (funds from local government)</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>d. Fiscal Incentives (Exemption from import duties)</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>e. Repatriation of Profits</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
</tbody>
</table>

To what degree would implementation of the following measures in the telecommunications sector by the Kenya government attract more resources in form of foreign direct investments?

<table>
<thead>
<tr>
<th></th>
<th>Very Low</th>
<th>Moderately Low</th>
<th>Moderate</th>
<th>Moderately High</th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Removal of minimum capital requirements</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>b. International taxation; lower rate on foreign source income, unilateral relief from double taxation, DTTs)</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>c. Domestic taxation; Investment deductions, withholding taxes on agency fees</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
</tbody>
</table>
Listed hereunder are factors that affect the role of foreign direct investment in the telecommunications sector in Kenya. To what degree does each of the factors affect FDI?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Low</th>
<th>Moderately Low</th>
<th>Moderate</th>
<th>Moderately High</th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Political environment</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>c. Licensing regime</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>d. Governmental policies towards FDIs</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>e. Competitive environment</td>
<td></td>
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<tr>
<td>f. Limited bandwidth capacity</td>
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<tr>
<td>g. Limited frequency resources</td>
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<td></td>
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<tr>
<td>h. Official corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>i. Reduced disposable incomes</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Other factors that affect the role of FDIs in the growth of telecommunications sector in Kenya (please specify)

j. 

k. 

l. 

Thank you for responding to this questionnaire.