

The impact of foreign aid on private investment in Kenya, 1971-2010

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Abstract:

The paper examined the impact of foreign aid on private investment in Kenya for a period of forty years, 1971-2010. The specific objectives of the study were to examine the impact of foreign aid on private investment, establish determinants of private investment and draw policy implications on the findings of the study. This was informed by the fact that in Kenya just like in other Sub-Saharan countries, there are high degrees of indebtedness, high unemployment, absolute poverty and poor economic performance. Average per capita income has also fallen since 1970 despite high aid inflows to the country. The study focused on private investment being one of the key factors that drive economic growth. Available statistics indicated that gross private investment has been falling since 1990. The study used the Ordinary Least Square (OLS) to establish the effects of foreign aid as dependent variable on private investment as the explanatory variable. Other explanatory variables considered were gross domestic product, interest rate, gross domestic savings, real exchange rate, value of imports and gross public expenditure. The findings of the study show that foreign aid did not lead to increased private investment. From the findings, the hypothesized positive relationship between foreign aid on private investment in Kenya have not been supported by the results of this study. But this may not be the case with other countries which follow different macroeconomic policies, have better investment environment, have well developed financial markets or have fewer cases of corruption and non targeted expenditure. The growth of GDP contributed significantly to the growth of private investment. So the government should focus on those policies that lead to economic growth. This study however does not advocate doing away with foreign aid rather calls for more effective utilization on sectors that support flourishing of private investment.