UNIVERSITY OF NAIROBI

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Determinants of Foreign Exchange Inflows to Kenya; 1980-2014

Names: Mairura Cynthia Gesare

Registration No: R50/69188/2011

Supervisor: Mr. Gerrishon Ikiara

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DECLARATION

This research paper is my original work and has not been presented to any other examination body. No part of this research should be reproduced without my consent or that of the University Of Nairobi.

Sign ……………………………… Date……………………...

MAIRURA CYNTHIA GESARE

R50/69188/2011

The project has been submitted with my approval as university supervisor.

Sign ……………………………… Date……………………...

MR. GERRISHON IKIARA

INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES.

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DEDICATION

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ABSTRACT

Foreign aid is a post-world war II phenomenon that came about when western states had the notion that poor countries were in a low income equilibrium trap and needed to supplement their low income savings with foreign savings in the form of official development assistance (ODA) and foreign direct investments (FDI). All this was done to promote capital formation and increase economic growth. Aid also had other objectives which included poverty alleviation, bridging the gender gap and promoting good governance. The main objective of the study was to understand the determinants of foreign resources to Kenya both bilateral and multilateral to government and civil societies. The specific objectives of the study were; to identify the determinants of trade flows to Kenya; to examine the determinants of foreign direct flows to Kenya; and to investigate the determinants of official development assistance to Kenya. The study used a research design that is descriptive in nature. The research reviewed recent literature on the determinants of foreign aid allocation to Kenya both bilateral and multilateral aid. Secondary data was collected from World Bank development indicators, surveys conducted by the Kenya government, strategic plans, financial and narrative reports, publications, policy documents and other relevant documents.

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CHAPTER ONE

1.1 Introduction

Foreign exchange resources inflows play a major role in a country's economy. These resources are acquired from various sources which include but are not limited to foreign aid both from official development assistance, trade inflows from exports and imports, remittances from immigrants as well as foreign direct investment.

Foreign exchange inflows allow countries to meet their obligations both short and long term especially in payment of international obligations, for example debt servicing, intervening in foreign exchange markets during periods of excessive currency fluctuations. They also allow a country to have foreign exchange reserves which create market confidence in a country's ability to meet external obligations and to absorb any unforeseen external shocks or unexpected capital movements.

For purposes of this study we will focus on three main sources of foreign exchange inflows to Kenya. These being, official development assistance from the OECD (Organization for Economic Cooperation and Development) countries, development countries as well as international financial institutions. We will also focus on inflows from international trade and what factors determine trade relations between Kenya and other countries. Lastly focus will be on foreign direct investments. The factors that determine investment by multinational corporations and what impact this will have on Kenya.

1.2 Statement of the problem

Foreign exchange resource inflows play a major in the economic growth and development of developing countries. Developing countries inflows of foreign exchange resources have largely been from foreign aid receipts. International trade and foreign direct investment are seen largely with developed countries. Foreign aid inflows constitute a large portion of the inflows as they are used mainly for poverty alleviation which is a major pillar of sustainable development. Numerous studies have been conducted on the role of foreign aid on economic development with a focus on its impact on government expenditure, domestic savings and domestic resource mobilization most importantly taxation. These studies have had mixed results on what role foreign aid plays.[1]

Researchers have carried out studies to try and explain the impact that aid has on economic development and results are mixed. It has been seen to be effective in certain areas and lacking in others. Aid has been linked to dependency especially for the continent of Africa. Inflows of loans and grants either from multilateral or bilateral agreements have led to a high debt burden for developing countries. Sub Saharan countries are marked with high levels of indebtedness, unemployment, poverty and poor economic performance yet they are the largest recipients of foreign aid inflows. [2]

Research has also been carried out on Kenya's trade especially its policies and in relation to trade agreements signed with other partners and the effects that this will have on the economy. Foreign direct investment especially with the expansion and growth of multinational

[1] Studies include Francis Mwenga, Case for aid effectiveness in Kenya, Wolfenshon Centre for development 2009, Elphias Ojiambo et al, Aid unpredictability and Economic growth in kenya, Africa Development Bank Group 2015.
[2] Hansen H, Tarp F, Vikkelso S, aid effectivenss: A survey of 30 years of literature on Aid-Savings, Aid-investments and Aid-Growth Linkages, Development Economics Research Group 1998.

corporations have played a role in Kenya's economic growth and development.[3]The aim and focus of this study is to move away from the norm and try to analyze the determinants of foreign exchange inflows to Kenya. There has been research in this area, but focus has mainly been on the impact of trade, investment and aid on the exchange rate rather than the factors that affect foreign exchange inflows to Kenya.

1.3 Main objective

The main objective of this study is to understand the determinants of foreign exchange resource inflows to Kenya.

1.4 Specific objectives

The specific objective of the study include,

1. To determine the factors that affect inflows of official development assistance to Kenya
2. To determine the factors that impact foreign direct investment inflows to Kenya
3. To determine the factors that impact international trade inflows to Kenya.

1.5 Justification of the study

Many researchers have focused a lot on the effectiveness of foreign aid and investment in promoting economic development with criticisms on its success and failure. My research on the other hand acknowledges the importance of the other studies, but shifts focus from the effectiveness of foreign aid on development to the factors that determine foreign aid, trade and investment inflows to Kenya.

[3] See studies on Kenya trade policy East African community, World Trade Organization Trade policy review.

Understanding the factors that impact foreign aid inflows to Kenya is relevant to policy makers especially in relation to economic policies that will impact investment and trade in Kenya. This study will therefore be useful to government policy makers in understanding how to attract both investment and international trade. Foreign policy makers will also find this study beneficial in preparing policy documents relating to bilateral relations with other countries as well as multilateral relations with international institutions.

Major exporters as well as importers and policy makers in the area of trade will find this study useful in understanding areas where change is needed to make Kenya better at trade be it in the area of manufacturing or value addition to the goods and services exported to Kenya. For investors intending to place roots in Kenya the study will be beneficial for them in understanding the business environment and for the government to know where change needs to be made to ensure the country is attractive to investors.. International financial institutions as well as other donors will be able to identify reforms that the government has put in place to enhance and speed up economic development. Researchers will benefit from the findings and recommendations of the study and can use it as a basis for their research.

1.6 Literature review

This section of the study analyzes the various literatures on the approaches to foreign aid inflows. Literature will focus on seeking to identify factors that influence trade and foreign direct investment Literature on aid effectiveness and dependency will also be considered as part of the literature review.

1.7 Determinants of Foreign exchange resource inflows.

Foreign aid inflows according to discussions of the United Nations Millennium project 2005 are based on a country's requirements for aid rather than on what the donor feels needs to be funded. The requirements could include per capita income, poverty levels, mortality rates, and levels of education or the financing needs as per macro-economic models.[4] McGillivray explains that using this method will ensure that aid inflows close the gap between the deficit and actual levels of the millennium development goals variables and targets of each country. This meant that a country that was not on the path to meeting millennium development goals would receive higher inflows of aid to be able to meet this target.[5]

Foreign exchange resource inflows depend on the government of a country, the economic environment as well as policy performance. There is the argument that developed countries trade, invest and give aid to countries that were former colonies that still held political alliances with them. For example, a country like France would give aid to its former colonies as they have political ties and do not consider other factors in their relations. Nordic countries on the other hand give aid specifically for economic development and good governance.[6]

Collier and Dollar in expounding on the basis of the linkage between aid and economic growth brought to light the fact that foreign aid inflows are aimed at reducing poverty. They argue that inflows should be based on the levels of poverty in a country and the impact that this would have on economic development. Their study concludes that aid should be allocated on the

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[4] Sachs .J, Investing in development A practical plan to achieve the millennium development goals, Report to the UN Secretary General, 2005.

[5] McGillivray, M. State Fragility and Aid Effectiveness: Classification Implications. Paper presented at the UNU-WIDER Conference on Fragile States-Fragile Groups, 2007

[6] Alberto A, and Dollar D, Who Gives Foreign Aid to Whom and Why?, Journal of Economic Growth.5(2000), Pp 33-63.

basis of the marginal cost of poverty reduction. In their view when the marginal cost of poverty reduction increases, foreign aid inflows therefore should equalize this marginal cost of poverty across all recipient countries. [7]

Lumsdaine's opinion is that foreign aid inflows should be aimed purposely for humanitarian concerns and not on the basis of political alliances or to attain self-interest on the part of the donors.[8] There is a considerable difference between relations of countries. Where bilateral relations are concerned, countries focus on their self-interest and how to attain them where as multilateral relations are focused on improving inflows from domestic resources. In this case then bilateral aid is given to developing countries that can give donors what they need such as security, political, investment and trade while multilateral aid is used to fund a deficit in the budgets of receiving nations.[9]

Llavador and Roemer propose foreign aid inflows being directed mainly for increased economic growth and poverty reduction. They came up with an approach referred to as equal opportunities where aid is used to finance structural disadvantages of developing countries with the aim of equalizing poverty risk at one point in time. Inflows especially with regards to aid should not be based on previous economic performance specifically the World Bank Country Policy and Institutional Assessment index as well as levels of income of the recipient countries when deciding how to allocate foreign aid.[10]

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[7] Collier .P and Dollar .D. Can the World Cut Poverty in Half? How Policy Reform and Effective Aid Can Meet International Development Goals. World Development. Vol. 29(11) pp. 1787-1802. 2001

[8] Lumsdaine .D. H, Moral Vision in International Politics: The Foreign Aid Regime, 1949{1989 (1993), Princeton, NJ: Princeton University Press.

[9] Maizels, A, and Nissanke, A, Motivations for Aid to Developing Countries, World Development.12 (2012), 251{273.

[10] Dollar, D and Levin V. The Increasing Selectivity of Foreign Aid, 1984-2002', World Bank Policy Research Paper 3299. 2004.

On private aid that is aid from private donations and non-governmental program funding, aid inflows to these organizations is from major fundraising activities and it provides more aid per capita to high priority countries as ranked by the United Nations. Amount of inflows to an organization is dependent on the size of the organization and years of conducting humanitarian work. Organizations that have been present for long and are relatively large have economies of scale and will therefore receive more funding as compared to small organizations. A study on aid inflows disbursed by Swedish International Development Corporation agency (SIDA) in comparison to official Swedish development assistance found that SIDA aid is more selective than the official development assistance. For the Swedish ODA, commercial and political self-interest plays a major role in deciding who received ODA, but not NGO aid.[11]

1.7.1 Foreign aid, effectiveness and Dependency

Barret[12] defines foreign aid as the movement of government resources that is taxes from rich countries to poor countries as a means to get rid of poverty and hunger. It is used both in the short term to relieve suffering as a result of natural events and conflict in the long term to end chronic deprivation. Foreign aid was meant to be temporary in the international political economy though in the past fifty years few countries have graduated from the aid system.

Most African countries have aid as a significant share of their GDP. African governments have become heavily dependent on aid despite adopting a rhetoric of self-reliance.[13] Chenery and

[11] Dreher, et al,. Are NGOs the Better Donors? A Case Study of Aid Allocation for Sweden. KOF Working Papers No. 180. November 2007.

[12] Christopher B Barret, Foreign Aid, Development Strategies and Poverty Reduction, 2008, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1142507. Accessed 20th May 2016.

[13] Mule Harris et al, Partnership for capacity building in Africa, A report of the working party on the impact of bank policies, instruments and operational practices on capacity building. World Bank, 1996

Strout hypothized that aid can be help development as it supplements domestic savings and foreign exchange earnings.[14] Effectiveness of aid depends on the environment in which it is used.

Burnside and Dollar are of the opinion that inflows from foreign aid impact the quality of institutions and policies in place.[15] Dambisa Moyo in her book illustrates how high dependency on aid has led to developing countries being more corrupt, markets disoriented and with high levels of poverty. She explains how the West is patronizing Africa and has harmed Africa by making them dependent on aid.

Azam demonstrated that high aid inflows leads to dependency which damages governance in the long run and in particular it does not encourage governments to implement good policies or develop public revenue and expenditure systems that are effective. [16] Fjeldstad et al state that aid flows in some countries often constitute more than half of the budgets are declining and this makes tax revenue more important to state incomes. Aid flows have also been conditioned to improve domestic resource mobilization.[17]

The 3rd financing for development conference held in Addis Ababa in July 2015 recognized that financial flows relied on public policies that empower the national and international enabling environments. The action agenda emphasizes that the primary

[14] Chenery, Holls B. and Alan M. Strout (1966) 'Foreign Assistance and Economic Development, American Economic Review (56): 679-735.
[15] C. Burnside and D. Dollar, Aid, Policies and Growth; Revisiting the Evidence, World Bank Policy research paper No. 2834, March 2004.
[16] J. Azam, Aid Dependence Reconsidered, World Bank Research, Working paper no 2144, July 1999.
[17] Fjeldstad et al, Taxation, Aid and Democracy, An agenda for research in African Countries. Working Paper 2000:4 Chr Michelsen Institute.

responsibility for countries is their development economically and socially, whilst the role of the international community is to create an enabling environment for development.[18]

Foreign aid is also volatile and unpredictable. Normally aid commitments exceed aid disbursements. Foreign aid is also pro-cyclic meaning that more is received when times are good and less when times are bad.[19] Bulir and Hamann state that aid is highly unpredictable as compared to other macroeconomic variables like GDP or fiscal revenue. They also argue that least developed countries with high inflows of aid are open to large external shocks and are incapable of coping with them due to their consistent state of liquidity and lack of economic policy tools that would allow them to react fast to these situations. This therefore means volatile, unpredictable and pro cyclic aid can lead to heightened overall macroeconomic instability leading to a disregard of the other beneficial effects of aid. [20]

Gupta et al are of the opinion that official development assistance has resulted in donors giving too much money to developing countries in the form of loans which have resulted to high levels of external debt and led to these countries being unable to meet their development targets.. Developing countries during the period 1980-2009 have received net official development assistance averaging between 3.7 and 6.7 percent of GDP which amounts to around 20-40 percent of average tax revenues.[21] Critics of foreign aid have raised concerns of the high share of aid inflows and the large portion it holds of government budgets in some countries with major

[18] Financing for development conference, The Addis Tax Initiative – Declaration, July 2015
[19] P.N. Osakwe, Aid predicatability, Ownership and development in Africa, UN Economic commission for Africa.
[20] A. Bulir and A.J. Hamann, Volatility of development aid: From the frying pan into the fire?, IMF Working Paper WP/06/65, 2006.
[21] D. Benedek et al, Foreign aid and revenue: Still a crowding out effect? IMF working Paper WP12/186, International Monetary Fund 2012.

concerns on its negative impact on domestic resource mobilization efforts.[22] Remmer argues that while aid can increase government spending, it can reduce government revenue generation as an aid funded expansion is not channeled for capital formation or investment, but towards consumption which will lead to undermining revenue efforts and increasing aid dependency.[23]

There is an expectation that foreign aid inflows to recipient countries can regress institutional development as it acts as a substitute to domestic taxes by reducing governments incentives to levy the taxes and improvement of tax administration.[24] Aid has been evidenced to have a positive impact on increased tax revenues. The argument is that aid leads to policy reforms which in turn results in improved tax efforts by increasing the tax base and better administration.[25] Gupta argues that the composition of aid affects tax revenue. In his opinion if aid is in the form of loans then this has a positive impact on government revenue, but if it is in the form of grants then the impact is negative in nature.[26]

Sub-Saharan Africa countries have high levels of indebtedness, unemployment, poverty and poor economic performance. The per capita income on average has fallen in Africa since 1970 despite high flows of aid. Debt has risen in developing countries due to aid dependency and for instance between 1970 and 1999 aid inflows to Kenya were at an average of 9 percent of the GDP and amounted to close to 20 percent of the annual government budget and 80 percent of development projects were financed from this portion.

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[22] Gupta, S., B. Clements, and S. Tareq, Mobilizing Revenue; Finance and Development, Vol. 45, Issue 3 (Washington: International Monetary Fund), 2008

[23] Remmer, Karen. Does foreign aid promote the expansion of government? American Journal of Political Science 2004, 48(1).

[24] Moss et al, Reinventing Foreign Aid, The MIT Press, 2008.

[25] P. Clist and O. Morrisey, Aid and Tax Revenue, Signs of a positive effect since the 1980s, Journal of international development Vol 23, 2011.

[26] Gupta et al, Foreign Aid and Revenue Response; Does the composition matter? International Monetary Fund, 2004.

The global financial and economic crisis of 2008 led to decreased capital flows including foreign aid. This led to a need to increase domestic revenues to cover up the decrease in aid flows. Aid from OECD countries declined in 2011 due to the crisis and dropped by 2.7% compared to 2010. Bilateral aid in 2011 to Sub Saharan Africa was Usd 28 billion dropping 0.9% in real terms compared to 2010. For least developed countries foreign aid dropped by 8.9% in real terms to Usd 27.7 billion.[27]

Foreign trade has led to africa's economies being dynamic and influential coupled with gains from its trading partners and inward foreign direct investments coming from other countries. There has been an increase in blateral trade flows since the year 2000 as Africa has comparative advantages and there have been increased energy needs from productive sectors of their partners. Major trading partners to Africa are still the European Union and the United States. A new major trading partner has emerged this being China and has had large influence in global trade due to lack of conditionalities on its trade with Africa. China has also become one of the major aid donors and investors in Africa.

[27] OECD, Development: Aid to developing countries because of global recession, retrieved on 9th June 2016 from http://www.oecd.org/newsroom/developmentaidtodevelopingcountriesfallsbecauseofglobalrecession.htm

1.8 Theoretical Framework

Foreign exchange inflows can be explained using the dependency theory. Dependency theory is based on the Marxist theory of the world where globalism spreads market capitalism and exploitation of cheap labour resources in exchange for technology that is outdated. There is a link of dominant rich countries exchanging resources with poor countries and exploitation of the so called poor states.

In the disbursement of foreign aid inflows, aid inflows are contributed by the developed countries mostly from tax payers money and disbursed to the low income and least developed countries. The aid though is not equitably distributed and is in most cases done on the basis of where the developed countries can benefit more in their relations to the developing nations.

Trade carried out between countries is normally on the premise of dependency where developing nations have the raw materials and resources needed by developed countries to carry out manufacturing while developing countries need technology and know how from these countries. In this case on cannot survive without the other. For investment multinational corporations provide employment to countries where they have set up operations and in return the host countries offer incentives such as a tax holiday, allowing for profit repatriation in order to have foreign investment in their countries and in turn lead to economic growth and development.

1.9 Hypothesis

1. Foreign aid inflows have a positive impact on foreign exchange inflows to Kenya
2. Trends on exports and imports influence the levels of foreign exchange inflows.
3. Foreign direct investment is influenced by the economic and business environment.

1.10 Methodology of Research

In this section the researcher will discuss the research design, information gathering methods, population of the study, sample design, data collection instruments, reliability and validity of data an data analysis.

1.10.1 Research design

This study will be descriptive in nature. It will analyze the environment in which aid, trade and investment in Kenya take place and explain in detail the factors that impact inflows of foreign exchange from these three components.

1.10.2 Target Population

Population that was considered for this study included government officials, experts in trade as well as some multinational corporations

1.10.3 Sample design

A sample is the part of the population that has been selected for analysis and observation. By sampling the researcher is able to get a representative number for the population. The state of population under study will be identified and random sampling will be used to represent the issue under study.

1.10.4 Data Collection

Secondary data will be collected from World Bank development indicators, surveys conducted by the Kenya government, strategic plans, financial and narrative reports, publications, policy documents and other relevant documents will also be reviewed.

1.10.5 Data analysis

.The researcher will use a descriptive analysis. Tables and graphs will also be used to analyze data from various sources.

1.11 Scope and limitation of research

This study focuses on foreign exchange inflows from trade, investment and trade.. The aim is to find out the factors that determine foreign exchange inflows into Kenya during the period 1990 to 2014. Data especially on foreign aid may be considered private, but the researcher will overcome this by using data that is readily available from government as well as international financial institutions. It is not feasible to obtain data from each and every exporter or importer and the researcher will therefore use overall sector date in import and export in conducting this study

The other challenge is lack of relevant information on the area of study. The role and impact of foreign aid to Kenya's economy as well as how effective this aid has been have been the main focus on studies in this area. Little study has been done to identify the factors that affect foreign aid inflows into Kenya. Limitation of information is also a challenge as it may be considered to be confidential. The researcher will try to be as exhaustive and inclusive as possible in order for the study to cover all relevant areas.

1.12 Chapter outline

Chapter one of the study focuses on defining the problem, the research questions, the dependent and independent variables, the thesis and hypothesis as well as the methodology used in the study. It is an introduction to the area of study and expounds in broad context what the research is about. It includes the statement of the problem, justification of the study, theoretical framework, hypothesis, methodology and literature review on the impacts of aid on government revenue in developing countries.

Chapter two will focus on analyzing foreign aid inflows to Kenya with an analysis of inflows to key sectors as well as the major donors who had an impact on the aid inflows to Kenya

Chapter three will focus on the trends of import and export into Kenya as well as inflation rates, foreign exchange rates and how this affected inflows form trade.

Chapter four will be an analysis of the determinants of foreign direct investment to Kenya with a focus on the economic policies and how they affected foreign investment to the country

Chapter five provides the summary, discussion of the findings, conclusions and recommendations of the research and suggestions for further study.

CHAPTER TWO.

ODA INFLOWS TO KENYA FOR THE PERIOD 1980-2014.

2.1 INTRODUCTION.

This chapter focuses on analyzing foreign aid inflows to Kenya over the period 1980-2014. This chapter further focuses on the policies both foreign and economic and their impact on foreign aid inflows.

2.2 Foreign aid trends 1980-2014.

Foreign aid inflows to Kenya have for a longtime been country to country assistance that is bilateral aid in the form of grants from developed countries. Indirectly aid is received through multilateral assistance. In multilateral assistance donor funds are pooled together and given to international financial institutions for disbursements to countries in need. This pooling of resources is normally done through institutions such as the International Monetary Fund, World Bank, Africa development bank, Asia development bank as well as certain United Nations agencies such as United Nations development Programme. Multilateral aid to Kenya has mainly been from the World Bank.

Kenya in 1980 was going through a change in leadership from President Jomo Kenyatta to Daniel Arap Moi. The government budget at the time was one of the poorest for the government. This was largely due to inflation trends which were sped up by the organization of petroleum exporting countries increasing the prices of crude petroleum. This led to a world recession in 1975 with recovery from the recession commencing in 1976 to 1979. The high oil prices and measures to stem the inflation impact by developed countries led to a slowdown in the growth of the world economy.

Kenya’s economic growth moved in tandem with the general world trend, but the coffee boom of 1977 led to an increase in GDP to a high of 8.8 per cent. In 1980, due to high oil prices from OPEC Kenya’s terms of trade were the worst at the time. There was also an imbalance in the global payments situation and this led to an economic depression globally. Climatic conditions were also not favorable and the boom experienced in the agriculture industry came to an end. This period also saw a disparity between government revenue and expenditures which led to a need to meet the financing gaps and this was to be financed through loans and grants.

Large inflows of foreign aid were experienced in the 1980s due to Kenya implementing the structural adjustment programmes. The structural adjustment programs were meant to lead to economic liberalization of the country. The programs were introduced as a result of the financial crisis of 1980 where countries had high loans with commercial banks and were unable to pay them back. There was a balance of payments problem and the international financial institutions had to step in to curb the crisis. The structural adjustment program policies included liberalization of pricing and marketing systems, privatization and divesture of parastatals and reforms to the civil services. ODA inflows to Kenya in the 1980s increased to an annual average of $673 million from an annual average of $857 million in the 1970s. in this period, foreign aid accounted for about 9 percent of the gross domestic product and financed close to 20 percent of the annual government budget.

Foreign aid inflows reached a high peak in 1990 at about $1.6 billion, but declined thereafter due to the government not meeting its commitment to donors and this lead to an aid freeze in 1992, 1997 and 2000. There has also been a rise in multilateral aid from the International financial institutions and a shift from project aid to programme aid to increase accountability and ownership by the recipient country.

Post-independence Kenya received foreign aid inflows from Britain to facilitate land settlement schemes this was to purporsely finance the transfer of land ownership from the white colonial farmers to the indigenous blacks. The aid served the purpose of financing major recovery from the economic depression that had hit the global markets pre-independence. Nominal aid inflows to Kenya were steadily increasing in the 1980's but things changed in 1990's and there was a slowdown on donor support. Nominal aid inflows in 1980 were at about US$393.40 million to an average peak of US$1,120.50 million in 1989/1990 which was followed by a drastic drop to a low of US$308.85 million in 1999. The situation changed and there was a little recovery as a response to a new government in office in 2002.

In 2002 the Kenya government received aid inflows to facilitate major projects on infrastructure development. There was an increase of inflows in the form of grants to support the governments bid to improve social sectors and responses to drought following the successful Consultative Group (CG) meetings in 2003 and 2005.[28] The donor activity on increasing aid inflows reflected that they had confidence in the government's plan to properly manage the economy and their increased efforts to fight graft and corruption.

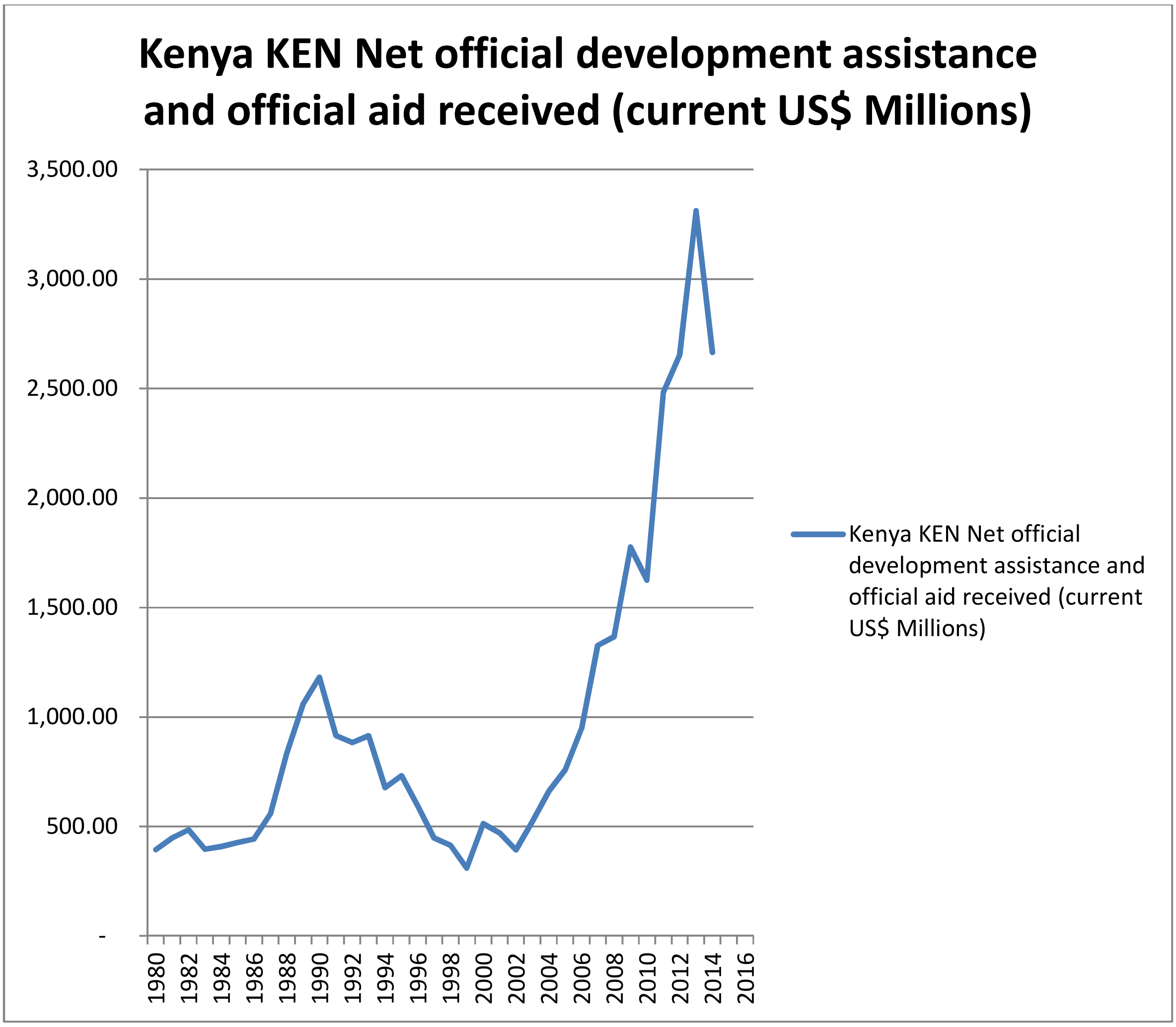
The World Bank in September 1997 announced that in all its lending decisions it would consider the levels of corruption and carry out a country risk analysis.[29] Multilateral donor conditions were turned to the Poverty Reduction Strategy Papers (PRSPs), with issues of concern

[28] UN Development Program (2006) Kenya Development Cooperation 2005 . New York: UNDP.
[29] World Bank (2004), 'A More Equitable, Prosperous and Competitive Kenya: Country Assistance Strategy (CAS) 2004-2007', World Bank Group

that recipient countries needed to focus on being governance, transparency, accountability and institutional reform. For Kenya this entailed cutting back on the public sector, adjusting the governments wage bill, forming the Kenya Anti-Corruption Commission (KACC) and implementing the Economic Crimes Bill and Public Officers Ethics Act. The PRSP was completely formulated in 2000 under the KANU regime but donors held out on disbursing the funds due to strained relations. The change in government in 2002 and entry of the NARC coalition into power, they reformulated the strategy paper to the Economic Recovery Strategy for the creation fo employment and welfare (ERS). This resulted in funding for the program being renewed.

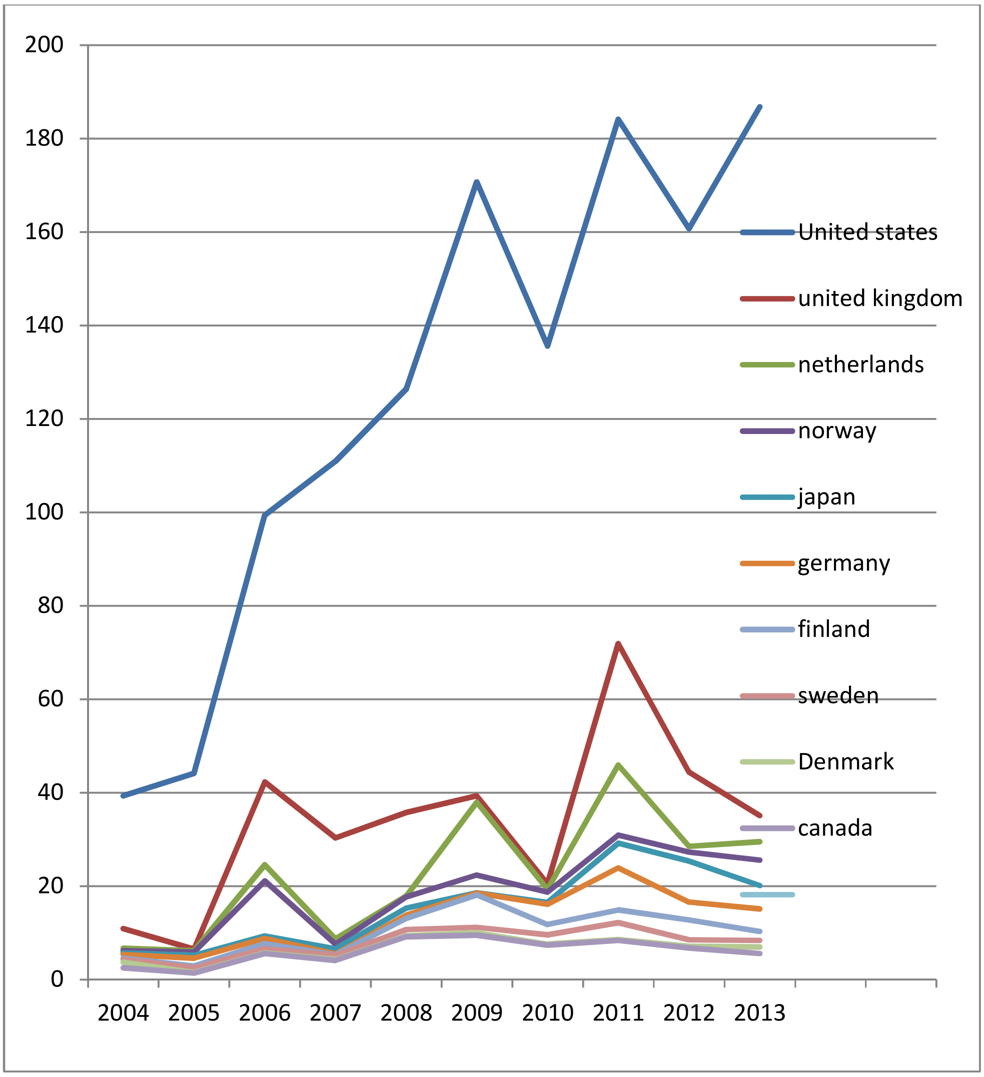
Kenya in 2002 experienced and increase in foreign aid inflows due to promises made at the time by the then President Mwai Kibaki to fighting corruption which attracted an increase in investment that revived the economy from its stagnated growth. Reforms carried out in the judiciary especially on issues of corruption led to the IMF resuming lending to Kenya in November 2003 after a freeze since 1997. Aid inflows changes were yet again experienced in 2013. A decline in ODA was felt as the government regime at the time had an uneasy relationship with the west. The figure 1.1 below shows ODA and official aid received by Kenya for the period 1980-2002.

Figure 1.1: ODA and official aid receive in Kenya 1980-2014.



Source; World Bank Data Bank

Figure 1.2: Top ten major donors to Kenya.



Source; World Bank Data.

2.3 Sectoral receipts of foreign aid.

2.3.1 Education Sector

Kenya faced challenges with its education system and was in need of donor aid to ensure the necessary changes in the sector took place. Post-independence, the government was committed to improving education in Kenya. The government at the time lacked capacity especially with the 1975 oil crisis and 1980's recessions. Donors at the time were focused on improving skills and this led to increased university enrollment from 2,000 to 40,000 in 1989. At the time there were high student subsidies and low school fees facilitated this. On the downside, more than 200,000 primary school teachers remained untrained but student populations kept rising.

Three organizations provided foreign aid to Kenya for improvement of education, UNESCO, World Bank and UNICEF and placed an emphasis on this in contrast to the Kenya policy.[30] Kenya at the time though was focused on building Harambee schools and response to education improvement was therefore slow. From 1980, foreign aid inflows were focused on economic development.[31] With the global economic downturn in 1980, the government pushed for community based development where parents catered for tuition fees, teaching materials and the cost of building schools.

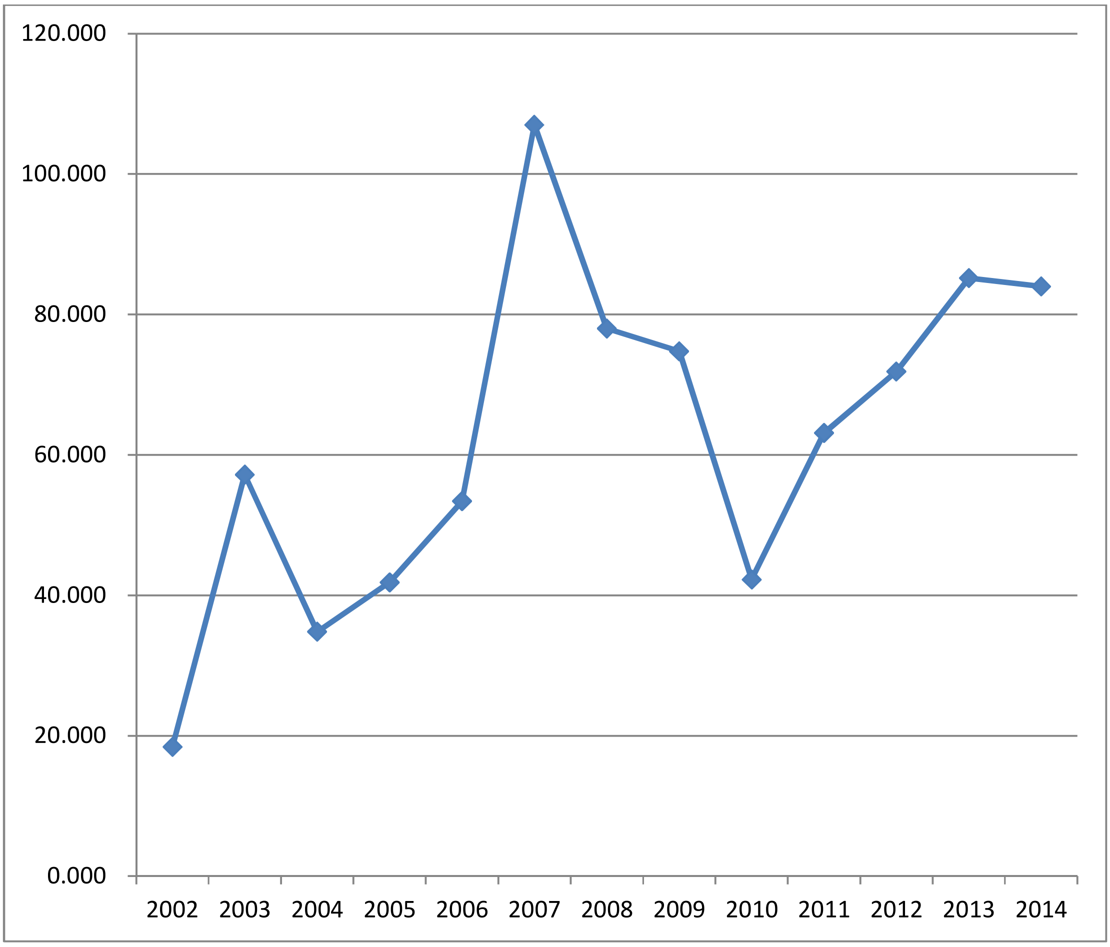
In 2002 after entry of the NARC government into power they reignited efforts to improve education levels in Kenya. The Kenya education sector program was formed as a means to channel donor funds to education. For decades, free primary education had been elusive and the

[30] World Bank. World Development Report. New York: Oxford University Press (various years).
[31] Ibid.

goal of the government was to attain it. The government gained support from donors and there was increased interest by the international community to fund education reforms and expansion. The World Bank in 2004 held trainings for senior education officers on sector wide approach the outcome of this being Kenya education sector support programme (KESSP). KESSP was launched about the time that millennium development goals and education for all had been internationally agreed.

KESSP is a tool used to develop education programmes with emphasis on primary education but also covers other sectors. Close to ten percent of its budget comes from foreign donors. Major donors to this programme have been the Fast Track Initiative and DFID. In 2005 the Kenya government signed a Joint Financing Agreement (JFA) with DFID and the World Bank. Proceeds from this agreement and from UNICEF are added to the KESSP pool. KESSP have a mandate to produced satisfactory financial reports to donors. Some donors wanted to place conditionalities on reporting. Funding for the programme from the World Bank could be delayed and this hampered education system in Kenya. Allegations of corruption had a negative impact on free primary education with some donors threatening to pull out. The swift development in education has been pushed by donor aid even with the setbacks that existed. The below figure 1.3 shows total ODA flows to the Kenya education sector for the period 2002-2014.

Figure 1.3: Total ODA flows (US$ Millions) to Kenya education sector for period 2002-2014.



Source: OECD, credit reporting system.

2.3.2 Health Sector

Foreign aid inflows to the health sector are the highest compared to any other sector. It is difficult though to reconcile the development of health systems as most aid organizations do not have a clear mandate the role of aid to the health sector. There therefore needs to be a balance between strengthening health systems and providing resources for health programmes. Health sector financing in Kenya are from different sources such as firms, foreign aid, government and households. Foreign aid carries the burden of the funding at a portion of 10 percent of the total funding.

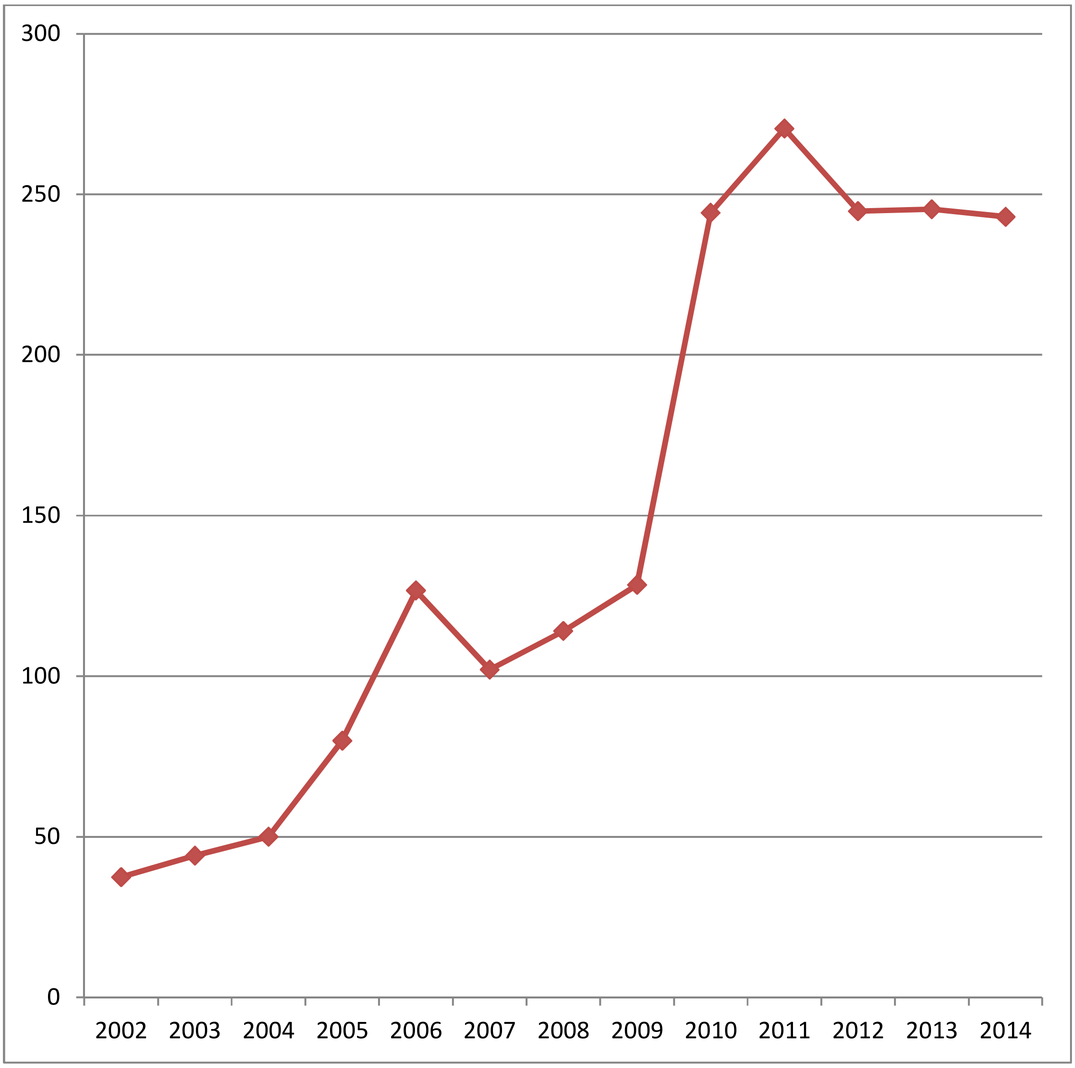
Early 2000s foreign aid inflows for the health sector we mostly directed to financing HIV/AIDS programs. Donor funding accounted for more than half of the total expenditure on HIV/Aids. Kenya ranked high among countries that received the largest amount of aid in the health sectors.[32] After independence the government initiated programs to improve the health sector. This initiative though needed funding which came from bilateral donors such as Britain and the United States. Policies such as the National Health Insurance Fund were developed and this was commitment by the donor community towards a healthy nation. Donor funding financed building of hospitals and clinics as well as providing medicine in the country.

1980's foreign aid inflows increased considerably due to the challenges in the health sector and awareness in the global community. Aid inflows at the time were due to the emergence of HIV/AIDS. As prevalence of the disease increased so did aid to the sector. Increase in death due to Malaria between 1980 and 1980 also led to increased funding by donors. Immunization programs for polio were also funded by donors. Between 2004 and 2005 high aid

[32] Carlsson, Jerker, Gloria M. Somolekae, and Nicolas Van de Walle. Foreign Aid in Africa: Learning from Country Experiences. Effectiveness of donor aid in Kenya's Health Sector. Uppsala: Nordiska Afrikainstitutet, 1997.

inflows were observed in the health sector due to governance changes carried out by the then government. The promise to end corruption attracted more donors to the country leading to an increase in aid for the health sector. From available data from OECD, the below fugyre shows the trend of aid inflows to the health sector between 2002 and 2014.

Figure 1.4: Foreign aid inflows to the health sector for the period 2002 -2014.



Source: OECD, credit reporting system.

2.3.3 Foreign aid for infrastructure development.

In June 2008 the Kenya government initiated vision 2030 that recognized the importance of infrastructure development to increasing foreign investment in the country. The vision visualized Kenya with modern cities, towns and municipalities that were at international level standards. The government committed to funding infrastructure development and this led to an increase in recurrent expenditure from 32 billion in 2008 to 40billion in 2011.[33] External donors have made this possible. Budgeted external funding was at 28billion in 2007/08 and rose to 41billion in 2009/10. Actual donor funding rose to 24 billion in 2010 from 15 billion in 2007.

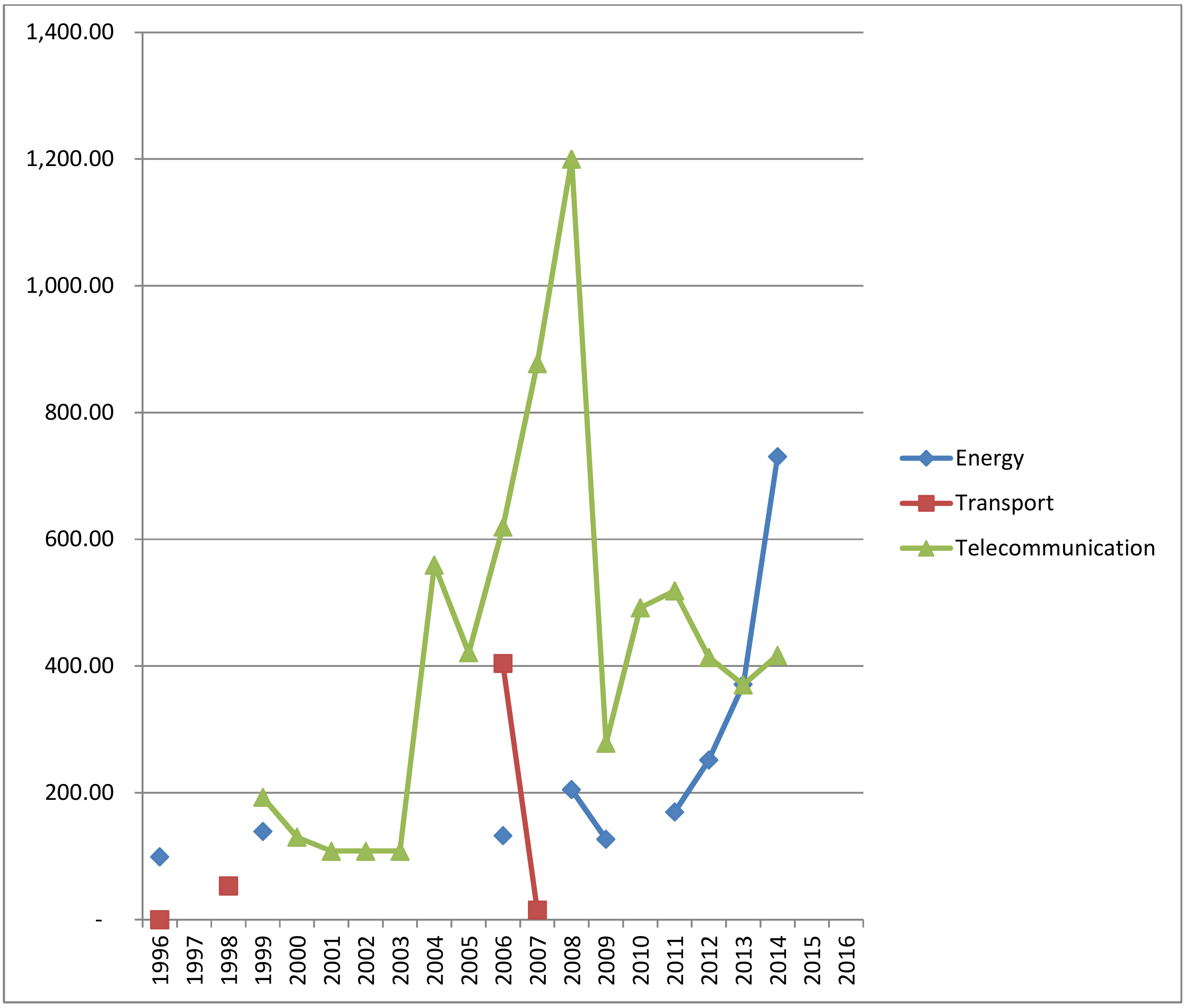
Funding has mainly been for the improvement of road networks. Foreign aid inflows have been responsible for the existence of several major projects in Kenya. The European Development Bank, and the World Bank financed the Bura irrigation and settlement scheme. Bilateral funding from Japan, Netherlands and Britain through soft loans ensured the projects success. The cost of the project was 800 million which was close to Kenya's yearly budget.[34] This project remains one of the most capital intensive projects in the world. Japan government funded the Tana River development project and completed it at a cost of 6,120 billion Japanese yens as well as other projects in Kenya.[35]

The German government initiated the International Water Stewardship Program through the German Federal Ministry for Economic Cooperation and Development (GIZ). This programme was a transnational, multi-donor programme with funding to 2018. The programme aims at restoring and conserving Lake Naivasha through partnership between the government, private

[33] World Bank . Assessing Aid. Oxford University Press, 2008, pg 3
[34] Terry Ryan. Kenya in Aid and reform in Africa: A report from ten countries. Macmillan, 2001
[35] Ecosystems Ltd, "Tana Delta Ecological Impact Study". Nairobi, Kenya, 2008, pg 1

sector and civil society. This programme aims improving the benefits to water resource management, water quality, supply and reducing potential for conflict. The Nairobi water roundtable allows large private water users in the capital city to explore options for improving water conservation.

Figure 1.5: Investment (US$ Millions) in transport, energy and telecommunication sectors in Kenya



Source World Bank Data Bank

2.3.4 Agriculture Sector.

Kenya’s economic development is highly dependent on agriculture. Agriculture contributes to 25 to 30 percent of the GDP of the country especially in rural areas where it is a source of their livelihood.[36] Agriculture provides food capacity to a country’s expanding population, provides employment and improves the welfare of rural people by increasing their income. Agriculture also bring foreign earnings for import of capital goods and export of horticultural products. An increase in agricultural output and productivity leads to an increase in the demand for manufactured good leading to market expansion and industrial sector expansion as well. 80 percent of Kenya is semi arid which means that for agriculture to be sustainable irrigation is a key factor. This is where donor support comes into play with regards to financing.

Various donors have given aid to Kenya for example in 2008 Kenya received 80 billion when it was in dire need for food. [37] Food and Agricultural Organization (FAO) donated 2.4 billion for fertilizer, new seeds, livestock feed and vaccine purchase. World Food Programme has also funded food programmes through schools in the form of school feeding programmes so as to ensure that children in drought struck areas are able to go to school. Foreign aid inflows assisted in irrigation programs and construction of dams in Ukambani and Turkana regions. This led to the agriculture sector building the economy by raising the GDP 5.7 percent in 2005 to 6.1 percent in 2006.

USAID in 2015 supported 1.5 million households in embracing farming practices as part of U.S President Barack Obama’s feed the future initiative. The focus of this program was dairy, livestock, horticulture and staple foods. The aim of the program was to link producers to

[36] Agricultural Sector Development Strategy 2009-2020
[37] Agricultural Sector Development Strategy 2009-2020

markets, improve input supply, increase access to business development and financing and create farmer friendly policies. FAO conducted a study in 2010 on Agricultural investment funds and identified 31 funds operating in developing and transition countries with financing ranging from US$ 8 million to US$2.3 billion and majority of the funds being within the range of US$ 50-150 million. The table below shows amounts of external financing of agriculture in Kenya

Figure 1.6; Foreign aid inflows for the agricultural sectore.

Year	Amount in US$
1991	18.80
1992	6.00
1993	2.00
1994	4.30
1995	33.00
1996	10.55
1997	53.00
1998	11.41
1999	13.82
2000	110.90
2001	5.30
2002	27.62
2003	81.74
2004	46.06
2005	21.21
2006	50.67
2007	729.05
2008	95.58
2009	114.97
2010	178.06
2011	335.25
2012	258.61
2013	514.39

CHAPTER 3.

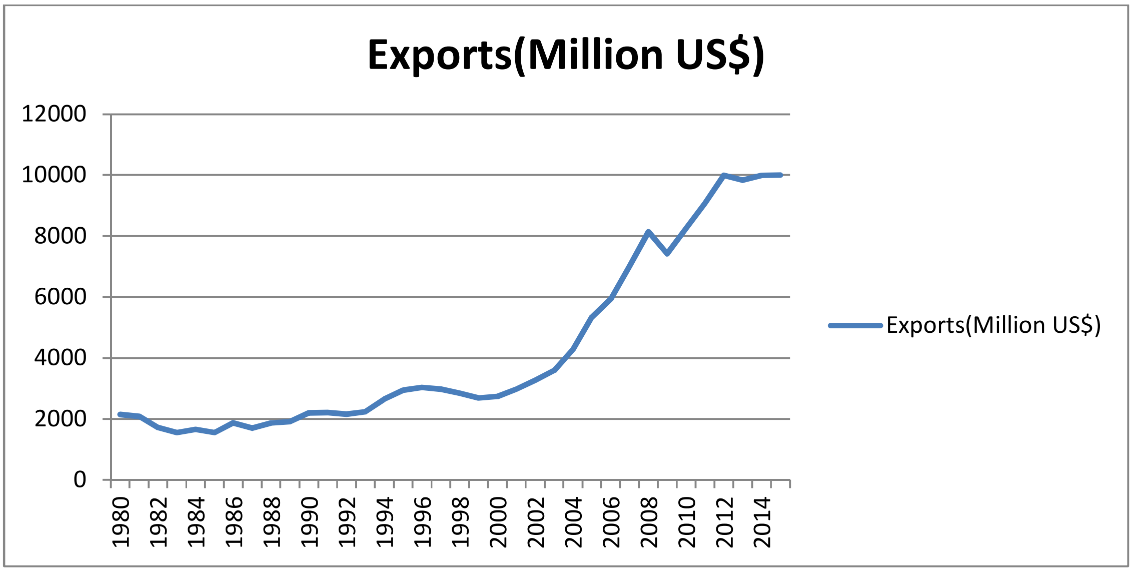
3.1 Determinants of Trade flows

This chapter will focus on identifying the determinants of trade inflows to Kenya. Kenya has largely been an exporter of agricultural products most importantly tea and coffee, but there has been a growth in the horticultural sector. Imports to Kenya have been largely for technology, but there has also been an influx of service export.

3.1.1 Trends in Exports

Figure 2.1 below shows the trends in exports for the period 1980-2015. The figure shows an upward trend in the value of exports. This implies that the amount of exports to other trade partners has been on the rise. However, the figure shows a sharp drop in exports in the 2007/2008. This was due to the post-election violence, which slowed-down trade between Kenya and her trade partners. However, in 2009, the value of increased significantly.

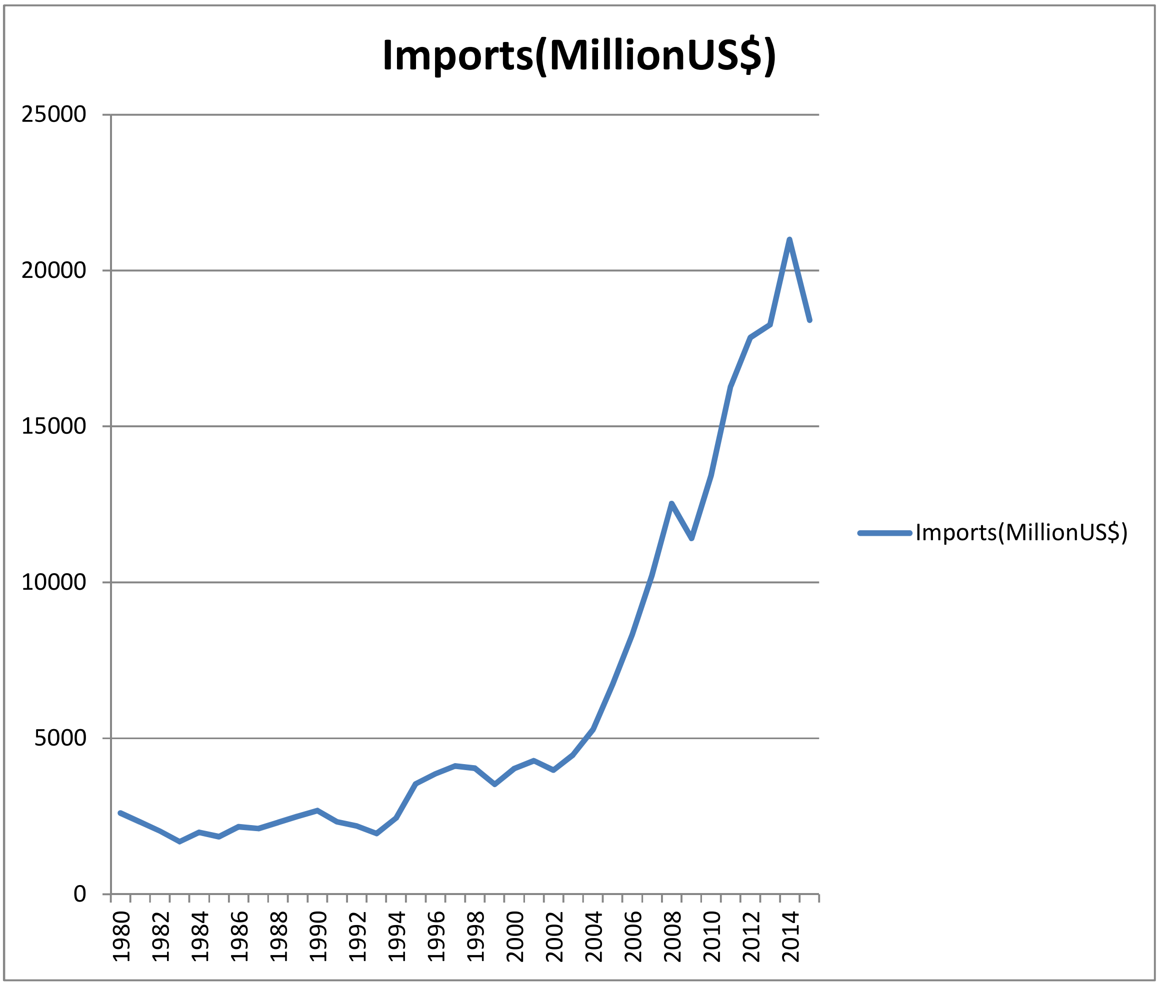
Figure 2.1: Trends in Exports



3.1.2 Trends in Imports

Figure 2.2 below shows the trends in imports to Kenya for the period 1980-2015. The figure shows a steady increase in the value of Imports for the last few decades. This implies that Kenya relies heavily on imports from other Countries. From 1980-2002, the value of imports remained relatively constant. However, from 2003, the value of imports to Kenya increased. Since 2014, the value of imports to Kenya has been experiencing a sharp decline. This implies that Kenya is now relying less on imports.

Figure 2.2: Trends in Imports

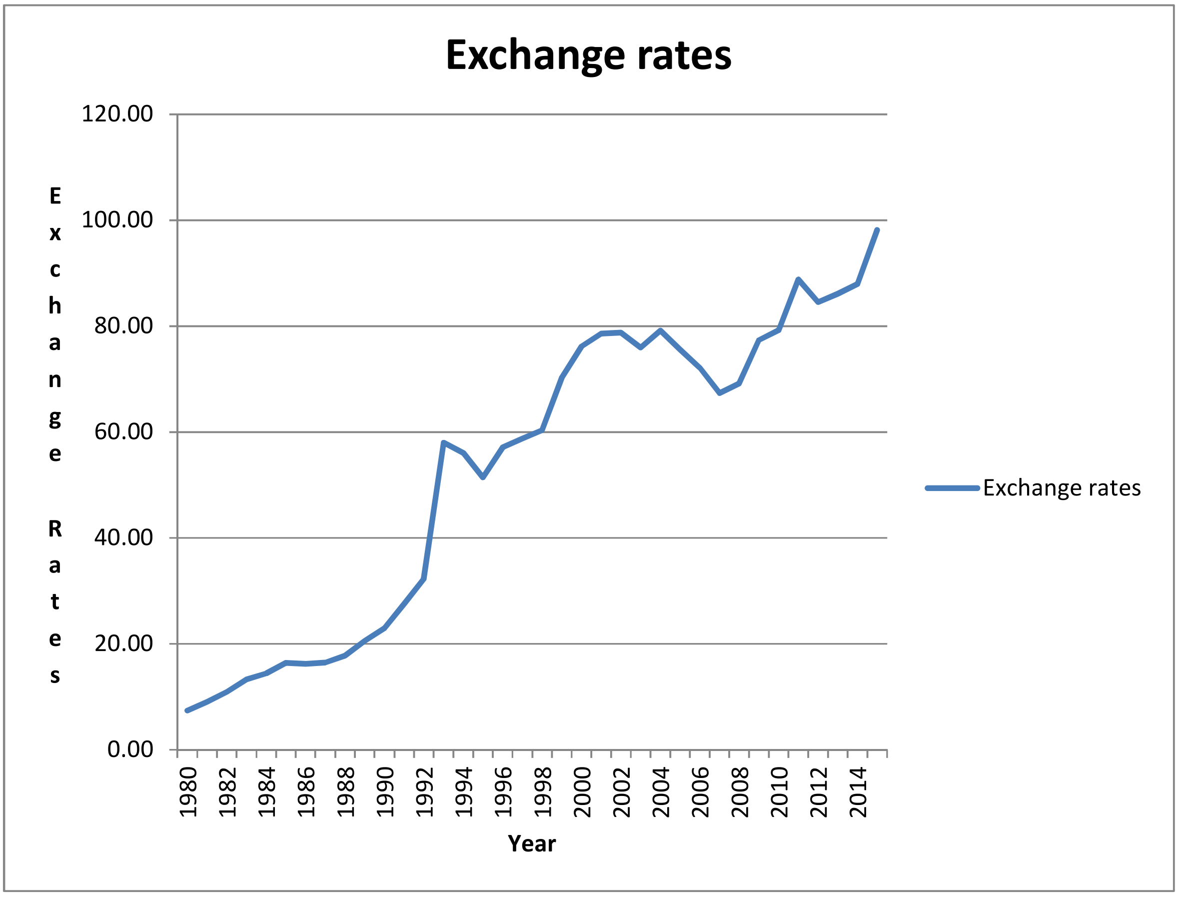


3.2 Determinants of Exports and Imports flows

3.2.1 Trends in Exchange Rates

Foreign exchange rate is one of the determinants of trade flows. Figure 2.3 shows the variations in foreign exchange rates for the period 1980-2015. The figure shows upward fluctuations in the value of foreign exchange rates.

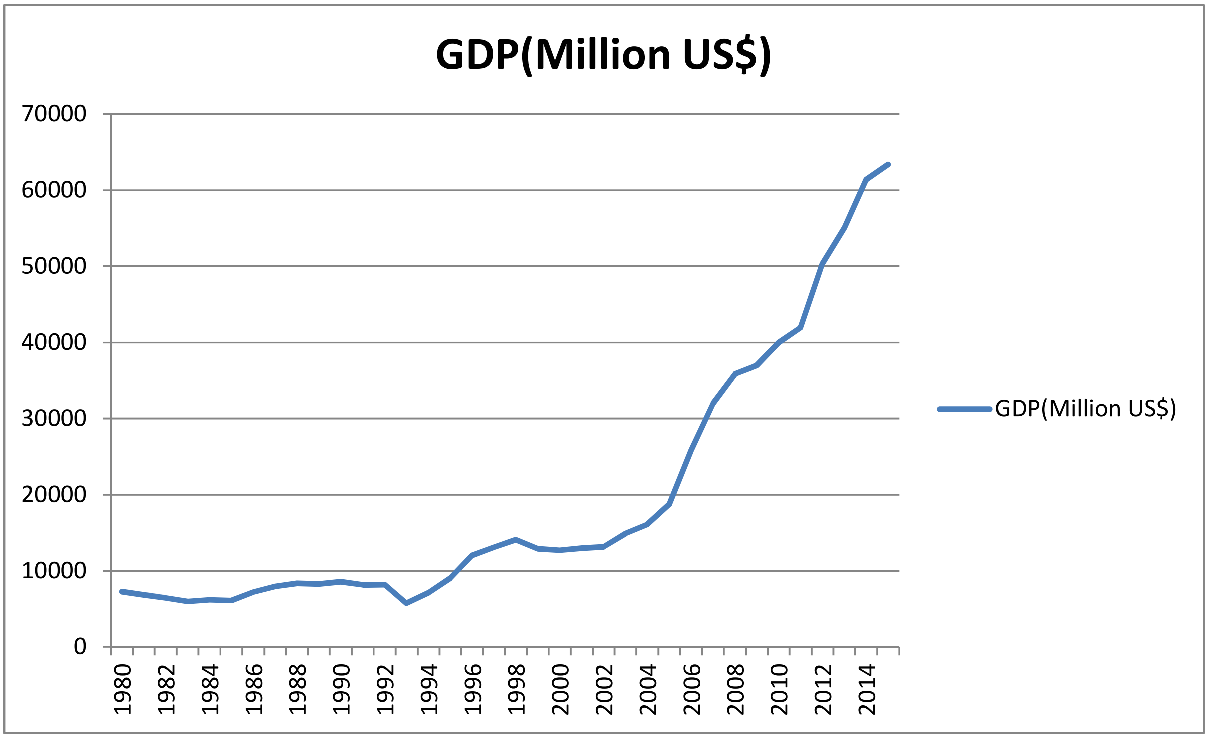
Figure 2.3: Trends Exchange Rates



3.2.2 Trends in Gross Domestic Product (GDP)

The Gross Domestic Product is also viewed as a determinant of trade. Figure 2.4 shows an upward trend in the value of Kenyan GDP for the period 1980-2015. This implies that the Kenyan economy has been growing for the last few decades. This is expected to have an impact on the value of trade flows.

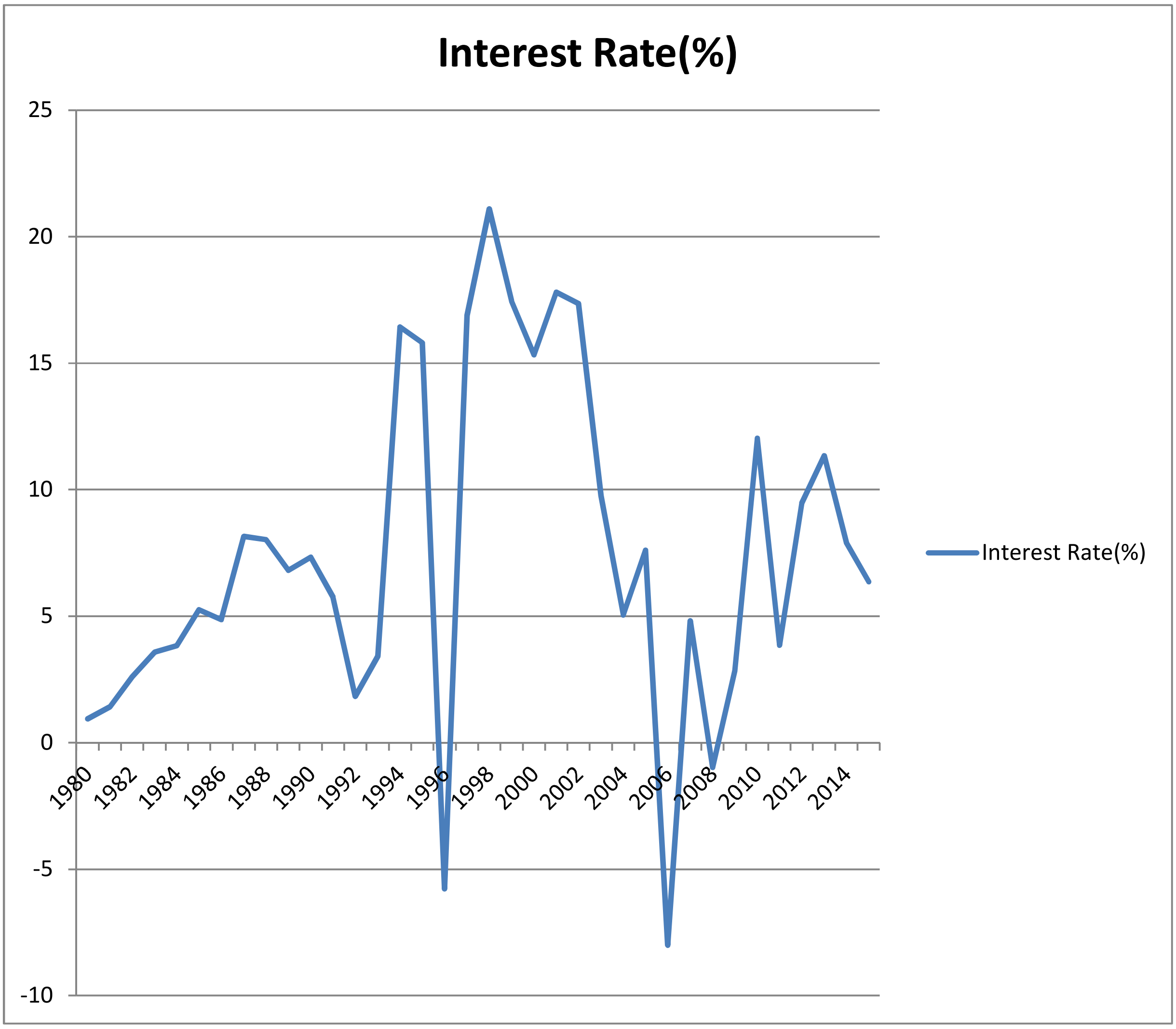
Figure 2.4: Trends in Gross Domestic Product (GDP)



3.2.3 Trends in Real Interest Rates

Real interest rate is also perceived as a determinant of trade flows. Figure 2.5 reveals a fluctuating trend of interest rates for the period 1980-2015. The fluctuations in the value of interest rates can be explained by changes in other macroeconomic variables such as money supply and inflation.

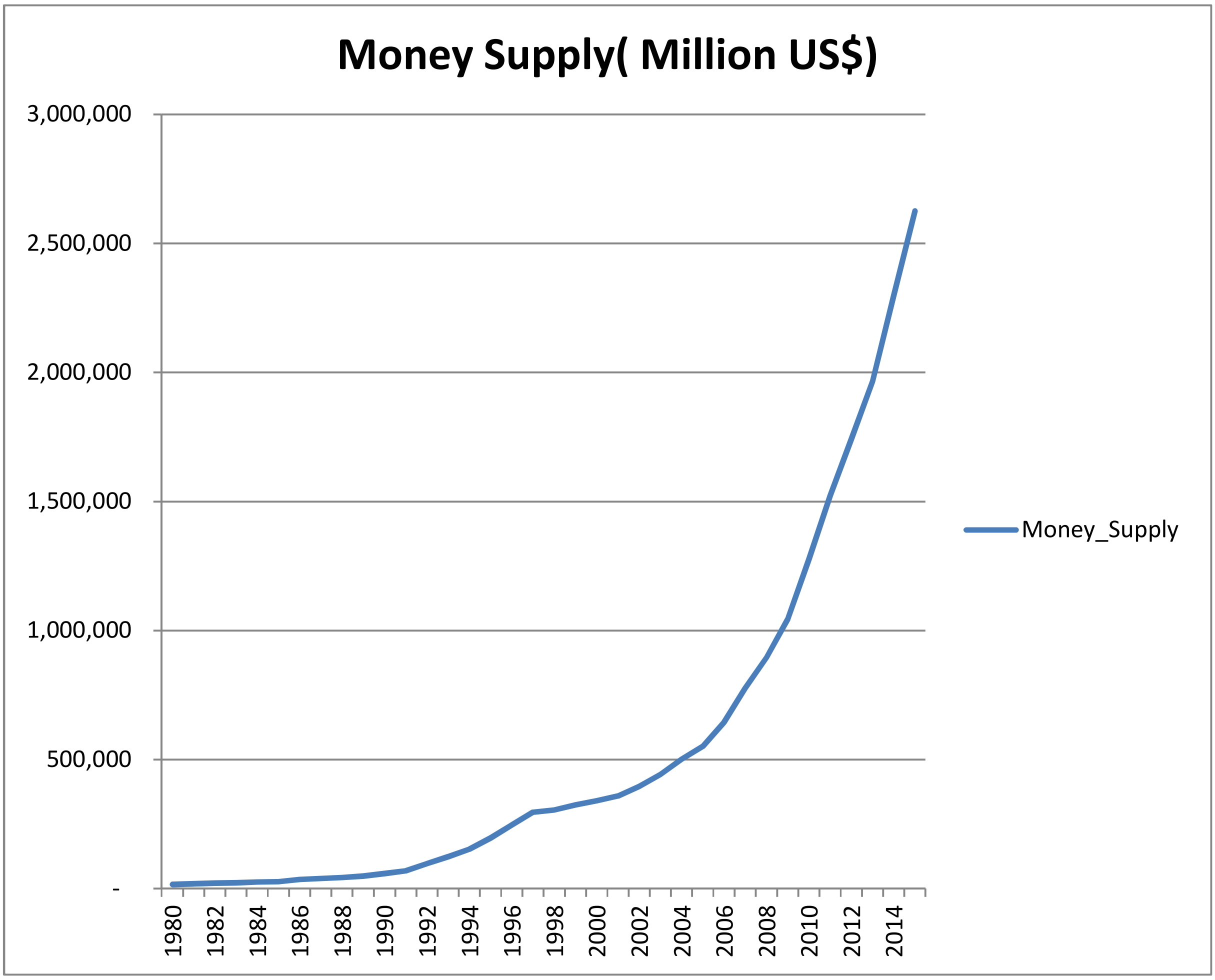
Figure 2.5: Trends in Real Interest Rates



3.2.4 Trends in Money Supply

Money supply in the economy is another factor that determines trade flows. Figure 2.6 shows an upward trend in the amount of money supply for the period 1980-2015. This implies that the amount of money in circulation in the Kenya economy has been increasing over the last decades. An increase in money supply is expected to have a positive impact on the value of trade flows.

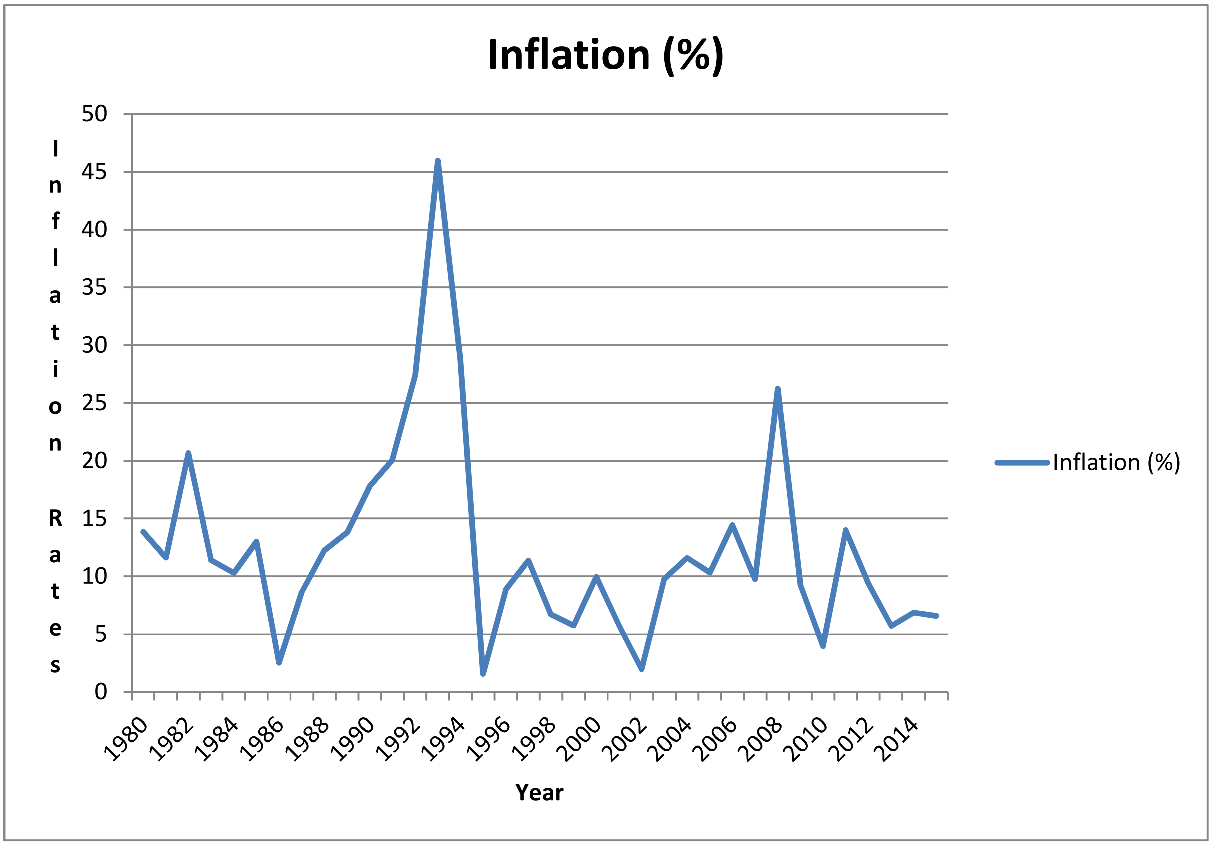
Figure 2.6: Trends in money supply



3.2.5 Trends in Inflation

Inflation rate is also considered as a determinant of trade flows in Kenya. Figure 2.7 shows fluctuations in the value of inflation for the period 1980-2015. The volatility of inflation rate can be explained by changes in the economic growth. Inflation rate is expected to have an indirect association with trade flows.

Figure 2.7: Inflation Rate



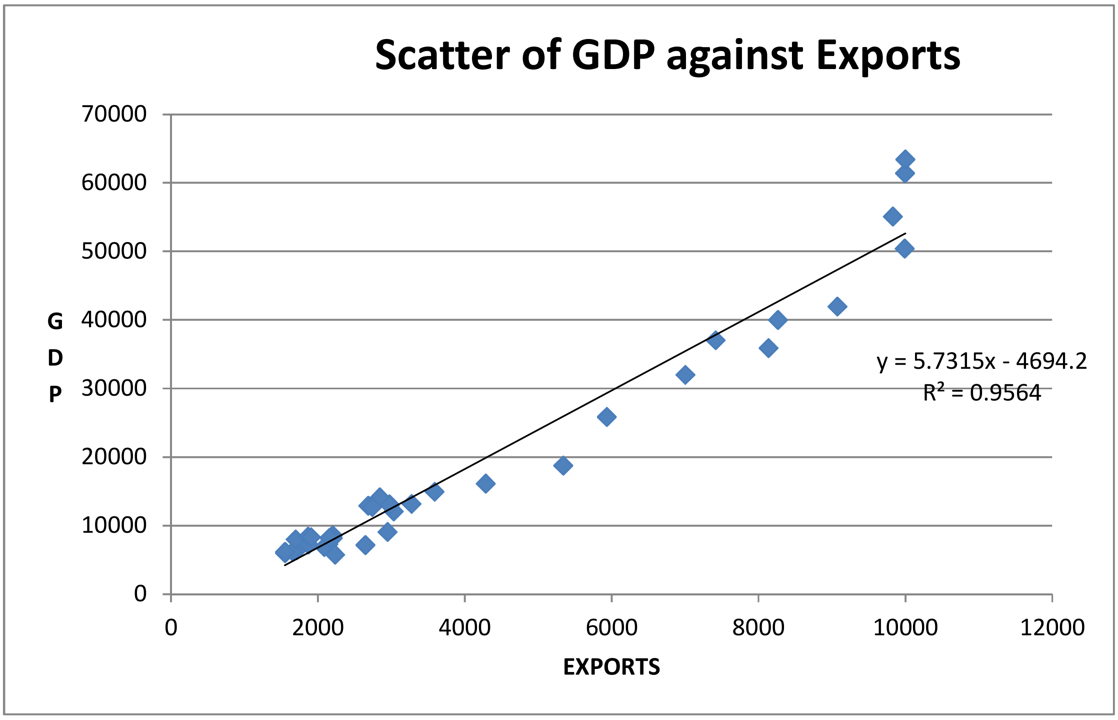
3.3 Scatter/Causal Relationship between Selected Determinants and Trade flows

3.3.1 Scatter Relationship between Selected Determinants and Exports

3.3.1.1 GDP and Exports

Figure 2.8 below shows a scatter diagram of GDP against exports. The figure shows an upward movement of both the GDP and exports. The figure also shows a coefficient of determination of 96%. This implies that the 96% changes in exports are explained by the GDP. This implies that GDP has a direct impact on the value of exports. An increase in GDP would, therefore, results to an increase in the amount of export flows.

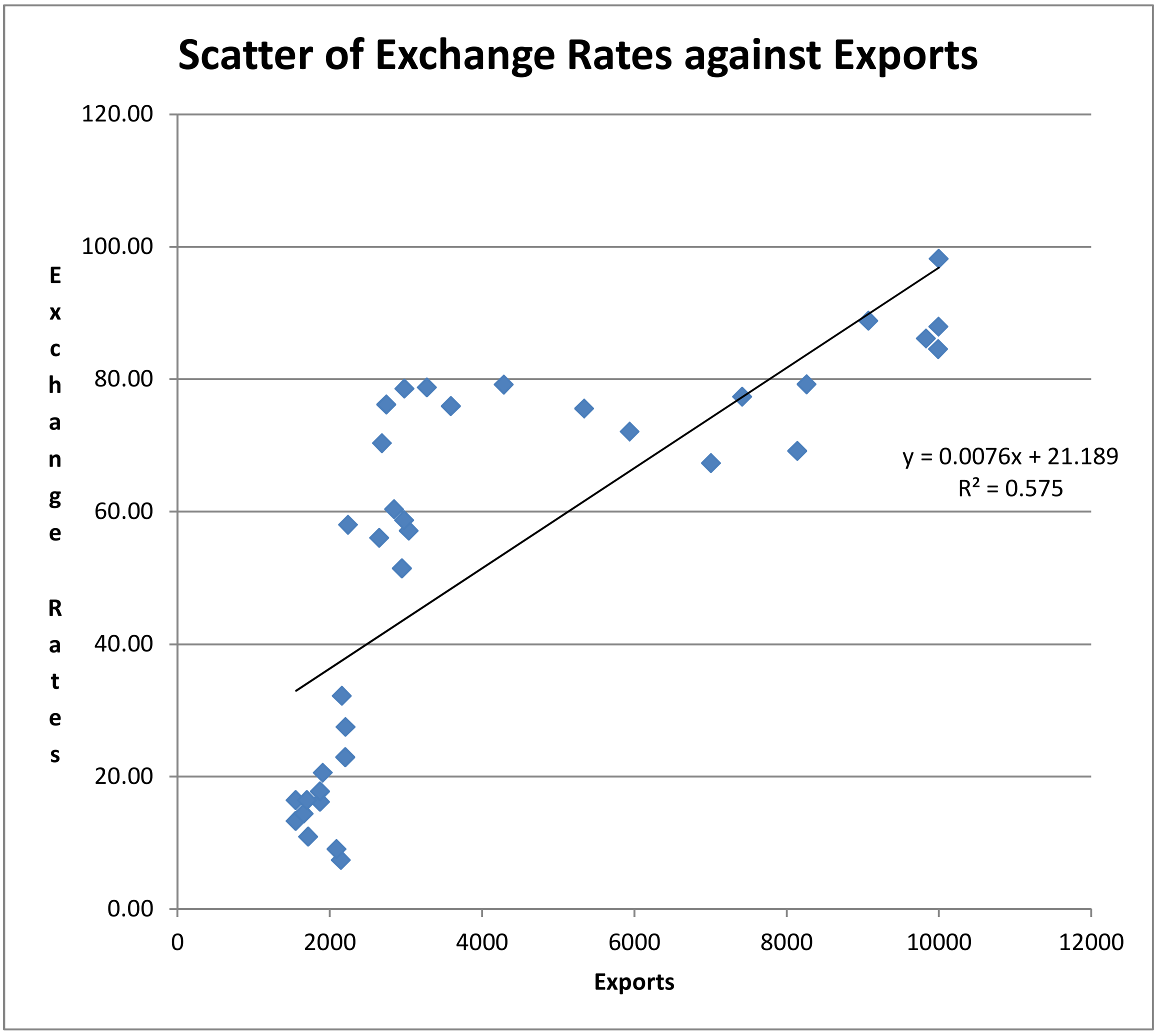
Figure 2.8: GDP against Exports



3.3.1.2 Exchange Rates and Exports

Figure 2.9 below shows a scatter diagram of exchange rates against exports. The figure shows an upward movement of both the exchange rates and exports. The figure also shows a coefficient of determination of 58%. This implies that foreign exchange rates explain 58% variations in the exports. This implies that exchange rates have a direct impact on the value of exports. Favorable exchange rates increase the value of exports flows and vice versa.

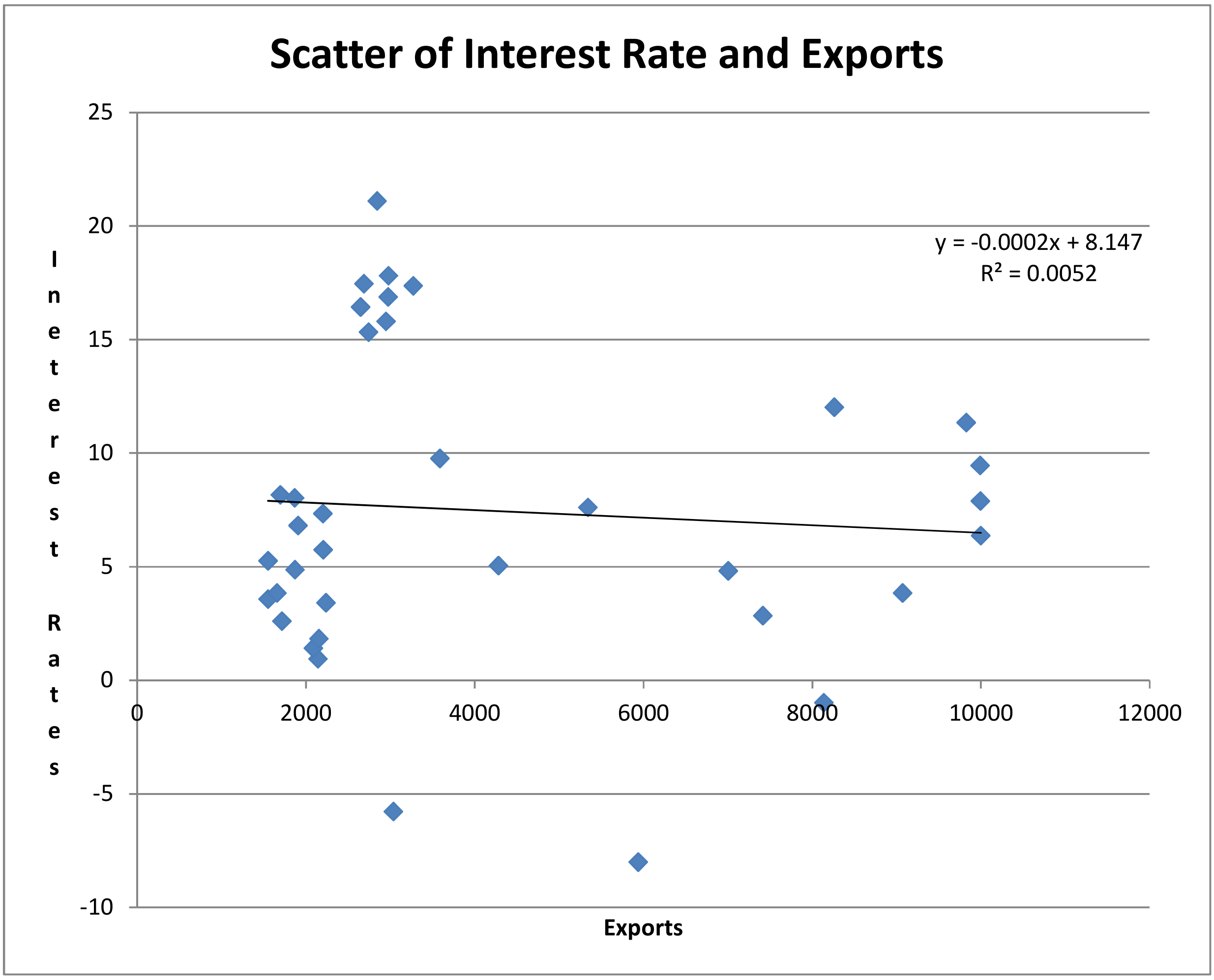
Figure 2.9: Foreign Exchange Rates against Exports



3.3.1.3 Real Interest Rates and Exports

Figure 2.10 shows a scatter diagram of interest rates against exports. The figure shows a down trend between two variables. This implies that interest rate has an indirect impact on exports. The impact of interest rate on exports is, however, minimal. This is explained by the coefficient of determination of 0.5%.

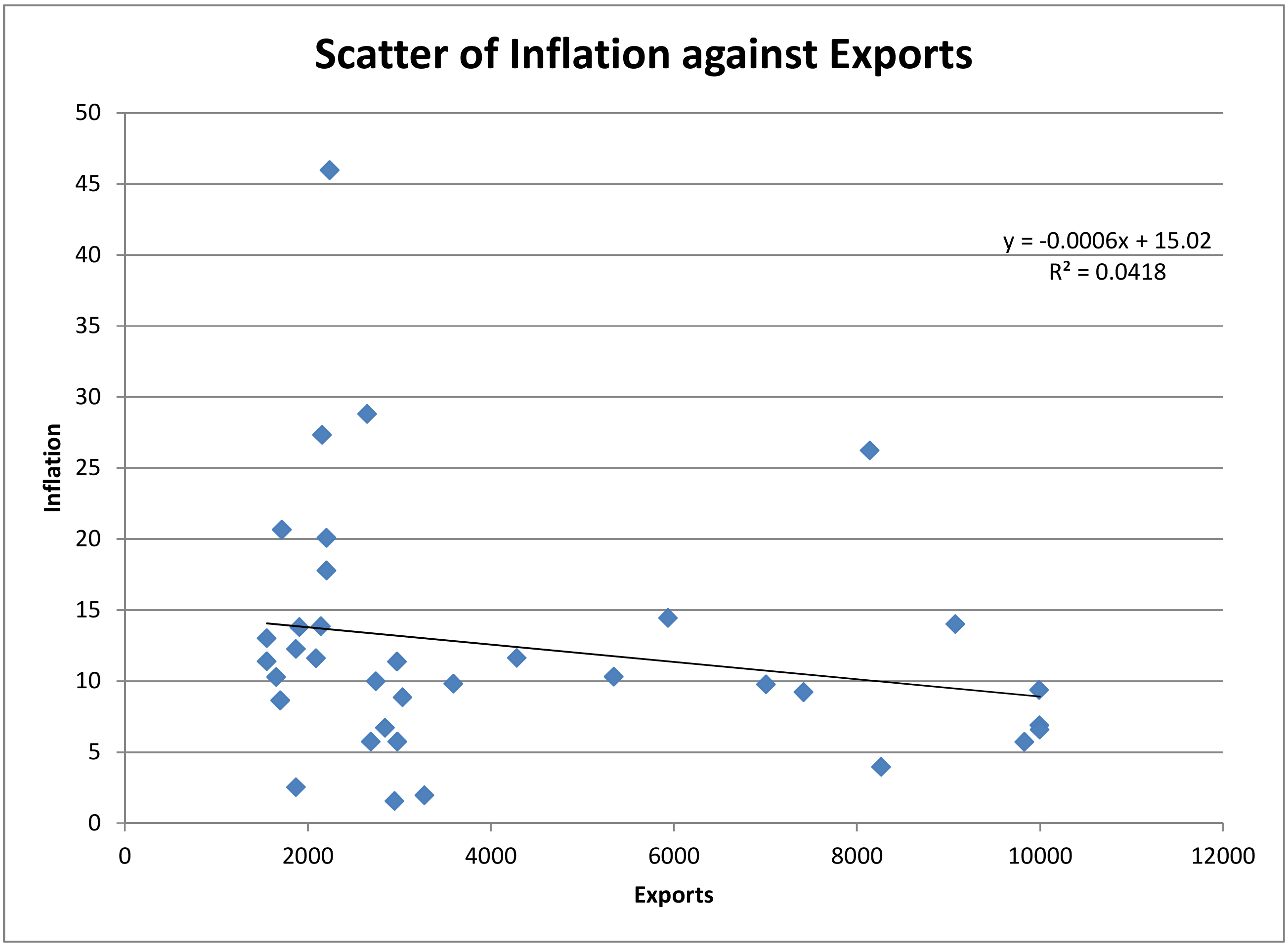
Figure 2.10: Interest Rates against Exports



3.3.1.4 Inflation Rate and Exports

Figure 2.11 shows a scatter diagram of inflation against exports. The figure reveals a down ward trend between the two variables. This implies that fluctuations in inflation rate results to an indirect change in exports. The effect of inflation rate on exports is, however, minimal. This is explained the coefficient of determination of 4.2%. This implies that inflation rate explains 4.2% of the total changes in exports.

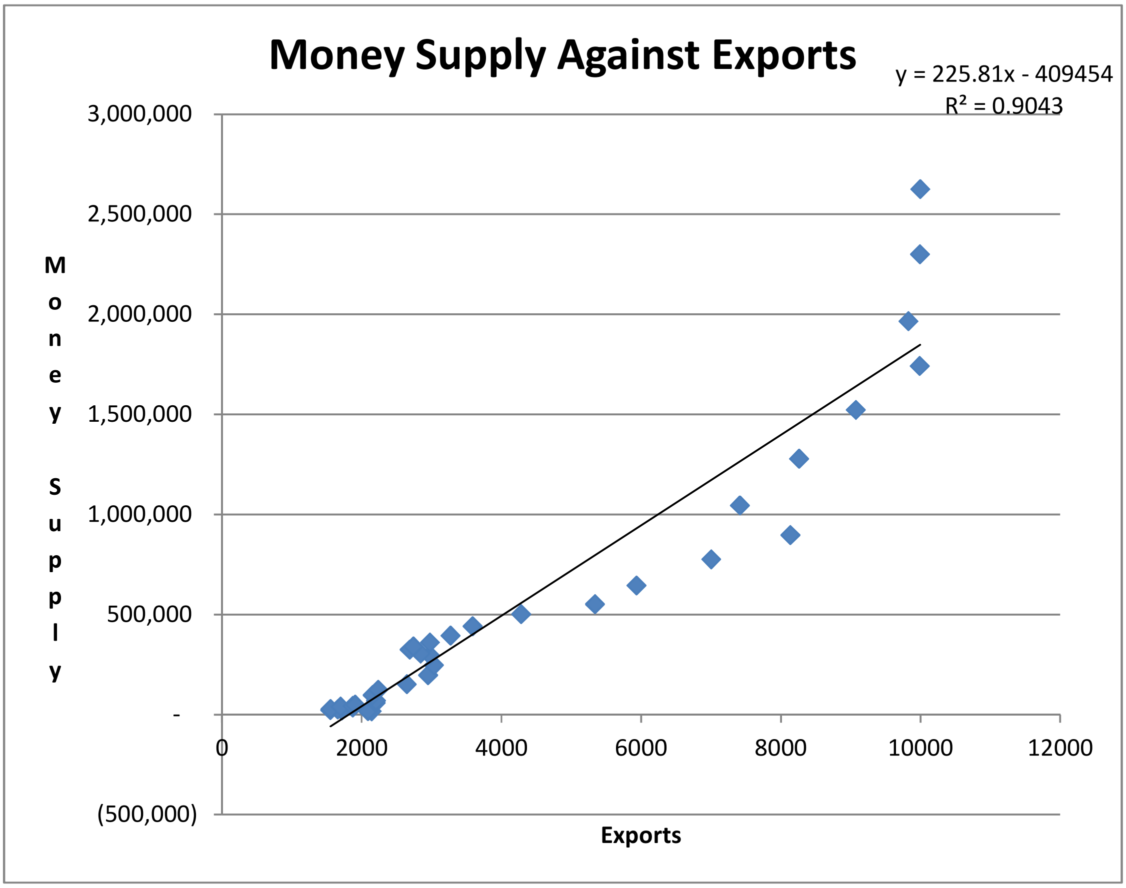
Figure 2.11: Inflation Rate and Exports



3.3.1.5 Money Supply and Exports

Figure 2.12 shows a scatter diagram of money supply against exports. The figure reveals an upward trend between the two variables. This implies that money supply has a direct impact on the value of exports. Further, money supply has a great impact on exports. This is explained by the coefficient of determination of 90%. This implies that money supply explains 90% of the total changes in exports.

Figure 2.12: Money supply against Exports

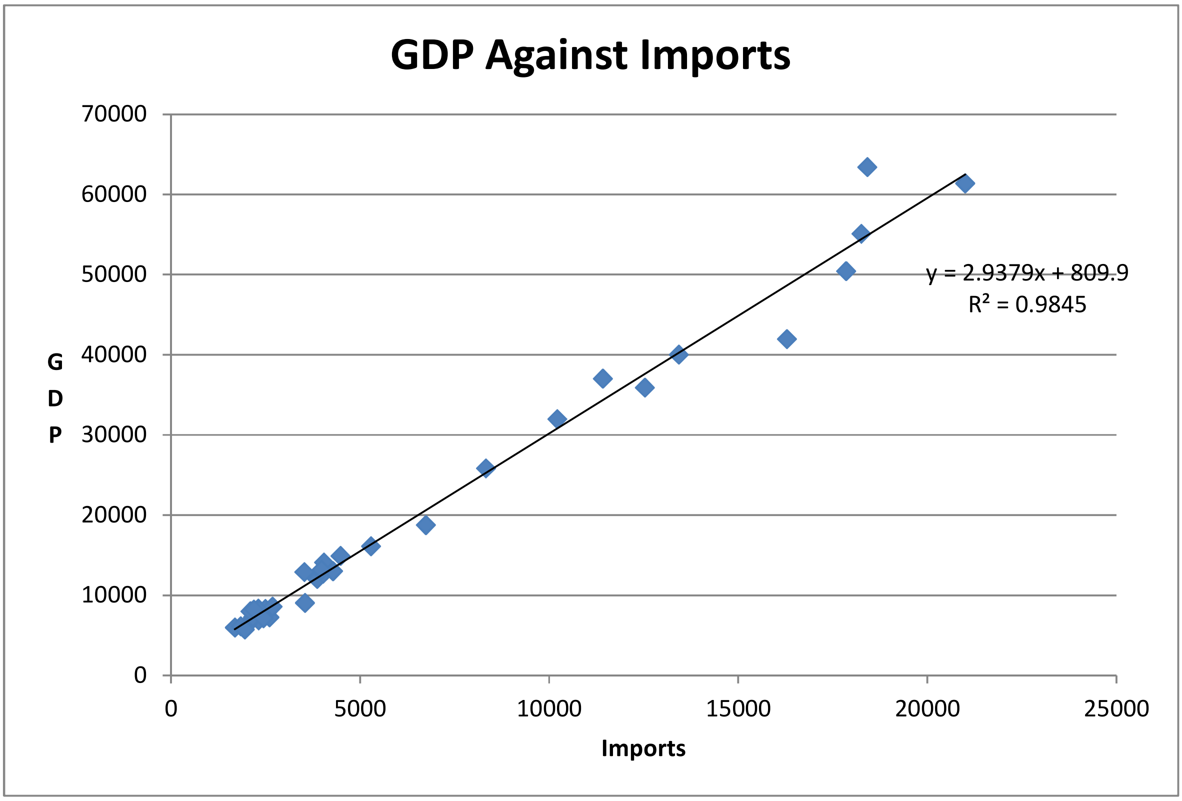


3.3.2 Scatter Relationship between Selected Determinants and Imports

3.3.2.1 GDP and Imports

Figure 2.13 below shows a scatter diagram of GDP against imports. The figure shows an upward trend between the two variables. This implies that economic growth has a direct impact on the value of imports. The impact of GDP on imports is explained by the coefficient of determination of 98%. This implies that GDP explains 98% of the total changes in imports.

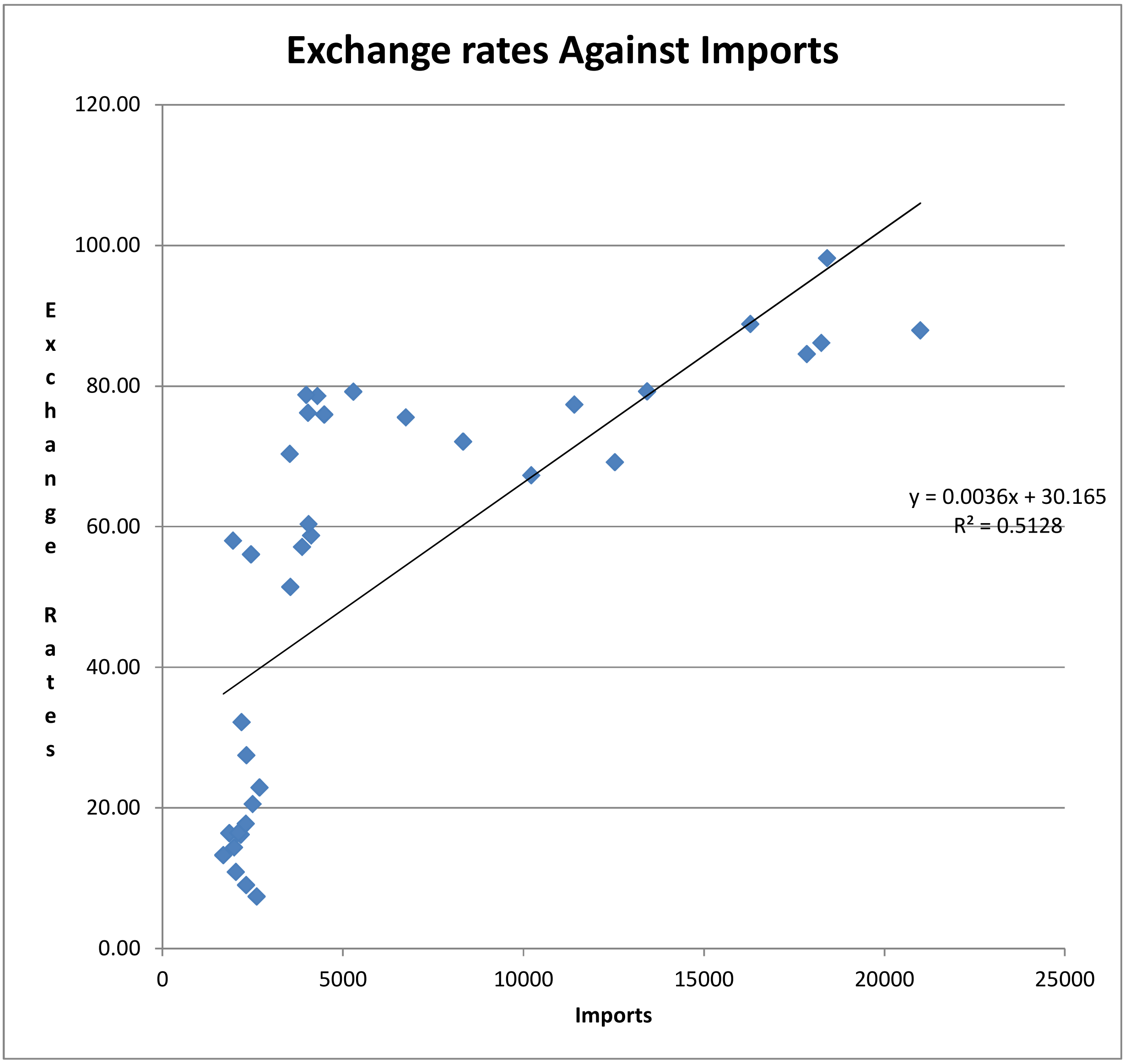
Figure 2.13: GDP against Imports



3.3.2.2 Exchange Rates and Imports

Figure 2.14 shows a scatter diagram of foreign exchange rate against imports. The figure reveals an upward trend between the two variables. This implies that foreign exchange rate has a direct impact on imports. The coefficient of determination of 51% implies that exchange rates explain 51% of the total changes in imports.

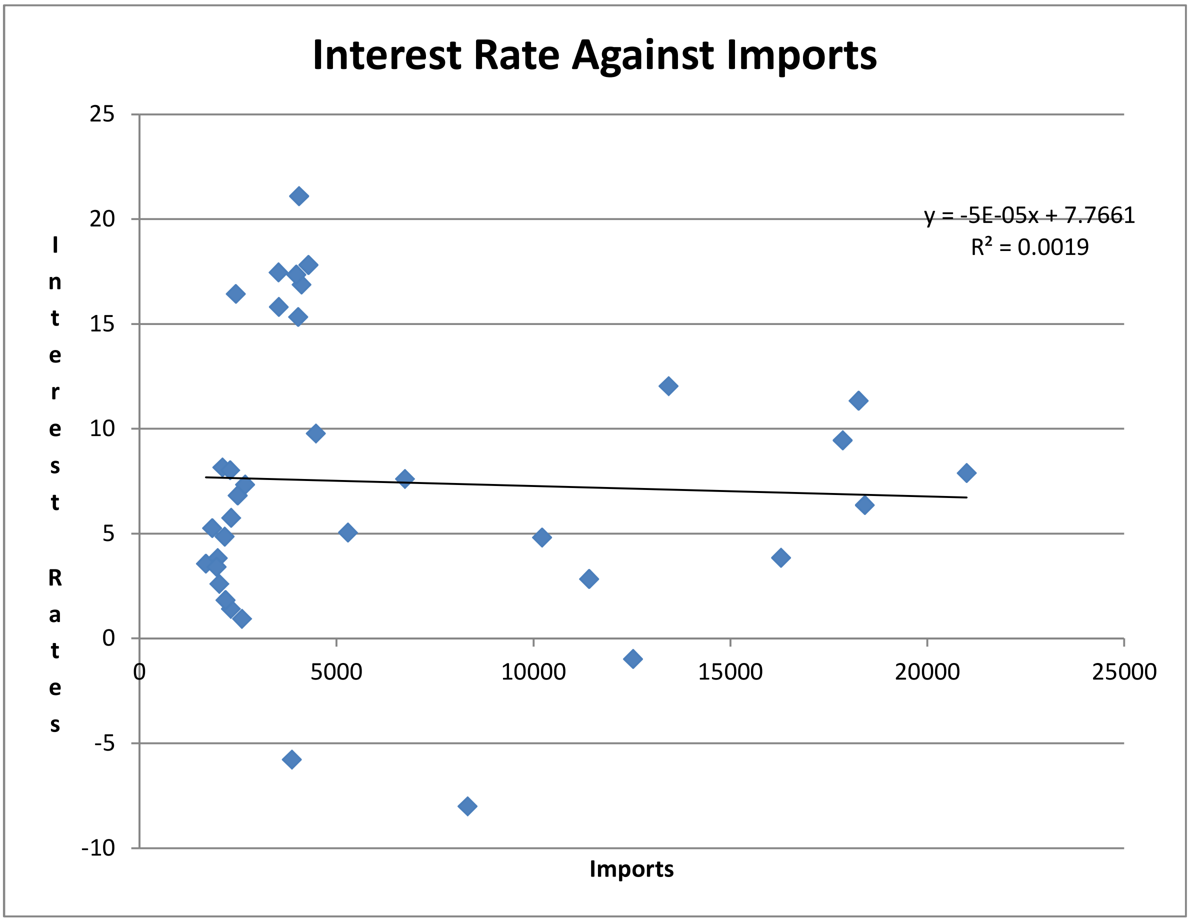
Figure 2.14: Exchange rates against Imports



3.3.2.3 Real Interest Rates and Imports

Figure 2.15 shows a scatter diagram of interest rates against imports. The figure shows a down ward trend between the two variables. This implies that interest rates have an indirect impact on imports. The impact of interest rates on imports is, however, minimal. This is explained by a coefficient of determination of 0.2%.

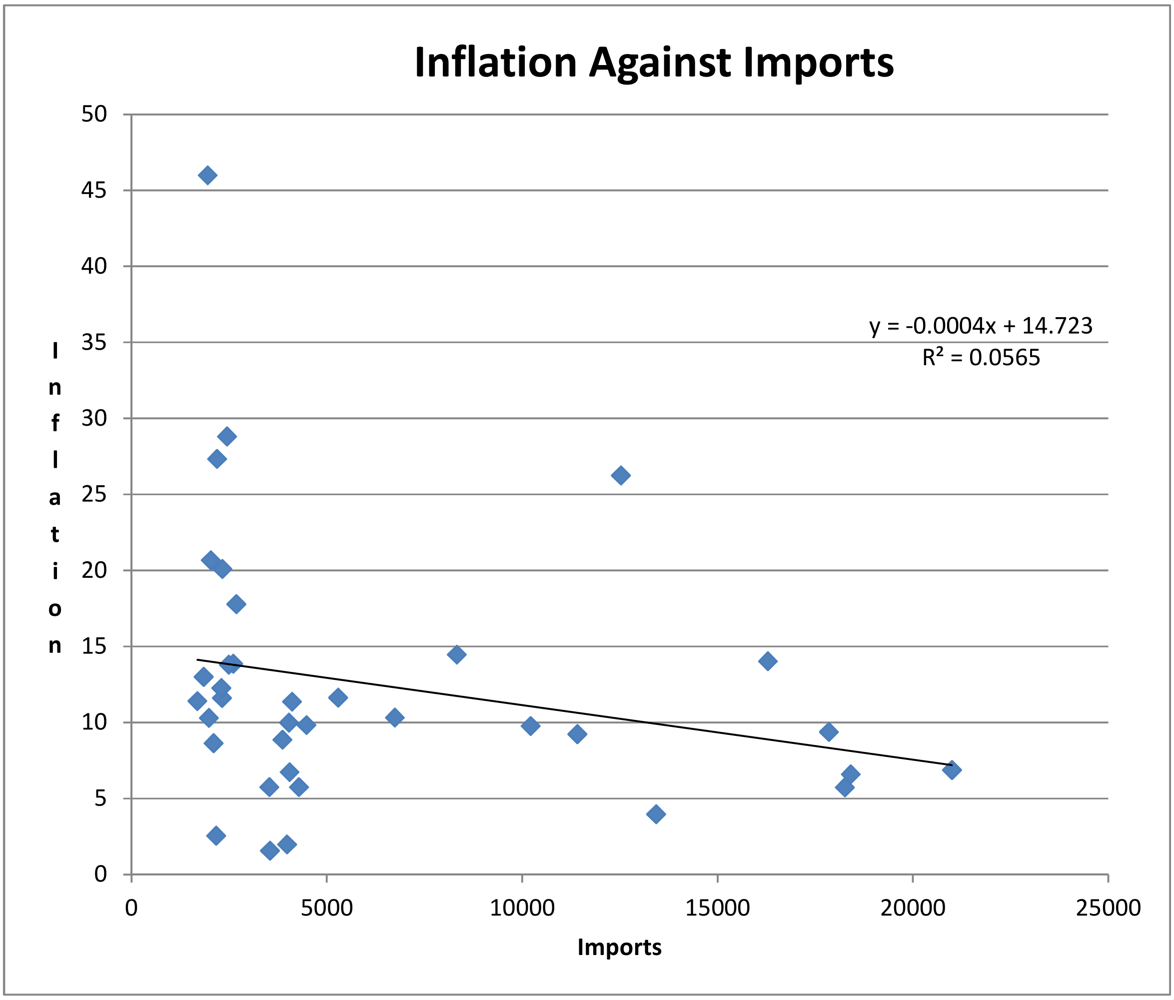
Figure 2.15: Interest Rates against Imports



3.3.2.4 Inflation Rates and Imports

Figure 2.16 shows a scatter diagram of inflation rate against imports. The figure reveals a downward trend between the two variables. This implies that inflation rate has an indirect impact on imports. The impact of inflation rate on imports is, however, minimal. This is explained by a coefficient of determination of 5.7%.

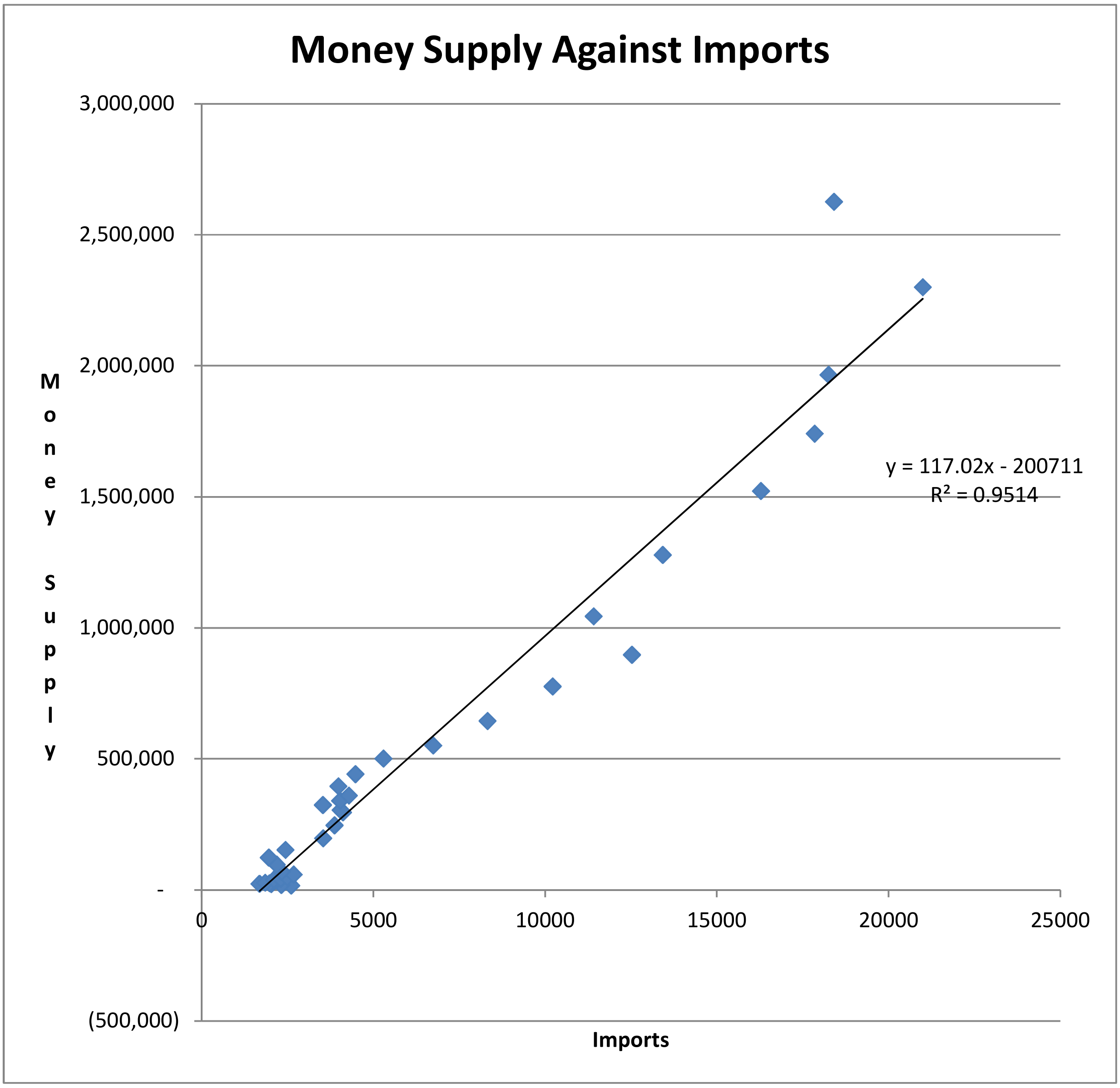
Figure 2.16: Inflation rate against Imports



3.3.2.5 Money Supply and Imports

Figure 2.17 shows a scatter diagram of money supply against imports. The figure reveals an upward trend between the two variables. This implies that money supply has a direct impact on imports. The coefficient of determination of 95% implies that money supply explains 95% of the total changes in imports.

Figure 2.17: Money supply against Imports



CHAPTER FOUR

4.1 Determinants of Foreign Direct Investment Flows

This chapter focuses on foreign direct investment and the factors that determine foreign direct investment in Kenya. Currently foreign direct investment in Kenya due to increase investment in Africa and the Middle East at 47 percent rise with 84 projects initiated from 2014. These projects include real estate, renewable and geothermal energy, roads and railways worth more than Kenya shillings 102 billion.

4.1.1 Trends in Foreign Direct Investment

Africa has never been a major recipient of FDI flows with the highest level observed in the period 2002-2003 where share of global FDI was 2.5%[38] .Inflows to Africa declined in 2011 to $42.7 billion caused largely by the fall in North Africa; in particular, inflows to Egypt and Libya, which though major recipients of FDI, came to a halt owing to their protracted political instability[39]. Kenya, the strongest and most diversified economy in the East African region has been a poor performer in attracting FDI over the past decade. However, all indications are that FDI will continue to flow and Kenya will catch up with its East African Community (EAC) partners[38].

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[38] United Nations Conference on Trade and Development. (2011). World Investment Report 2011, UNCTAD, Geneva

[39] United Nations Conference on Trade and Development. (2012). World Investment Report 2012, UNCTAD, Geneva

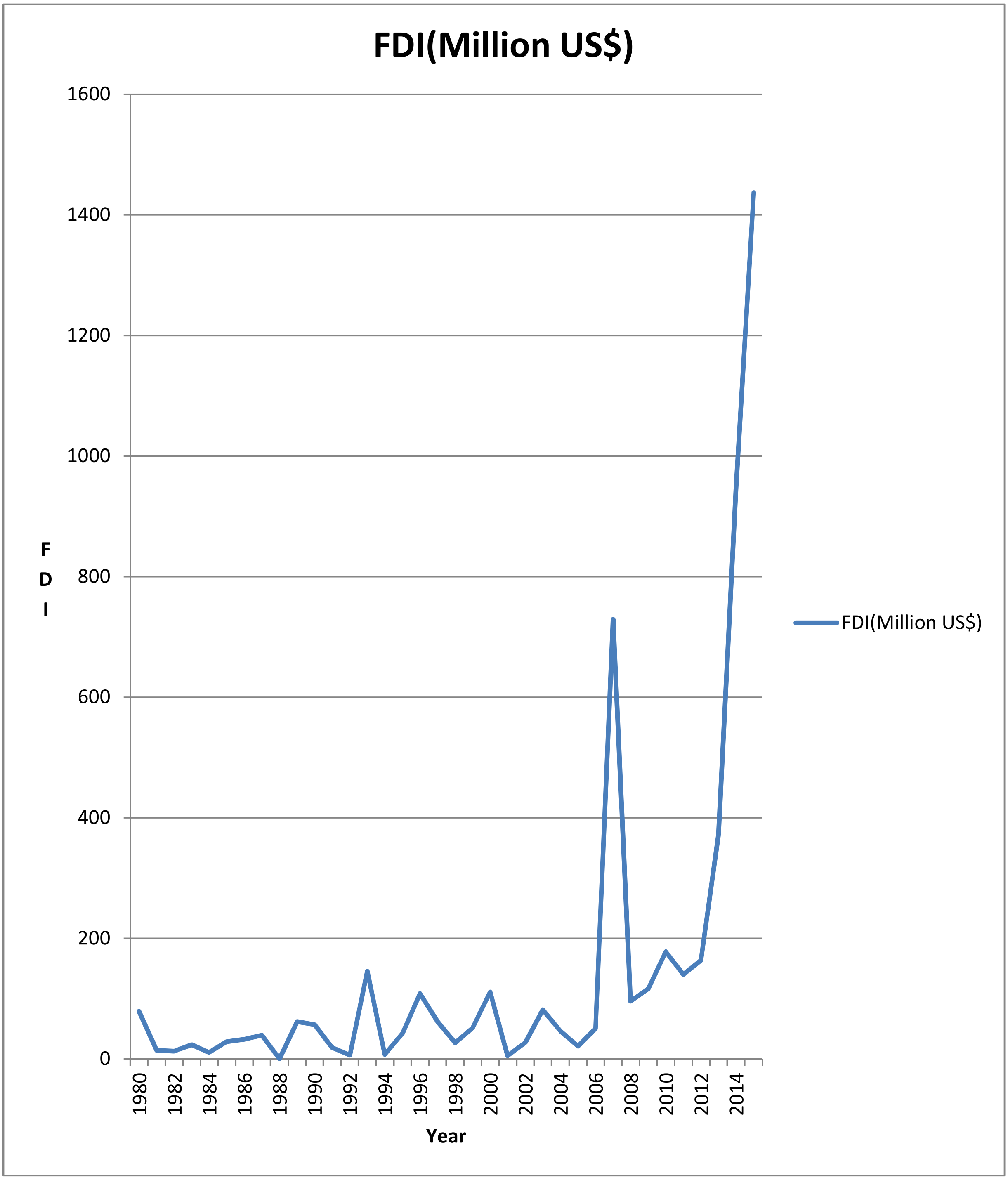
A study done by Rodrik[40] attributes low performance in FDI inflows to a country to skepticism to the virtues of free trade and investment which Kenya also had after gaining independence. Most if not all of East African countries imposed trade restrictions and capital controls in the early 1970's and 1980's as part of a policy of import-substitution industrialization aimed at protecting domestic industries and conserving scarce foreign exchange reserves. This inward-looking development strategy discouraged trade as well as FDI and had adverse effects on economic growth. During the period between years 2000 and 2007, the average FDI inflows in millions of US dollars for Kenya rose significantly to $119 million yet the corruption index had plummeted to 1.6 (Transparency International, 2012). To attract more FDI, the Kenyan Government has made the attraction of FDI a clear policy priority and to this end established Kenya Investment Authority as a semi-autonomous agency in 2004 to promote investments in Kenya. Since then, FDI inflows to Kenya have seen a steady increase, reaching US$ 141 million in 2009 and US$ 133 million in 2010[41].

Figure 3.1 below shows the trend of FDI TO Kenya for the period 1980-2015. The figure shows a stagnant growth in FDI for the period 1980-2005. In 2007/2008, the value of FDI to Kenya declined sharply; this was due to the pose election violence that kept potential investors away. However, from 2012, the Country has experienced tremendous increase in the value of FDI. This can be attributed to economic stability and political goodwill.

[40] Rodrik, D. (2008). Second-best Institutions. American Economic Review: Papers & Proceedings, 98(2), 100– 104.

[41] ibid

Figure 3.1: Trends in FDI



4.2 Determinants of Foreign Direct Investment

4.2.1 Trends in Exchange Rates

Vertical foreign direct investments increase where the real exchange rate is weak. This is due to firms taking advantage of the low prices offered in the host market to make purchases or where production is re-exported so as to increase profits of the goods sent to the host market. Froot and Stein[42] from their study found evidence of a relationship between the currency of the host country being weak and this leads to inward foreign direct investment in an imperfect capital market model as depreciation decreases the value of the host country assets as the expense of assets in the home country. Blonigen[43] makes a “firmspecific asset” argument that shows that when the value of the exchange rate in the host countries drop their tends to be an increase in foreign direct inflows. On the other hand, where the real exchange rate is strong there is the tendency for this to lead to an increase in foreign companies producing domestically. The exchange rate can therefore be seen as a barrier to entry into a market that could lead to more horizontal foreign direct investment. Empirical studies however do not support this hypothesis.

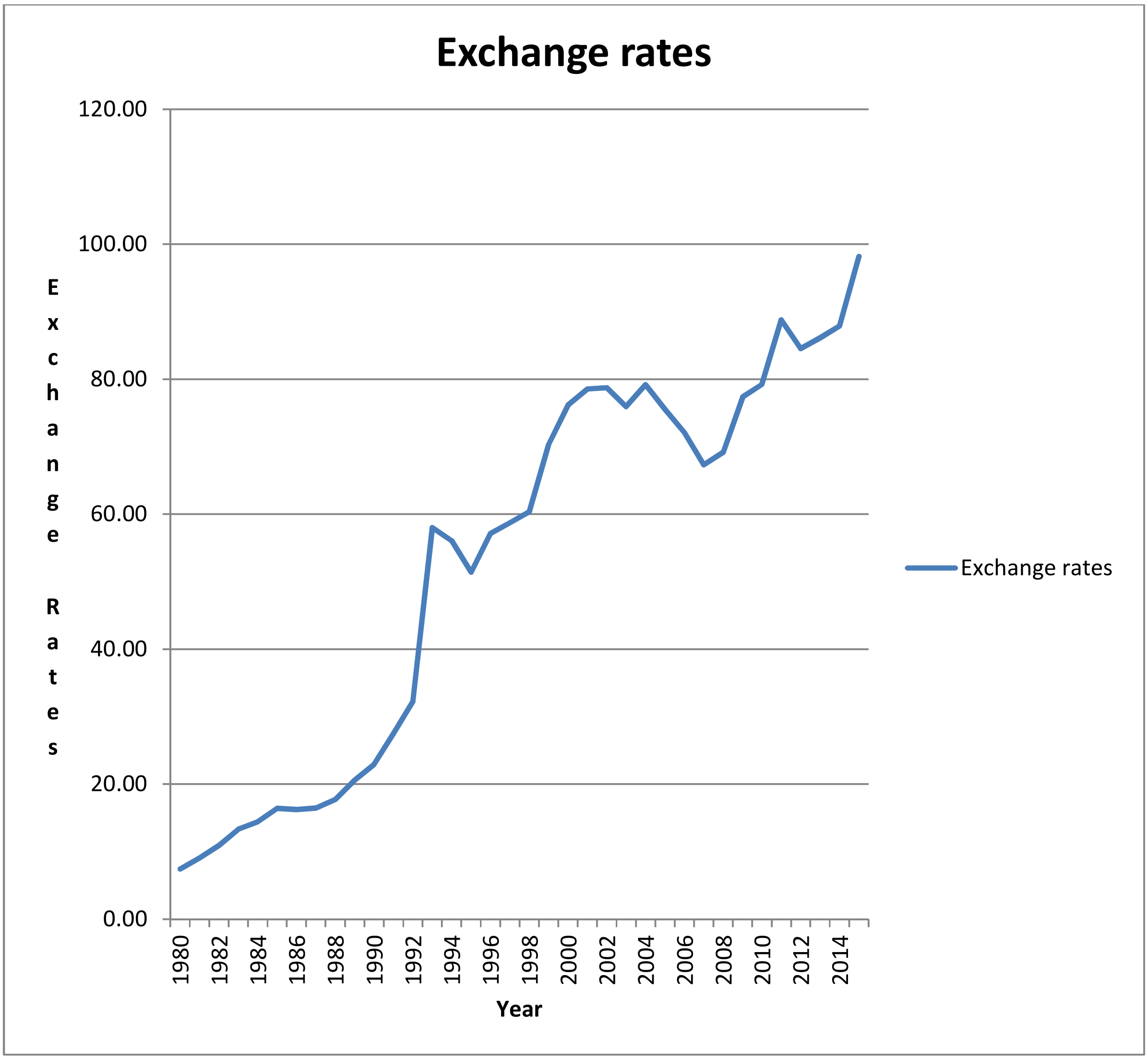
Figure 4.2 shows the trend in foreign exchange rates for the period 1980-2015. The figure reveals an upward trend in the value of exchange rates for the last few decades.

[42] Froot, Kenneth A. and Jeremy C. Stein, 1991, “Exchange Rates and Foreign Direct Investment: An Imperfect Capital Markets Approach,” Quarterly Journal of Economics, Vol. 106(4): 1191–1217

[43] Blonigen, Bruce, 2005, “A Review of the Empirical Literature on FDI Determinants”, NBER Working Paper No. 11299.

Trends in Exchange Rates

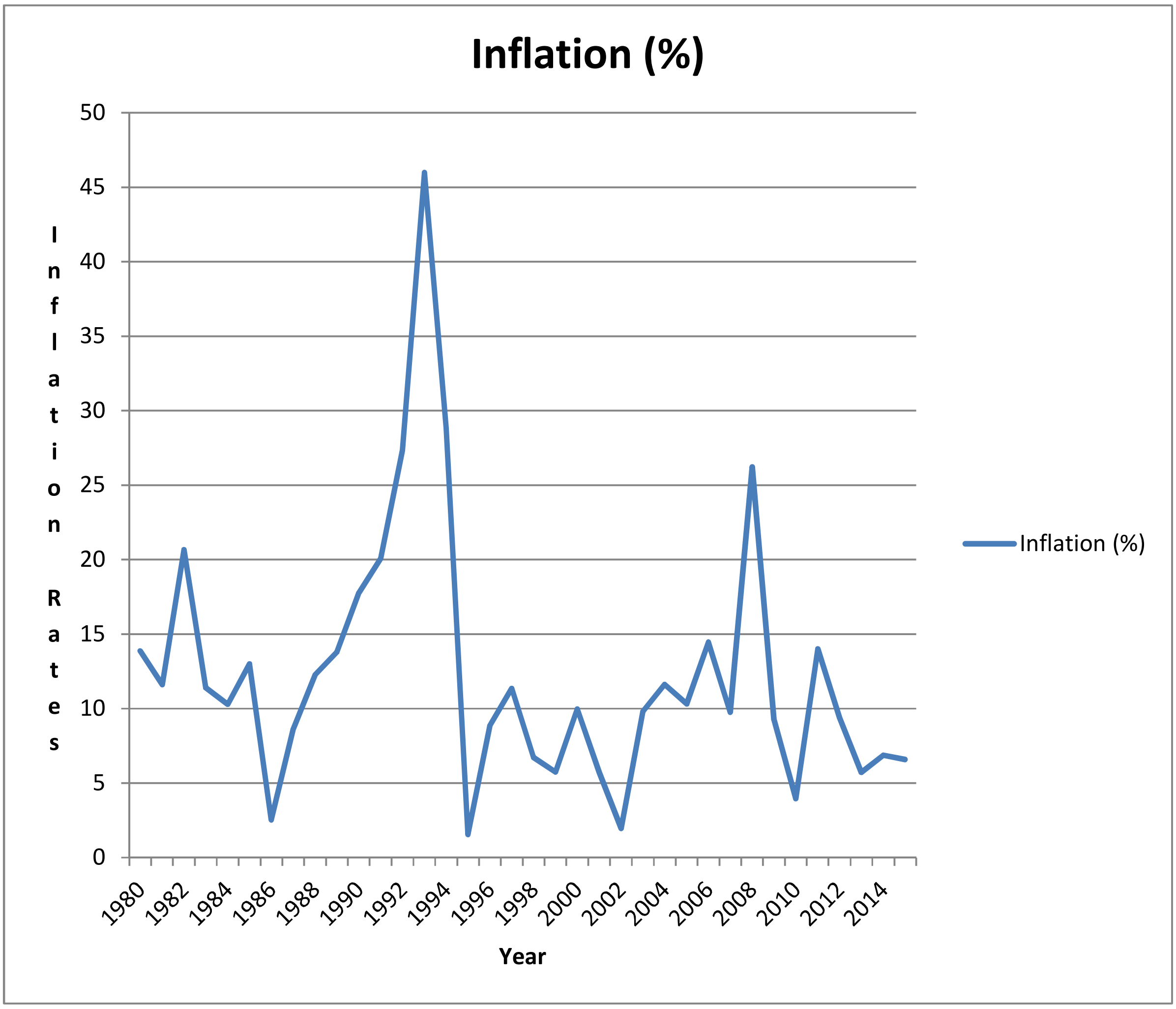
Figure 3.2: Trends in Exchange Rates



4.2.2 Trends in Inflation Rates

Figure 3.3 shows the trend in inflation rate for the period 1980-2015. The figure reveals upward and downward fluctuations in inflation for the last few decades.

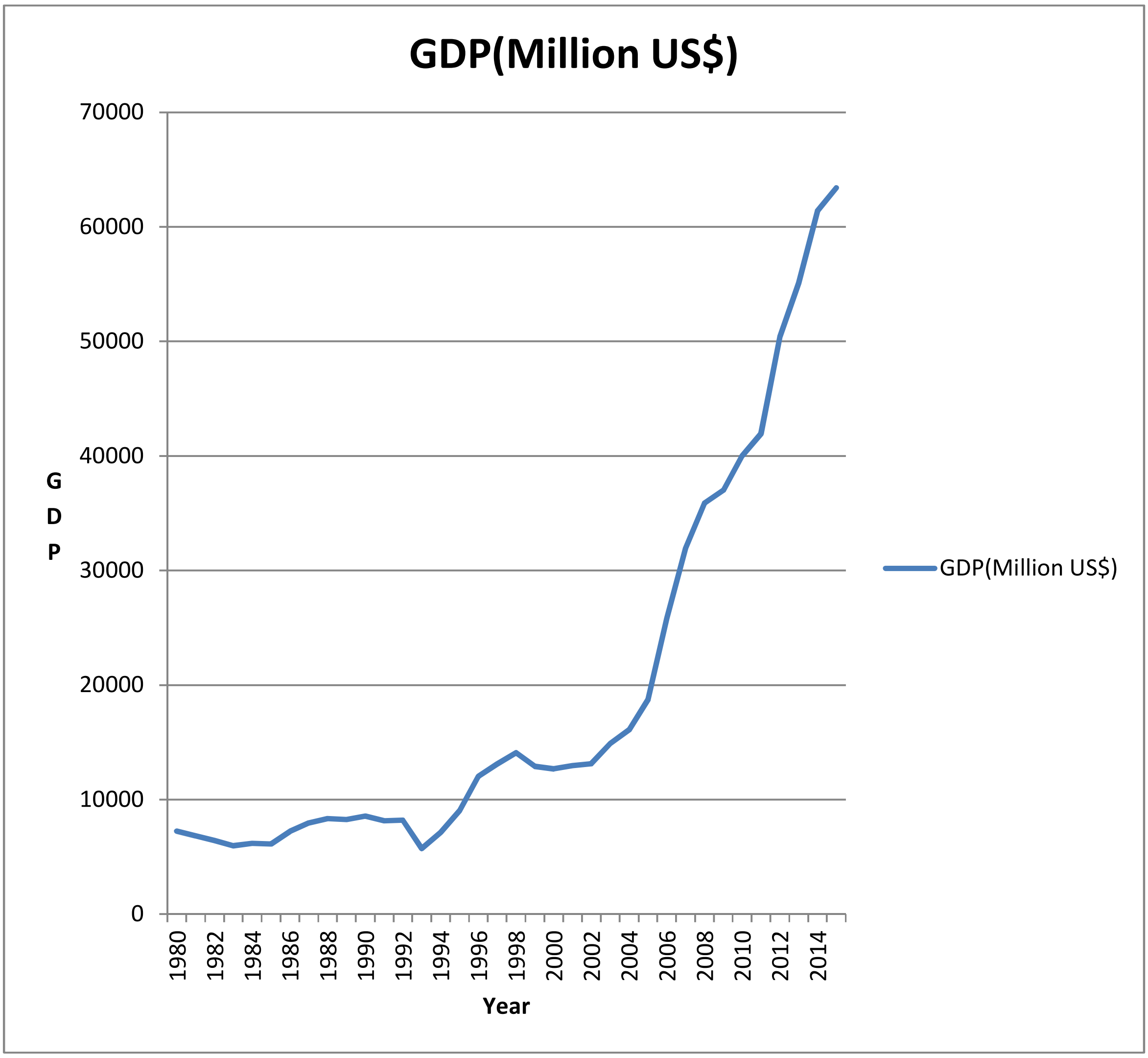
Figure 3.3: Trends in Inflation Rate



4.2.3 Trends in Gross Domestic Product

Figure 3.4 shows trend in GDP for the period 1980-2015. The figure shows a steady increase in the value of GDP for the last few decades. This can be attributed to political stability in Kenya over the years.

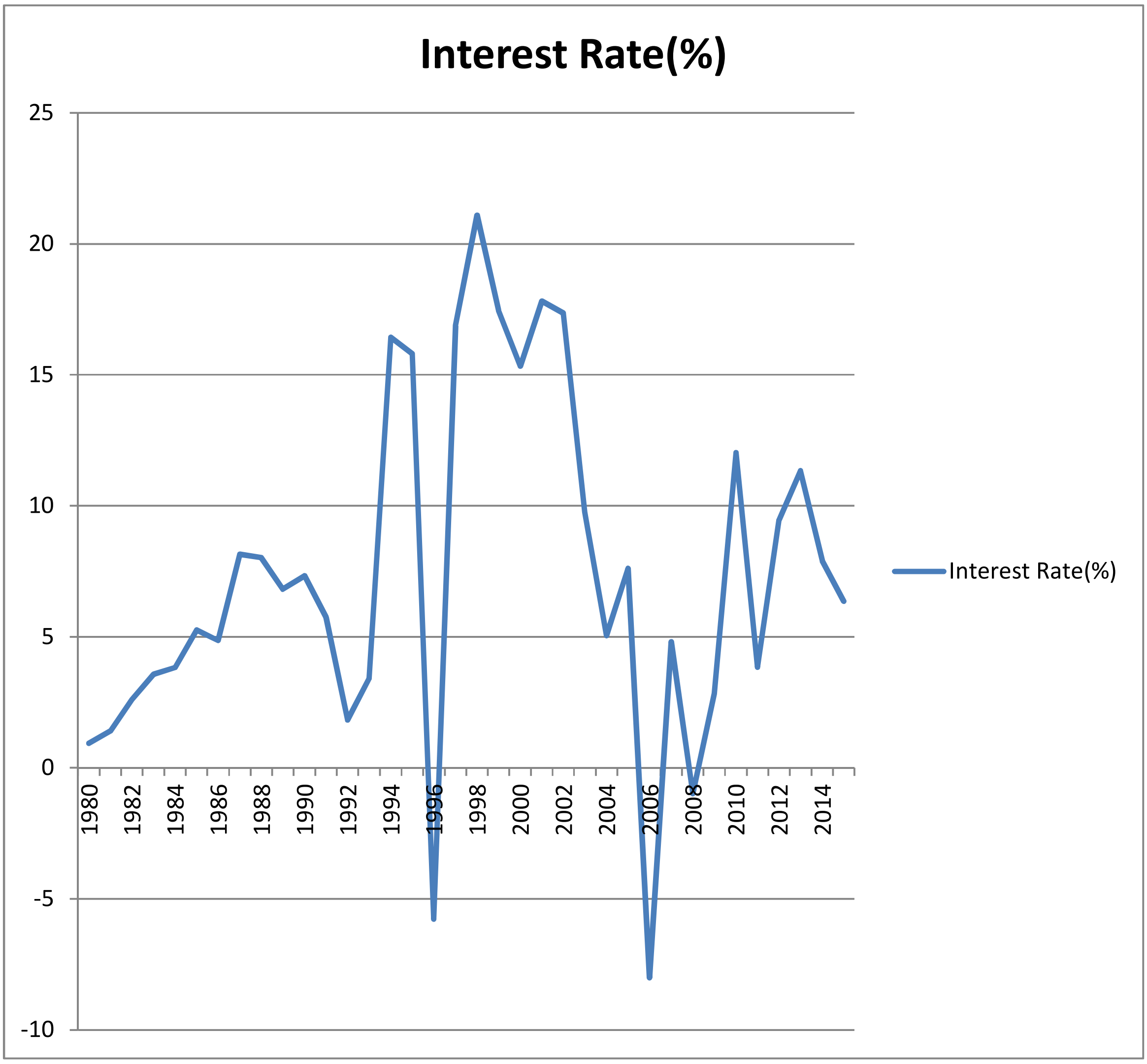
Figure 3.4: Trends in GDP



4.2.4 Trends in Interest Rates

Figure 3.5 shows the trend in interest rates for the period 1980-2015. The figure reveals upward and downward trends in interest rates. This could be due to changes in economic growth.

Figure 3.5: Trends in Interest Rates

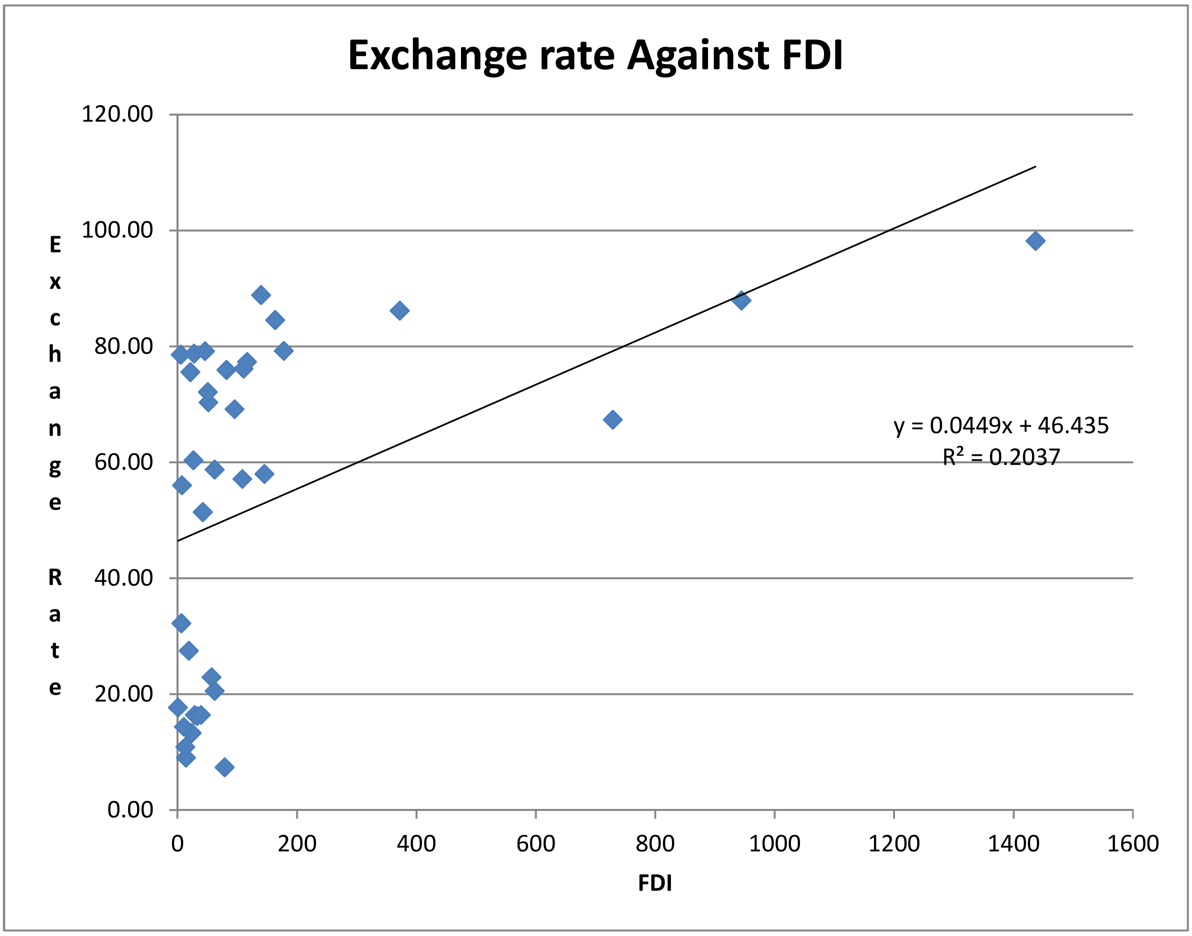


4.3 Scatter/Causal Relationship between Selected Determinants and FDI Flows

4.3.1 Exchange Rate and FDI

Figure 3.6 below shows a scatter diagram of exchange rate against FDI. The figure shows an upward trend between the two variables. This implies that foreign exchange rate has a direct impact on FDI. The coefficient of determination of 20% denotes that foreign exchange rate explains 20% of the total changes in the value of FDI to Kenya.

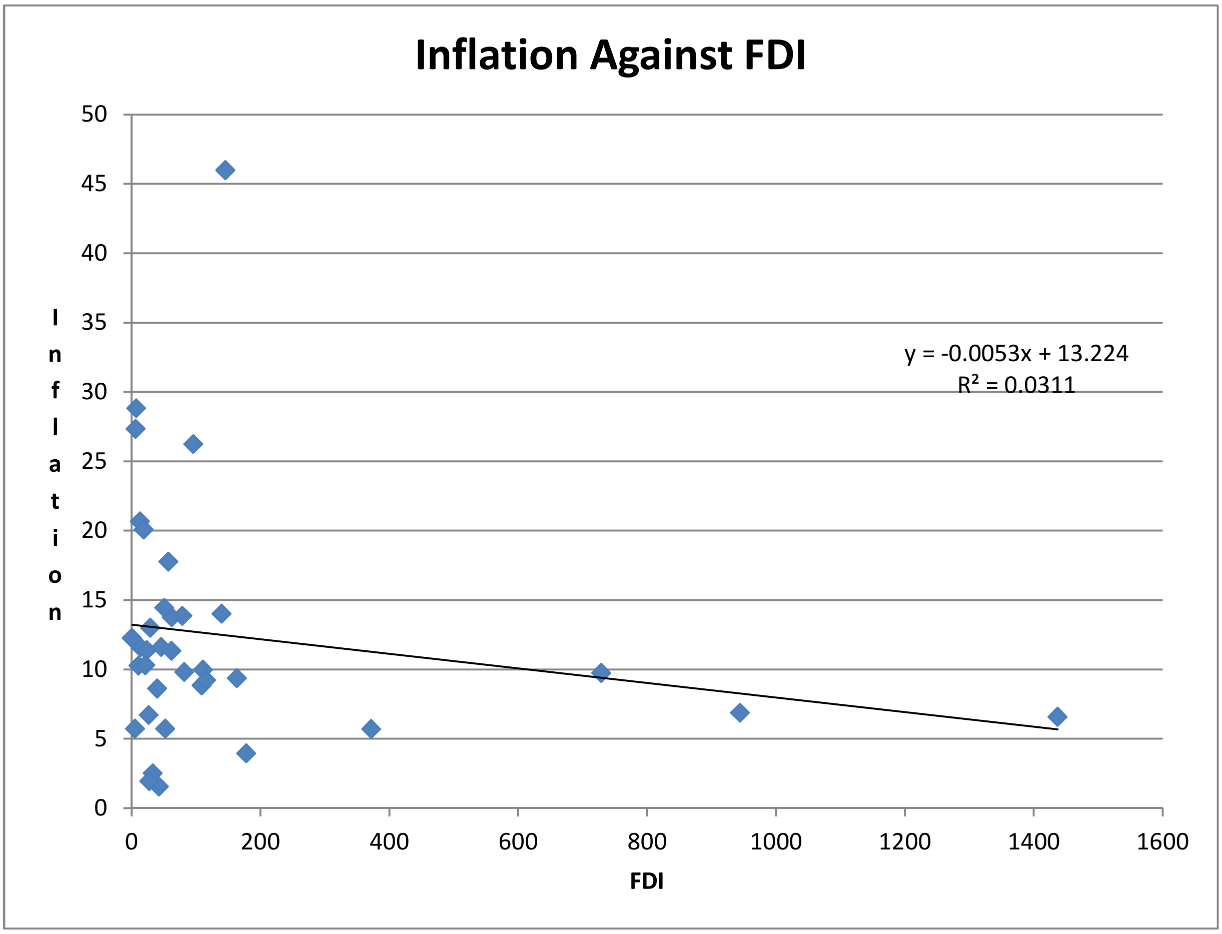
Figure 3.6: Exchange Rate against FDI



4.3.2 Inflation Rate and FDI

Figure 3.7 shows a scatter diagram of inflation against FDI. The figure shows a downward trend between the two variables. This implies that inflation rate has an indirect impact on FDI. The impact of inflation rate on FDI is, however, minimal. This is explained by a coefficient of determination of 3%.

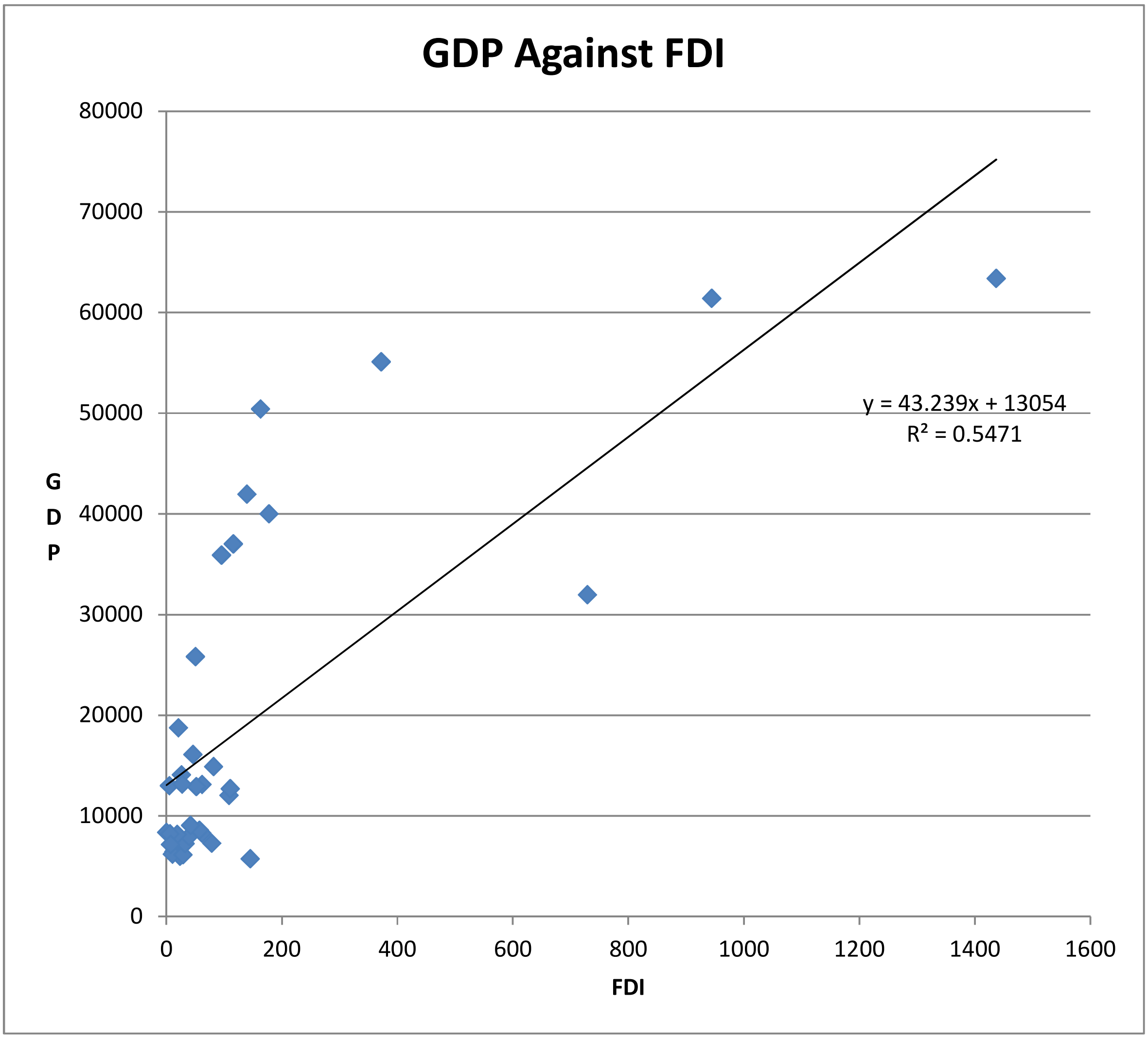
Figure 3.7: Inflation Rate against FDI



4.3.3 GDP and FDI

Figure 3.8 shows a scatter diagram of GDP against FDI. The figure shows an upward trend between the two variables. This implies that GDP has a direct impact on the value of FDI. The coefficient of determination of 55% denotes that GDP explains 55% of the total changes in FDI.

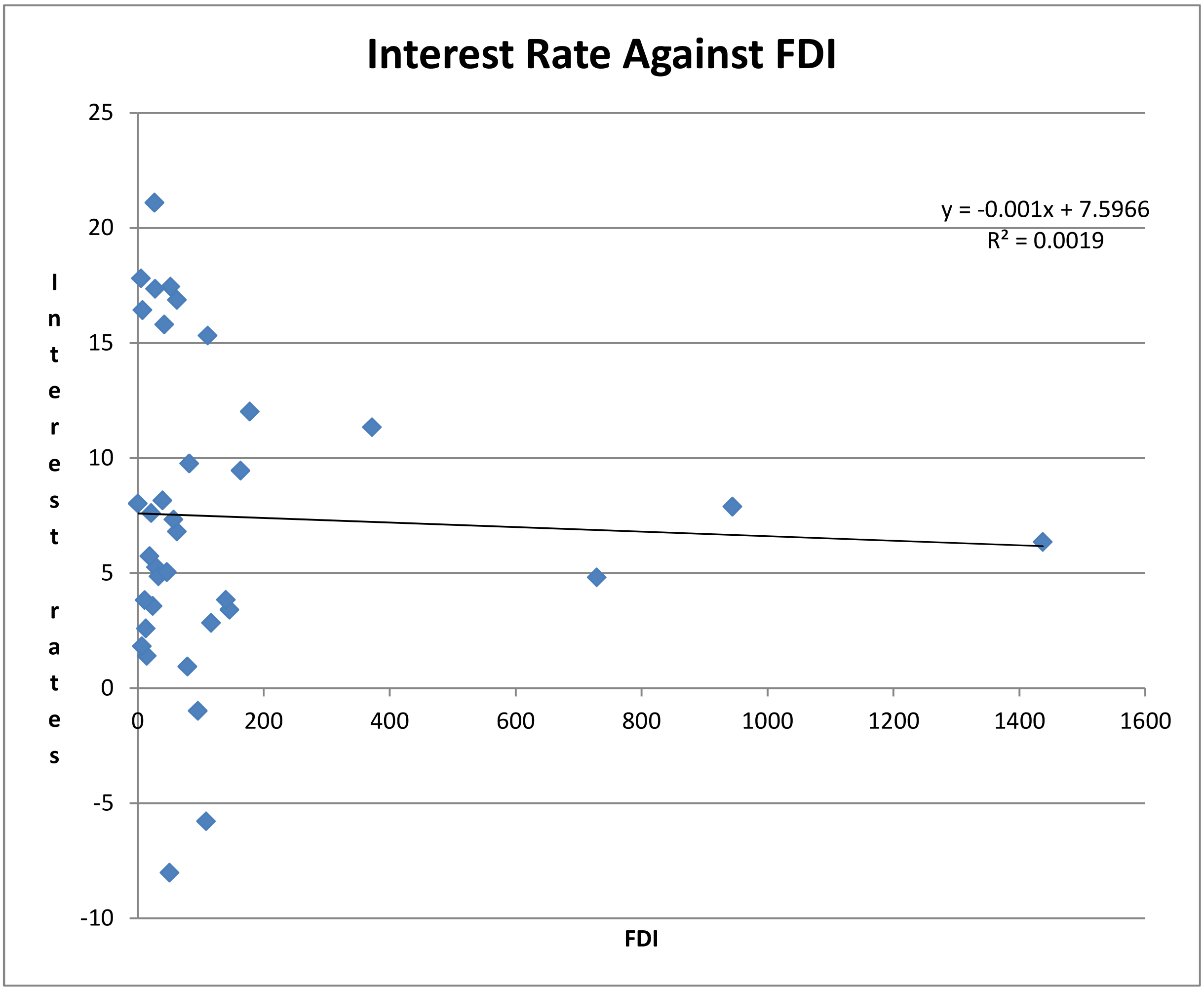
Figure 3.8: GDP against FDI



4.3.4 Real Interest Rates and FDI

Figure 3.9 shows a scatter diagram of interest rate against FDI. The figure reveals a down ward trend between the two variables. This implies that interest rate as an indirect impact on FDI. The impact of interest rate on FDI is, however, minimal. This can be explained the coefficient of determination of 0.2%.

Figure 3.9: Interest Rate against FDI



The table below shows foreign direct investment inflows net of balance of payments to Kenya.

Figure 3.10; FDI inflows net of balance of payments.

Year	Amount in USD
1980	789,737,456,201,712.00
1981	141,475,571,804,225.00
1982	130,008,949,566,675.00
1983	237,388,426,826,748.00
1984	10,753,527,417,594.00
1985	288,459,490,411,445.00
1986	327,257,767,881,461.00
1987	393,813,442,023,683.00
1988	394,430,639,372,062.00
1989	621,899,172,680,638.00
1990	570,810,961,781,559.00
1991	188,309,768,357,173.00
1992	636,313,314,468,109.00
1993	145,655,517,114,549.00
1994	743,241,260,236,849.00
1995	422,892,484,582,554.00
1996	108,672,931,624,341.00
1997	620,968,097,799,306.00
1998	265,482,459,700,464.00

1999	519,534,559,539,555
2000	110,904,550,399,762.00
2001	530,262,293,940,566.00
2002	27,618,447,058,206.00
2003	817,382,426,366,212.00
2004	460,639,314,543,862.00
2005	21,211,685,395,223.00
2006	506,747,251,830,695.00
2007	72,904,414,604,372.00
2008	95,585,680,233,444.00
2009	116,257,608,986,359.00
2010	178,064,606,752,108.00
2011	139,862,091,096,042.00
2012	163,410,210,303,025.00
2013	371,846,696,367,752.00
2014	944,327,305,005,736.00
2015	14,370,000,043,704.00

CHAPTER 5.

5.1 Introduction.

The main objective of this study was to investigate the determinants of foreign exchange inflows to Kenya with a focus on international trade, foreign direct investment and official development assistance and official aid for the duration 1980-2014. This chapter presents the Summary of the major findings, answers to research questions, conclusions and, recommendations of the study. It also presents suggestions for future studies.

5.2. Summary of Findings

What emerges from the data collected and analyzed in the previous chapter is that foreign aid inflows are determined by the relations between Kenya and major donors. Where Kenya did not comply with donor condition, foreign aid was frozen and where compliance was present, inflows resumed. It is also clear that government policies play a major role in foreign aid inflows. This is evident with the changes in government in Kenya from Kanu to NARC to Jubilee government policies where changes of aid inflows were noted. Aid inflows per sector also show that there were increased and continued inflows to sectors as compared to government projects even where conditions were not being met.

Kenya’s international trade is largely marked by exports of agricultural products. Where conflict took place, the impact was major and there was a large drop in both trade and investment due to instability in the country. Imports on the other hand were least affected showing that Kenya has a high reliance on imports from other countries. Trade is also affected by exchange rates and interest rates.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains the summary, discussion of the findings, conclusions and recommendations of the research and gives suggestions for further study. The chapter begins with a summary from chapter one to four, followed by conclusions and finally a section on recommendations arising from the study.

5.2 Summary

In chapter one, the study covered the background to the study, problem statement, research objectives, justification, literature review, theoretical framework, hypotheses, methodology and scope and limitations. Chapter two analyzed foreign aid inflows to Kenya vis a vie the change in presidents over the period 1980-2014. The chapter further focused on the policies of the Presidents and their impact on foreign aid inflows. Chapter three focused on the effect of external factors on foreign aid inflows to government as well as aid inflows to the non-governmental organizations. Further, it focused on who are the main donors to Kenya. Chapter four examined the impact of infrastructure development and economic policy reforms on foreign aid inflows to Kenya. Chapter five contains the summary of the research, conclusions and recommendations arising from the study.

5.4.3 Economic Policy Reforms and Foreign exchange resource inflows

Based on the findings the study concluded that economic policy reforms influenced the foreign exchange inflows to Kenya. The findings further indicated that the foreign exchange inflows to Kenya increased significantly during the Economic Recovery strategy period. Further, the adoption of vision 2030 in 2008 increased the donors' confidence regarding the economic prospects of Kenya. The study concluded that the adoption of different economic policies has led to increase in foreign aid inflows to Kenya.

5.5 Recommendations

Based on the study findings the study made the following recommendations;

Governments should invest the foreign aid inflows into broader economic programs such as eradication of poverty and health improvement. This will boost the donors' confidence that their support is being appreciated by the recipient countries.

Governments should also undertake economic policy reforms that encourage foreign trade and investment inflows into the country. Adoption of appropriate economic policy reforms will communicate to partners that a government is willing to create an enabling environment for foreign support.

Governments must also be willing to exit from power once their term is over. Political aid is particularly designed to favor democratic transitions and to discourage the longevity of autocratic regimes with its main channels being the development of competitive electoral systems, elections monitoring, advice provision on electoral regulation and support to the development of political parties.

5.6 Suggestion for Further Research Area

The study sought to understand the determinants of foreign aid inflows to Kenya. In particular, the study focused on government regimes, global financial crisis and economic policy reforms as the independent variables only, thus area for further studies could consider other variables that affect foreign exchange inflows.

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