CHALLENGES OF FOREIGN DIRECT INVESTMENT WITHIN TURKANA COUNTY, KENYA

BY

FREDRICK OLOO ODERO

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DECLARATION

This research project is my original work and has not been presented for an examination in any other University.

Signature……………. Date……………………………….

FREDRICK OLOO ODERO

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

Signature………………….. Date………………….

MR.ELIUD O. MUDUDA

LECTURER

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

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DEDICATION

This work is dedicated to my wife Ivy Ndiewo, Sons Ryan, Randall (Randy) and my Parents together with my siblings for tolerating my long absence during the course of the study. For all the emotional, moral and financial support you made for me to get educated may the almighty God bless you abundantly.

ABSTRACT

FDI has long been recognized as an important component for economic growth and development; it has led to the revolution of several economies through technological advancements, job creation and increasing productive capacity. African countries, with their huge development gaps, need foreign investments to boost their economies in order to lift their populations out of poverty (Duce and Maitena, 2003). Caves (1996) observe that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects. Generally speaking, the contribution to Turkana County economic development made by overseas investors(especially in the oil and gas sectors) may be the most distinguishing feature of the county's FDI so far realized. While it is difficult to provide an accurate estimate of the total dollar value of FDI, it is undeniable that these investors are helping transform an economy characterized mainly by inflexible state-owned enterprises into a dynamic economy with prominent high technology enterprises as well as steering infrastructural, educational and key facilities. With their knowledge of multiple business cultures, they taught local Turkana people about the working rules of a market- oriented economy. In a county whose culture has dominated for centuries, both investment behavior and the business practice of locals likely will remain part of foreign business culture (Angresano and Zhang, 2000).However, global capital and product markets are becoming increasingly integrated, open and competitive. Such integration implies that the investment climate for non-Kenyan investors will continue changing. The future of FDI in Turkana and Kenya will depend upon the potential investor's perceptions of the benefits and costs of investment climate relative to those in the rest of the world.Despite the document evidence of the effects of foreign direct investment in host country, implementation of foreign direct investment face challenge in the host countries. The study sought to establish the challenges facing foreign direct investment within pastoralist counties in Kenya. A case study research design was adopted. The study employed face to face interview as a primary data collection method. The content analysis was used to analyze the respondents' views about challenges of foreign direct investment in Turkana County Kenya .The studies found that political instability adversely affect foreign direct investment. Ethnic conflicts that have been experienced in the northern regions of Kenya have contributed to lack of foreign direct investment in these areas. The study establishes that corruption has discouraged foreign direct investment in Kenya by bringing about uncertainties and increasing the risk of investment. The study also concludes that corruption has led to mismanagement of the resources in Turkana County, consequently resulting in increased poverty levels in these areas. The findings revealed that adequate and readily natural resources boost foreign direct investment in a country. The study s recommends that political leaders in these areas should ensure that they preach a message of peace and unity to increase safety and reduce uncertainties associated with political conflict. This way more foreign investors will be attracted to investing in these areas. Natural resources present in Turkana County such as gemstones, gold, saltlicks, wildlife and oil must be used in such a way to promote growth in the areas with the aim to reduce poverty levels in this area.

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ABBREVIATIONS AND ACRONYMS

FDI	Foreign Direct Investment
GDP	Gross domestic product
IMF	International Monetary Funds
M&A	Merger and Acquisition
MNCs	Multinational Corporations
MNEs	Multinational Enterprises
NSE	Nairobi Securities Exchange
R&D	Research and Development
TFP	Total Factor Productivity
UBA	United Bank for Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nation Development Programme

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The past century witnessed an increased flow of Foreign Direct Investment (FDI) to developing countries. The impact of these increased investments differs extensively between countries. The contribution of FDI to the economic growth of developing countries has been discussed in length (Borensztein, De Gregorio & Lee, 1998; Hermes & Lensink, 2003; Lall & Narula 2004). Advocates argue that FDI provides developing countries with the needed capital for investment, along with employment opportunities, knowledge, skills and new technology. Opponents on the other hand, suggest that the promised benefits of FDI have convinced many governments to remove restrictions on FDI inflows. Consequences of these removals are that multinationals can exploit the local capabilities more freely. Also, many international donors promote private investments rather than public investments, leaving the country with no benefits ones the companies leave (Voorpijl, 2011).

The study seek to establish the challenges of foreign direct investment in Turkana County, it will be guided on the neo-classical microeconomic theory; theory of comparative advantage and imperfect market theory. According to neo-classical microeconomic theory the flow of capital from one country to another is determined solely by the level of interest rate. Literature has provided that neo classical microeconomic theory was the most widely use theory to explain the reasons of foreign direct investment (Dunning, 1993). The theory of comparative advantage is an argument in favour of free trade among countries and specialization among individuals. Imperfect market theory states that countries differ with respect to resources available for the production of goods.

Multinational entities have played a major role in international trade for several centuries. Unfortunately for Kenya, being a developing country and in the third world, investments have not been flowing in compared to other nations such as South Korea and Malaysia who in the 70's were at level in terms of economic growth. Foreign direct investment (FDI) is regarded as a factor that drives economic growth (Wang, 2009). It is established when a firm takes a controlling interest in a foreign company or markets its products in a foreign country or when a firm invests directly in facilities to produce products (Daniels, 2009). Turkana County is one of the Kenyan administrative counties. Due to socioeconomic and political marginalization, Turkana County has lagged behind in almost everything from education, public health, access to enough drinking water, and household income. This study sought to establish the challenges of foreign direct investment within pastoralist counties in Kenya.

1.1.1 Concept of International Business

International business may be defined simply as business transactions that take place across national borders. This broad definition includes the very small firm that exports (or imports) a small quantity to only one country, as well as the very large global firm with integrated operations and strategic alliances around the world (Grant, 2000). International business grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and partly because doing business internationally had become easier.

International business is a term used to collectively describe all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more nations. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons (Daniels, Radebaugh and Sullivan, 2007). It refers to all those business activities which involves cross border transactions of goods, services, resources between two or more nations.

1.1.2 International Business Investment Strategies

Multinational entities have played a major role in international trade for several centuries. A number of multinational corporations (MNCs) from developing economies are becoming key players in the global economy (Ogutu, 2010). With the development of infrastructure in Kenya such as improvement of the transport network as well as establishment of the undersea fiber optic cable, foreign investment has significantly improved. Kenya is an economic leader in East and Central Africa. It is dependent on Foreign Direct Investment (FDI) for capital and employment. Remittances are Kenya’s single largest source of foreign exchange. According to the Central Bank of Kenya, remittance totaled $611.2 in 2010.

Unfortunately for Kenya, being a developing country and in the third world, investments have not been flowing in compared to other nations such as South Korea and Malaysia who in the 70’s were at level in terms of economic growth. Luiz (2006) noted that the economic reality for Africa is that it is a tiny player on the world stage one that is easily ignored and one that is increasingly facing marginalization. The despairing reality is that Sub Sahara African countries feature prominently amongst the most risky and unattractive investment destination on the globe with no apparent signs of improvement other than increased investment in the extractive sector, edging the continent to the brink of becoming a lost opportunity, while the rest of the world marches on to greater levels of prosperity (UNCTAD, 2004).

1.1.3 Foreign Direct Investment as an entry strategy

Foreign direct investment (FDI) is regarded as a factor that drives economic growth (Wang, 2009). It is established when a firm takes a controlling interest in a foreign company or markets its products in a foreign country or when a firm invests directly in facilities to produce products (Daniels, 2009). Gachiri (2012) observes that, foreign investor participation has made the NSE the second highest return after the Ugandan Securities Exchange. This indicates that FDIs have important positive effects on a host country's development effort. Agosin and Mayer (2000) mention that FDI acts as a catalyst for inward investment by complementing local resources and providing a signal of confidence in investment opportunities. Borenstzein (1998) points out that FDI's are tools of economic development, prompting most countries to strive and attract them because of their acknowledged advantages such as augmentation of existing stock of capital, technology, marketing and management.

FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency (World Bank, 1996). Such investments may take the form of either “greenfield” investment (also called “mortar and brick” investment) or merger and acquisition (M&A), which entails the acquisition of existing interest rather than new investment. In corporate governance, ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. Ownership of less than 10% is recorded as portfolio investment. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between parent companies and their affiliates. Countries could be both host to FDI projects in their own country and a participant in investment projects in other counties. A country’s inward FDI position is made up of the hosted FDI projects, while outward FDI comprises those investment projects owned abroad (Nyamwange, 2009).

1.1.4 Challenges involved in Foreign Direct Investment

FDI creates many externalities in the form of benefits available to the whole economy which the host countries cannot appropriate as part of their own income. FDI in services affects the host country's competitiveness by raising the productivity of capital and enabling the host country to attract new capital on favourable terms. It also creates services that can be used as strategic inputs in the traditional export sector to expand the volume of trade and to upgrade production through product and process innovation. By altering a country's comparative advantages and improving its competitiveness through technology transfer and the effects of myriad externalities, foreign as well as domestic investment can alter a country's economic volume and pattern of trade in many income-enhancing directions (Ramírez, 2006).

FDI helps fill the domestic revenue generation gap in a developing economy, given that most developing countries' governments do not seem to be able to generate sufficient revenue to meet their expenditure needs. Other benefits are in the form of externalities and the adoption of foreign technology. Externalities here can be in the form of licencing, imitation, employee training and the introduction of new processes by the foreign firms (Anderton, 2006). Foreign direct investment consists of external resources including technology, managerial and marketing expertise and capital.

While FDI has been in existence for many centuries, its economic, social and political impact has been widely felt in the recent years, mainly because of its widespread advantages, this has elicited much interest in trying to attract and strengthen FDI flows into countries attracting many researchers and policy makers alike. Gross domestic product (GDP) is the value of all officially recognized final goods and services produced within a country in a given period of time. GDP per capita is often considered an indicator of a country's standard of living. For Kenya and other developing countries, attracting FDI has been a key aspect of its outward oriented development strategy, as investment is considered a crucial element for GDP growth (Kayonga, 2008).

1.1.5 County Governance in Kenya

The promulgated Kenyan constitution has opened up new opportunities and challenges. It has indeed opened a new window of change of moving from the central governance to the devolved government. The new constitution therefore replaces the central government with a devolved system of government that was in place immediately after independence. Devolution defined as statutory granting of power from the central government of a sovereign state to government at a sub-national level such as a regional, local or state level.

Devolution in itself has led to a change dilemma as Kenyans ask whether the new structure again fails as it did 38 years ago. Several scholars including Metter (2000), Brian (2001) and Winston (2002) also contend that little is currently known about ramification of the devolution of policy making power by an upper level of government (authorizes) to a lower level of government (The recipient).

Counties will be embraced as the new centers of power and resources. Therefore, knowledge on Devolution which in essence is transformation from central governance to devolved governance is necessary to facilitate the understanding of counties and know they will be run by the residents, professional's business community, current local government employees and politicians. As a new phenomenon, county government will be the centers of development as they will have executive roles and 15% of developed funds. Therefore there is need to sensitize and prepare stakeholders for the big role and expectation from the residents, the central government and the development partners. County government in their planning incorporate their contributions in meeting the Millenium Development Goals which includes change management entails thoughtful planning and sensitive implementation, above all consultation with and involvement of the people affected by the changes, (Kotter 2008).

1.1.6 Turkana County

Turkana County is one of the Kenyan administrative counties located in the northern region of Kenya's Great Rift Valley, in East Africa. The Rift Valley runs across Kenya from north to south (Grove, 1983; Gregory, 1896). Lake Turkana is known for its abundant paleontological and paleo anthropological remains (Yuretich, 1979). Turkana County is among the largest counties in Kenya and derives its name from Lake Turkana, which is found in the county. During the colonial time the lake used to be known as Lake Rudolf (Yuretich, 1979). Turkana County's climate is harsh and arid, which poses many survival challenges for the Turkana residents and other communities live in the region. The area is ravaged by drought and the encroaching desertification crisis, which occasionally leads to hundreds of deaths (Awuor, 1997; Oba and Post, et al., 2001). The Turkana rely heavily on livestock such as cattle, camels, sheep, goats, and fishing activities in Lake Turkana. They also practice subsistence farming on the shores of Lake Turkana (Mureithi, 2010).

Due to socioeconomic and political marginalization, Turkana County has lagged behind in almost everything from education, public health, access to enough drinking water, and household income. According to the Kenya National Bureau of Statistics of 2005-2010, not only does Turkana County have the highest poverty rate at 94.3% compared to an average of 50.8% nationally, but it is also one of the counties that receives the least funding and has very little access to services (KNBS, 2010; Runguma, 2014). Turkana County is one of the regions with high unemployed in the country, especially among the youth. Illiteracy level in Turkana is also very high with only 30% of males who can read and write and 8% of females. This is far much lower than the rest of the country's level at national rural average of 82.2% for males and 69.6% for females, and with urban average of 93.6% for males and 88.1% for females (Johannes and Zulu, 2014).

1.2 Research Problem

FDI has long been recognized as an important component for economic growth and development; it has led to the revolution of several economies through technological advancements, job creation and increasing productive capacity. African countries, with their huge development gaps, need foreign investments to boost their economies in order to lift their populations out of poverty (Duce and Maitena, 2003). Caves (1996) observe that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects. Among these are productivity gains, technology transfers, introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets.

Carkovic and Levine (2002) note that the economic rationale for offering special incentives to attract FDI frequently derives from the belief that foreign investment produces externalities in the form of technology transfers and spillovers. De Gregorio (2003), while contributing to the debate on the importance of FDI, notes that FDI may allow a country to bring in technologies and knowledge that are not readily available to domestic investors, and in this way increases productivity growth throughout the economy. Narulla and portelli 2004 stated that FDI is not a sine qua non for development. FDI-led growth is not a process that occurs automatically in the host country, and this reflects the complex nature of the interrelationships between multinational enterprises (MNEs) and host country economic agents. Despite the document evidence of the effects of foreign direct investment in host country, implementation of foreign direct investment face challenge in the host countries.

Empirical studies done in Kenya include ; Kivugale (2013) did a study on the challenges of Implementing Foreign Direct Investments (FDI) at United Bank for Africa (UBA) Kenya, Ongoro (2013) conducted a study on the opportunities and challenges for foreign direct investment in Africa in the era of global financial crisis, Kinuthia (2012) did a study on the determinants of foreign direct investment in Kenya, Kinuthia (2011) did a study on the impact of tax incentives on the flow of foreign direct investment in the manufacturing sector in Kenya. To the research knowledge no known study has sought to establish the challenges of foreign direct investment within pastoralist counties in Kenya with special focus on Turkana County. This study sought to fill the existing research gap by answering the following research question, what are the challenges facing foreign direct investment within pastoralist counties in Kenya?

1.3 Research Objective

To establish the challenges of foreign direct investment in Turkana County Kenya

1.4 Value of the Study

This study will help policy makers in developing investment strategy policies and developing the requisite institutional framework necessary to market Kenya as an ideal foreign investment destination especially in the pastoral counties in Kenya. The government also stands to benefit from this study as it would be able to understand the challenges of foreign direct investment within pastoralist counties in Kenya. This indeed would help it come up with marketing strategies especially under the brand Kenya initiative to actively market the country as the FDI destination. This will assist in designing policies aimed at enhancing foreign direct investment in pastoral communities in Kenya. The results of this study would also be invaluable to researchers and scholars, as it would form a basis for further research. The students and academicians would use this study as a basis for further research and discussions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes literature on the topic under consideration: establish the challenges of foreign direct investment in Turkana County. This relates to work that had been done by other scholars. The chapter is organized as follows: Theories on foreign direct investment, empirical studies, challenges of foreign direct investment and the summary of the chapters.

2.2 Theoretical Review

The study was guided by neo-classical microeconomic theory; theory of comparative advantage and imperfect market theory as it sought to establish the challenges of foreign direct investment in Turkana County Kenya.

2.2.1 Neo-Classical Microeconomic Theory

Aggarwal (1984) the flow of capital from one country to another is determined solely by the level of interest rate. Literature has provided that neo classical microeconomic theory was the most widely use theory to explain the reasons of foreign direct investment (Dunning 1993). The theory clearly states that the movements of capital between cross borders are basically caused by disparity in interest rate level exist between countries. Riddell (1991) provides that the future flow of investments are positively related to the package of inducement that may influence the expected rate of return; the security of the investment, the scope and speed with which corporations are able to disinvest. The tax regime; investment code and guidelines; and overall macroeconomic policies are the several elements affecting foreign direct investment.

Iverson (1953) -capital flows with ease from countries with lower rate of return to countries that have relatively higher rate of return under a condition of perfect competition. The theory came under heaved attack by (Hymer, 1976) on the ground that it did not explain the role of Tran –National Corporation in capital mobility because it subjected itself to explaining how and where firms decide to obtain the capital needed to finance their global plans. Another researcher in support of Iverson argument also provides that the major determinant of foreign direct investment in developing countries is the expectation of higher profits by firms. This view support the wide spread notion of many local business practitioner in Kenya; for them, Multinational businesses choose county for higher again base on the weak investment environment in the country.

2.2.2 Theory of Comparative Advantage

Comparative advantage theory is an argument that was advanced by David Ricardo in favor of free trade among countries and specialization among individuals. Ricardo argued that there is mutual benefit from trade even if one party is more productive in every possible area than its trading counterpart as long as each concentrates on the activities where it has a relative productivity advantage (Ricardo, 1772). Multinational businesses have generally increased over time. These growths are due to the heightened realization that specialization by countries can increase production efficiency. When a country specializes in some products, it may not produce other products, so trade between countries is essential (Madura, 2008).

2.2.3 Imperfect Market Theory

Countries differ with respect to resources available for the production of goods. Yet, even with such comparative advantages, the volume of international business would be limited if all resources could be easily transferred among countries. If markets were perfect, factor of production (except land) would be mobile and freely transferrable. The unrestricted mobility of factors would create equality in cost and returns and remove the comparative cost advantage, the rationale for international investment. However, the real world suffers from somewhat from imperfect market conditions where factors of production are somewhat immobile. Because markets for the various resources used in production are "imperfect" firm often capitalize on foreign country's resources. Imperfect market provides an incentive for firm to seek out foreign opportunities (Madura, 2008). Due to structural market imperfections, some firms enjoy advantages vis-à-vis competitors. These advantages (including brand name, patents, superior technology, organizational know-how and managerial skills) allow such firms to obtain rents in foreign markets that more than compensate for the inevitable initial disadvantages (Hymer, 1960).

2.3 Empirical Review

Many empirical studies provide that FDI is significant in that it provides source of capital and support domestic private investments. Chen and Demurger (2002) found that FDI contribute to total factor productivity and income growth in host economy, over and above whatever domestic investment would trigger. The researchers argue that policies that promote indigenous technological capacity, such as education, technical training and Research and Development (R & D) increase the aggregate rate of technology transfer from FDI and that export promoting trade regime are essential foundation for positive FDI impact. The study conducted by Borenzstein, De Gregorio, and Lee (1998) using data on FDI received by developing countries tested the effect of FDI on the economic growth in across countries regression framework showed a positive relationship between FDI and economic growth.

Loesse 2010) conducted a causal study to establish the relationship between foreign direct investment and economic growth in case of ten Sub-Saharan African countries which include Liberia and nine other countries s. The study considered two recent econometric procedures which are the Pesaran *et al*. (2001) approach to cointegration and the procedure for non-causality test popularized by Toda and Yamamoto (1995). The result of the study showed that there is a long-run relationship between foreign direct investment and economic growth in Liberia, Angola, Cote d'Ivoire, Kenya Senegal and South Africa. In addition, the long-run effect of foreign direct investment on growth is positive and statistically significant in Angola and Cote d'Ivoire, but it is not significant in Kenya. Moreover, GDP impacts FDI significantly and positively in Senegal and South Africa. Conclusion about causality is that foreign direct investment significantly causes economic growth in Angola, Cote d'Ivoir and Kenya.

In view of these findings, the conventional view which seems to suggest that the direction of causality runs from FDI to economic growth is confirmed in Angola, Cote d"Ivoire and Kenya, but not in Liberia and South Africa where growth causes FDI inflows. Frazer Lanier et-al (2011) study provided slight relationship between FDI and improved living standard in the Liberia economy. The researchers designed major case studies on leading

FDIs in Liberia from different sectors of the economy. The study found that job creation and industrial economic diversification are challenged by the structural characteristics of the sectors, low human capacity level and high energy costs are majored contributing factors for the downturn. The study showed that inasmuch FDI has provided certain level of jobs; they have so far not been of a scale that addresses the extremely high unemployment rate in the country.

Hansen and Rand (2006) re-examine the causal links between FDI and economic growth in 31 developing countries over 31 years (1970-2000). They used bivariate vector autoregressive models for GDP and FDI ratios. They find a strong causal link between FDI and GDP, even in the long run. They also find that GDP Granger-causes FDI, but find no impact on the long-run level of the ratio of FDI over GDP. Moreover, Carkovic and Levine (2005) study the relationship between FDI and economic growth for 72 countries. They find no support for the claim that FDI per se accelerates economic growth. Therefore, the findings in Hansen and Rand study contrast with that of Carkovic and Levine study on FDI and economic growth. With these mixed views on the causality link between FDI and economic growth, some researchers have chosen to analyze the causal relationship between FDI and growth in specific economic sectors or particular regions.

Kimotho (2010) assessment on the relationship of FDI and economic growth in Kenya found that there was a strong and significant relationship that exists between FDI and economic growth in Kenya. His study justified that the positive relationship depicts that there is direct proportionate relationship which exist between FDI and economic growth. The researcher further provided that both inflation and trade term play important role in explaining changes in growth and foreign direct investment. Accordingly, improve inflation rate and better term of trade to foreign investors would go long way in improving the level of foreign direct investment and economic growth.

Kimothos (2010) study that found a direct and strong relationship between FDI and economic growth for the case of Kenya economy, study investigated by (Singer, 1950; Griffin, 1970) found a negative relationship between FDI and economic growth for developing nationals. The common sense of these studies was that FDI was concentrated on low priced primary export to develop countries and had a negative impact on the overall growth pattern. In previous studies on FDI and its effect on output and growth, many economic researchers have concluded that there are positive effects of foreign direct investment on economic development. There have been several studies concerning FDI as an engine for growth in East Asia.

Kim and Hwang (2000) study the role of FDI in South Korea's economic growth. They state that a stable inflow of foreign investment could help South Korea to recover from the severe financial crisis of the 1990s but that the country still fears that increasing FDI will lead to foreign control over the domestic economy. They conclude that FDI and the presence of MNC"s may help a country in crisis to overcome its difficulties and their empirical results show that FDI inflow lowers the odds of a currency crash. Chan (2000) studies the relationship between FDI and economic growth in Taiwan. He focuses on whether movements in FDI can be used to predict movements in economic growth.

Kim and Hwang (2000) examine whether FDI in Korea has positive effects on productivity in manufacturing industries. In addition, they investigate whether FDI plays a role in preventing currency crisis. In this review, emphasis will be placed on the FDI and economic productivity of manufacturing industries leaving out the other factor. In this regards, Kim and Hwang investigation of the productivity effects of FDI in Korea adopted the total factor productivity (TFP) as a measure of productivity in manufacturing industries. In their study, TFP was calculated as a residual in the conventional growth accounting framework. Growth in TFP was assumed to be a function of the growth rates of the FDI stock and the royalty stock, which is used as a proxy for imported technology from foreign countries. They use a random-effects model with instruments to avoid possible endogeneity between productivity effects and the independent variables. They found that FDI stock has a positive but insignificant effect on TFP growth in manufacturing industries.

2.4 Determinant of Foreign Direct Investment

Foreign Direct Investments mostly comes as a bundle of endowments such as organizational and managerial skills, production technology, marketing skills, financial capital as well as broader market access through the networks of the multinational enterprises which are involved in foreign direct investments. Contingent to legal regulations, this resources and skills tend to diffuse inside the local enterprises in the host economy. The theory of determinants of FDI flows has developed substantially over time. Beginning with the neoclassical approach, summarized by MacDougal (1960), other theories include Jorgenson's (1963) model, the radical theories, the relative competitive advantage approach, Hymer (1976) and the theory of industrial organization, (Agarwal, 1980).

2.4.1 Political Stability

Dupas and Robinson (2011) maintain that there is close correlation between economic growth and political stability. This observation may be explained by the fact that political unrest causes anxiety and uncertainty and hence increases the risk of investments made by both local and foreign investors. In most scenarios, civil unrest is coupled by social unrest which also threatens the safety of the investors themselves. During the 2007 general elections in Kenya, Kenya had maintained an image of a relatively stable country in Africa. This perception had created an ideal environment for both tourists and investors. From independence, the country's economy was performing well and despite a few effects especially in the electioneering periods, it was seen as relatively stable.

Both political stability and economic development are two factors that have made Kenya a good example for other African countries for a long period. This changed in the wake of the post-election violence in 2007. Investors' confidence in the country was shuttered and this lead to massive capital flight from the country during that particular time. As a result, this slowed down the economic growth in the country. Most investors will argue that political stability should be taken into consideration in any country a firm will want to invest in. Future unrest creates more anxiety among investors, (Larossi, 2009).

The other main risk considered when investing in any nation is criminal related risks. The additional costs are obtained from theft and counter-theft preventive measures such as provision of security and protection costs for the investment activities. Foreign investors are more exposed to the risk of robbery than the local investors. Kenya police is also another factor considered by investors, (Dupas and Robinson, 2011). The police are ranked as the most corrupt institution in the country. This mean that investors may at times be forced to part with bribes in order to secure any services from the investors. Criminal gangs sometime collude with the police officers who are bribed not to take actions on the gangs. Given that criminals have the perception of foreign investors' wealthy status, there tends to be a high risk of robbery and violence activities against them.

2.4.2 High Corruption Levels

Corruption is dishonest or fraudulent conduct by people in offices who engage in bribery to gain their personal needs. Corruption creates a lot of disturbances on the investors in a country. The role of corruption in FDI brings about a lot of distortions by providing false information, pitfalls, and ultimately increases uncertainty. According to Larossi (2009), investors in Kenya complain that all procedures in the country required money. The payments made are normally divided into two parts; the official payments and the unofficial payments (bribes). This problem does not only apply to foreign investors in Kenya, but also affects the indigenous people as well. Most investors have named the

Kenya Revenue Authority as the most corrupt, since they often have to encounter their officials on a regular basis. Transparency International's Corruption Perception Index (2011) showed that, in the year 2010, Kenya scored 2.1 on a scale of 10. According to this scale, a country with a higher score is seen to be less corrupt, while a country like Kenya with very low scores is perceived to be very corrupt. The index also measures the extent of corruption, in terms of size and frequency of the bribes in both private and public sectors.

Public servants and employees of the government are the most bribed, accounting for up to 99 Percent of all the bribes. These are the same officials that most foreign investors have to deal with on a regular basis. The study also shows that the bribes can range from Kshs 200 to Kshs 50,000. The general conclusion is that corruption is high and rampant in Kenya. This looks like a way of life in the country thus discouraging FDI inflows into the country, (Transparency International-Kenya, 2011).

2.4.3 Infrastructure, labour and Technological Capability

Investors driven with the motive of both resource and asset seeking in the country, the availability of good infrastructure is of essence. The structure and availability of infrastructural network is a positive aspect for all the sectors in any country. There are various overlaps between investment motives and locational preferences. According to the development of infrastructural network, the overlap is quite obvious. I will limit the definition of infrastructure to mean railways, roads, communication network, ports, airports and availability of electricity.

The UNCTAD (2005), report describes the infrastructural network in Kenya as fairly well developed than its neighboring regions. The nation has a railway line which runs from the port city of Mombasa to the Kenya/Ugandan border. It has three main international airport with the largest being Jomo-Kenyatta International airport in Nairobi. Mombasa port is the gateway to the East African region for most of the shipping. Looking at the communication network, internet and telephone penetration is relatively low. There is 1 per 100 fixed line phone connections and this is low but better than others in the area. It is of essence to know that the development of good infrastructure cannot be looked down upon. When foreign investors plan to move to developing nations to take advantage of low labor costs, they have to deal with disrupted services and high transportation costs due to inadequate infrastructure, they may opt not to move. Cargo transportation ought to be reliable and fast since the speed of transportation will be a determinant of the vast life of the product and the price it will be offered to the producer.

Kenya is particularly attractive due to its combination of low cost labor and relatively highly educated workforce. The country has a huge labor force. The educational system in the country has gone through some significant changes and challenges over the past years. Early of 1970s, the government implemented the Free Primary School Education (FPE). The initiative has led to an increase in primary school enrollment rates, (Nishimura & Yamano, 2008). However due to the global oil crisis in the 1980s and the introduction of the Structural Adjustment Programs by the IMF led to a start of cost sharing program which saw a huge drop in the primary school enrollment numbers. In 2003, the government again started the FPE which provided free access to education for every child. Introduction of such programs means that most Kenyans can be able literate. Higher education is often seen as an important factor to investment firms especially in the services sector. This is as a result of the employees needs to have the skills to work with computers and also have organizational duties which are the assets to the investment firms in the services industry. The presence of relatively new technological advances becomes more attractive for investors, (Noorbakhsh, Paloni & Youssef, 2001).

2.4.4 Investment or FDI Policy

FDI policy is the degree to which foreign ownership is constrained and business decisions of foreign investors are regulated, (Eglin, 2001). These policies determine the amount and quality of FDI inflow into the country. To encourage development of local firms, restrictive FDI policies were pursued in Kenya. Trade policy in Kenya has favored joint ventures over wholly owned subsidiaries in the world. Kenya's Policies that lower the risk of investment like minimal restrictions on equity ownership attracts FDI inflows into the country. Foreign investors prefer a country with transparent and predictable FDI policies that prohibit discriminatory treatment of foreign investors and provide an open and competitive business environment, (Haddad and Harrison, 1993). Liberalization of investment restrictions may favour FDI over licensing. Policies that discourage inward FDI in any form like those that reduce profitability of foreign investment will reduce spillovers while those that require or encourage MNCs to transfer technology more quickly will enhance potential spillovers, (Ethier and Markusen, 1991).

2.4.5 Natural Resources

The availability of natural resources have in the past been considered very important factor in the attraction of FDI. This is due to the need by the developed economies of Europe and North America to access and secure reliable sources of minerals and raw materials for their firms. Even if the importance of natural resources is not important as such, it remains an important factor for inward investments in countries which have abundant natural resources. The availability of natural resources has been found to be positively related to Foreign Direct Investments flows into developing countries especially in Africa. Kolstad and Tondel (2002) argue that regardless of other factors like political stability, countries which are rich in natural resources are attracts more FDIs.

The mining industry in Kenya has not been traditionally a major recipient of FDIs. Mining industry in Kenya is known for the production of industrial minerals, mineral fuels and metals. Some of the minerals found in Kenya are gypsum, granite, and limestone, gold, marble and iron ore. Over the past few years, mining industry in the Kenya has steadily reduced. This is attributed to lack of political interference, poor policies set by the government and investment. Kenya has no significant natural resource endowments apart from abundant wildlife and the rich agricultural land, (Kolstad and Tondel, 2002).

2.5 Summary of the Literature Review

A positive trend in FDI maintains over a long run period could contribute to economic growth once the right policy and infrastructures are being instituted by policymaking. The pool of multinational institutions seeking new market in Turkana County is faced with various challenges. This study sought to establish the challenges of foreign direct investment within pastoralist counties in Kenya with special focus on Turkana County.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology, which was used to carry out the study. It further describes the type and source of data, the target population and sampling methods and the techniques that were used to select the sample size. It also describes how data will be collected and analyzed. The suitable methodology in this study gives the guidelines for information gathering and processing.

3.2 Research Design

A case study research design was adopted. According to Kothari, (2006) a case study design is a way of organizing data and looking at the object to be studied as a whole, a case study makes a detailed examination of a single subject or a group of phenomena. Case approach helps to narrow down a very broad field or population into an easily researchable one, and seeks to describe a unit in details, in context and holistically, (Kombo & Tromp, 2006).

3.3 Data Collection

The study employed face to face interview as a primary data collection method. Primary data is data that has not been previously published, that is, data derived from a new or original research study and collected at the source. The researcher used the interview guide to gather information from the 7 senior employees (Ministers of the County government of Turkana) as they are the conversant with the challenges of foreign direct investment in Turkana County Kenya.

3.4 Data Analysis

Content analysis was used to test data that was qualitative in nature or aspect of the data collected from the open ended questions.

Qualitative research is by definition exploratory, and it is used when we don't know what to expect, to define the problem or develop an approach to the problem. It's also used to go deeper into issues of interest and explore nuances related to the problem at hand. The method used in data collection in this study is in-depth interviews. The researcher conducted interviews with senior employee in the county government of Turkana County. According to Baulcomb, (2003), content analysis uses a set of categorization for making valid and replicable inferences from data to their context. A correlation matrix was developed to analyze the relationships between the independent variables. Qualitataive data collected was analysed using content analysis, this was to summarize the essential features and relationships of data in order to generalize and determine patterns of behaviour and particular outcomes. The content analysis was used to analyze the respondents' views about challenges of foreign direct investment in Turkana County Kenya

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents the data analysis and interpretation of the study. The primary data was collected using an interview guide and analysis was done through content analysis to establish the challenges of foreign direct investment in Turkana County Kenya.

4.2 General Information

The study found that interviewees were from both genders. The study also revealed that the interviewees were aged between 40 years to 50 years. The interviewees were requested to indicate their highest academic qualification. The findings revealed that all the interviewees had achieved post graduate degree. These findings show that the interviewees were well educated to understand the questions and thus would give credible information related to the study. The findings further revealed the interviewees had worked in their organizations for over 3 years. These findings depict that the interviewees had worked for long enough to understand their organizations and thus would give credible information related to the study.

4.3 Challenges of Foreign Direct Investment in Turkana County Kenya

The study requested the interviewees to indicate how political instability affect foreign direct investment in Turkana County. The interviewers indicated that political instability affect foreign direct investment to a great extent. From the findings, presence of political instability causes social unrest, anxiety and uncertainty and hence increases the risk of investments made by both local and foreign investors.

On whether corruption affect foreign direct investment in Turkana County, the interviewees indicated that corruption creates a lot of disturbances on the investors in a country. The findings revealed that corruption is rampant in Kenya and takes many forms such as bribery, extortion, influence, fraud, and embezzlement. According to the interviewees corruptions discourages foreign direct investment since it brings about a lot of distortions by providing false information, pitfalls, and ultimately increases uncertainty, which again increases the risk of investments made by both local investors and foreign investors.

The study requested the interviewees to indicate how infrastructure affects foreign direct investment in Turkana County. The respondents indicated that availability of infrastructure such as railways, roads, communication network, ports, airports and availability of electricity in the host country do positively influence foreign direct investment in that country. The findings further indicated that infrastructural network in Kenya as fairly well developed as compared to its neighboring countries. However, the interviewees indicated that infrastructure system in Turkana County is poorly developed and this had greatly discouraged foreign direct investment in the area.

On how availability of labour affects foreign direct investment, the interviewees indicated that availability of low cost labor which is highly educated attracts foreign direct investment. The interviewees indicated that in Turkana County, majority of the residents are illiterate. Most people are not well educated, a factor that discourages foreign direct investors especially in the service sector, since these people will lack the skills necessary to provide the services. The findings further indicated that technological capability is a vital determinant in foreign direct investment. From the findings, presence of relatively new technological advances and innovations becomes more attractive for both foreign and local investors. However, technological advancement has not been seen in Turkana County since it goes hand in hand with presence of highly educated personnel.

The interviewees were further requested to indicate how direct investment policy affects foreign direct investment in Turkana County. The respondents indicated that direct investment policy determines the amount and quality of foreign direct investment inflow into the country. Findings revealed that the nature of the policy will determine the impact it will have on the foreign direct investment. Similarly, transparent and predictable foreign direct investment policies that prohibit discriminatory treatment of foreign investors and provide an open and competitive business environment will as well attract foreign direct investment inflow.

On how availability of natural resource affects foreign direct investment in Turkana County, the interviewees were of the opinion that adequate natural resources boost foreign direct investment. This is due to the need by the developed economies to access and secure reliable sources of minerals and raw materials for their firms. The interviewees indicated that some of the natural resources present in Turkana County include gemstones, gold, saltlicks, wildlife and the most recent one is the discovery of oil mines, which will boost both local and foreign direct investment.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objective of the study. The researcher had intended to establish the challenges of foreign direct investment in Turkana County Kenya.

5.2 Discussion

The study revealed that political instability affect foreign direct investment to a great extent. From the findings, presence of political instability causes social unrest, anxiety and uncertainty and hence increases the risk of investments made by both local and foreign investors. This is because social unrest not only threatens the safety of the property of the investors, but also the safety of the investors themselves. For instance, the post-election violence in Kenya in 2007 extremely shuttered investors' confidence in the country and this lead to massive capital flight from the country during that particular time. As a result, this slowed down the economic growth in the country.

The findings also revealed that corruption creates a lot of disturbances on the investors in a country. Corruption is rampant in Kenya and takes many forms such as bribery, extortion, influence, fraud, and embezzlement. According to the findings corruptions discourages foreign direct investment since it brings about a lot of distortions by providing false information, pitfalls, and ultimately increases uncertainty, which increases the risk of investments made by both local investors and foreign investors.

Corruption further results in increased cost of doing business. Functioning as a tax on business, due to the increase of time and resources spent to deal with complex regulations and bribes to bureaucrats, the cost is often transferred to consumers through higher prices or lower quality of goods and services, which affect negatively the private sector's labour market, efficiency, competition, innovation and, in particular, economic growth. These increased business costs may also cause a shift from part of the economic activity into the informal sector, in order to avoid the use of public services as much as possible.

The study also revealed that availability of infrastructure such as railways, roads, communication network, ports, airports and availability of electricity in the host country do attract foreign direct investment in a country. The findings further indicated that infrastructural network in Kenya as fairly well developed as compared to its neighboring countries. For instance, there is a railway line which runs from the port city of Mombasa to the Kenya/Ugandan border. There are also three main international airports with the largest being Jomo-Kenyatta International airport in Nairobi. Mombasa port is the gateway to the East African region for most of the shipping. However, looking at the communication network, internet and telephone penetration is relatively low. Infrastructure system in Turkana County is poorly developed and this had greatly discouraged foreign direct investment in the area.

The findings revealed that availability of low cost labor which is highly educated attracts foreign direct investment. The findings further indicated that technological capability is a vital determinant in foreign direct investment. Similarly, presence of relatively new technological advances and innovations becomes more attractive for both foreign and local investors. The findings however revealed that technological advancement has not been seen in Turkana County since it goes hand in hand with presence of highly educated personnel.

The study unfolded that direct investment policy determines the amount and quality of foreign direct investment inflow into the country. Findings revealed that the nature of the policy will determine the impact it will have on the foreign direct investment. For instance, policies that lower the risk of investment such as minimal restrictions on equity ownership, will attract foreign direct investment inflows into the country. Similarly, transparent and predictable foreign direct investment policies that prohibit discriminatory treatment of foreign investors and provide an open and competitive business environment, will as well attract foreign direct investment inflow. However, in orders to encourage development of local firms, restrictive foreign direct investment policies should be pursued in Kenya.

The findings finally revealed that adequate and readily natural resources boost foreign direct investment in a country. This is because most of the developed economies engage in foreign investment in search for reliable sources of minerals and raw materials for their firms. The findings further revealed that some of the natural resources present in Turkana County include gemstones, gold, saltlicks, wildlife and the most recent one is the discovery of oil mines, which will boost both local and foreign direct investment.

5.3 Conclusions

From the findings, the study concludes that political instability adversely affect foreign direct investment. Ethnic conflicts that have been experienced in the northern regions of Kenya have contributed to lack of foreign direct investment in these areas. The study draws further conclusions that corruption has discouraged foreign direct investment in Kenya by bringing about uncertainties and increasing the risk of investment. The study also concludes that corruption has led to mismanagement of the resources in Turkana County, consequently resulting in increased poverty levels in these areas. The findings revealed that adequate and readily available natural resources boost foreign direct investment in a country.

5.4 Recommendations

The study s recommends that political leaders in these areas should ensure that they preach a message of peace and unity to increase safety and reduce uncertainties associated with political conflict. This way more foreign investors will be attracted to investing in these areas. The study thus recommends that the Ethics and Anti-Corruption of Kenya should undertake proper investigation activities carried out in the county as well as advice and educate the residents on the dangers of involving in corrupt activities.

Further recommendations include that natural resources present in Turkana County such as gemstones, gold, saltlicks, wildlife and oil must be used in such a way to promote growth in the areas with the aim to reduce poverty levels in these area. The study recommends that proper management of natural resources should be observed so as to avoid over exploitation of the non-renewable resources.

5.5 Areas for Further Research

This study sought to establish the challenges of foreign direct investment in Turkana County Kenya. From the above findings, conclusion and recommendation the study recommends that an in-depth study should be carried to determine the impact of foreign direct investment in Turkana County.

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APPENDIX: INTERVIEW GUIDE

Section A: Demographic Information

1. Gender of the respondent?
2. What is your Age Bracket?
3. What is your highest level of education?
4. How long have worked in the County?

Section B: Challenges of Foreign Direct Investment in Turkana County Kenya

5. How does political instability affect foreign direct investment in Turkana County?
6. To what extent does political instability affect foreign direct investment in Turkana County?
7. How does corruption affect foreign direct investment in Turkana County?
8. How does infrastructure affect foreign direct investment in Turkana County?
9. Which infrastructure in the county hinder foreign direct investment in the county ?
10. How does availability of labour affect foreign direct investment in Turkana County?
11. How does technological capability affect foreign direct investment in Turkana County?
12. How does foreign direct investment policy affect foreign direct investment in Turkana County?
13. Which foreign direct investment policy affects foreign direct investment in Turkana County?

14. How does availability of natural resource affect foreign direct investment in Turkana County?
15. Which natural resources in the county that attract foreign direct investment?
16. What are challenges of foreign direct investment in Turkana County?

Thanks You