THE IMPACT OF SELECTED MACROECONOMIC VARIABLES ON FOREIGN DIRECT INVESTMENT IN KENYA

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DECLARATION

This research project is my own original work and has not been presented to any University for examination.

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

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DEDICATION

I dedicate this dissertation to my family, friends, colleagues and course mates. A special gratitude to my family for their love and prayers and sacrifices for educating me and preparing me for my future. Most sincere gratitude to my lovely husband for the understanding, prayers and immense support until the completion of this research project. I am also grateful to my siblings Makena, Nyambura and Gacheri for their encouragement and support. Special thanks to my friend Limo for the push and encouragement to complete this thesis successfully.

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ABBREVIATIONS

CBK Central Bank of Kenya

EAEO East Africa Economic Outlook

EG Economic Growth

ER Exchange Rate

FDI Foreign Direct Investment

FOREX/FX Foreign Exchange

GDP Gross Domestic Product

GR Growth Rate

IR Inflation Rate

KNBS Kenya National Bureau of Statistics

MNC Multinational Corporations

OECD Organization for Economic Co-operation and Development

OLI Ownership, Location and Internalization

PPP Public-Private Partnerships

UNCTAD United Nations Conference on Trade and Development

US United States of America

ABSTRACT

The Organization for Economic Co-operation and Development (OECD) describes FDI as investments that involve creating relationships for the long run and contemplate a long-term interest in controlling an establishment by a resident in a single economy (the investing foreigner) in a commercial venture domiciled in a different economy. FDI is fundamental to many of the nations' economic growth since it links the variance between the investments and savings of each nation necessary for a substantial economic growth. In Kenya, investments from foreign countries remain considerably low bearing in mind the size of its economy. This paper seeks to evaluate the impact of the GDP growth rate, the inflation rate and foreign currency exchange rate on FDI inflow into Kenya. Secondary annual data for the period 1988 to 2018 were sourced from the World Bank and analyzed. The dependent variable, FDI inflow into Kenya was represented by the FDI remittances to Kenya as a percentage of the country's GDP. The analysis of the data found out that there is a weak positive correlation between the FDI inflow and the selected macroeconomic variables: the inflation rate, GDP growth rate and the exchange rate as indicated by the computed Pearson correlation coefficients. Regression analysis revealed that the dependent variable had a correlation of 26.7% with the independent variables as depicted by the R-squared value. At 95% confidence level, the regression model was fit for the data as the F-value was 3.274 is associated with the small p-value of 0.036 indicating that the independent variables reliably predict the dependent variable. This study concludes that the selected macroeconomic variables contributed to 26.7% of the variations in the FDI inflow into Kenya. That means the GDP growth rate, inflation as well as the exchange rate hand an influence on FDI decisions. The magnitude of the influence, however, has been established to be minimal.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the recent past, there has been a growing interest in being cognizant with the influences of Foreign Direct Investment (FDI) is being witnessed. During this period, there is evidence of a marked increase flow of the FDI. From 1990 the volume of worldwide FDI inflows saw a rise from about US$ 203Billion to over US$ 974Billion in 2005 and USD 1,097 billion in 2017. Africa has continued to make the most of the FDI inflows to the continent, receiving over US$ 46 billion in 2018 (OECD, 2019).

The Organization for Economic Co-operation and Development (OECD) describes FDI as investments that involve creating relationships for the long run and contemplate a long-term interest in controlling an establishment by a resident in a single economy (the investing foreigner) in a commercial venture domiciled in a different economy (OECD, 1996). This long-lasting interest point to pre-existing affiliation between the investing foreigner and the commercial entity, who considerably guide its management. These investments include an original transaction in addition to future capital injections.

The East Africa Economic Outlook (EAEO) 2018 by the African Development Bank describes Kenya as the most developed economy in East and Central Africa with a considerable economic growth over the years averaging a growth rate (GR) of over 5 per cent (AfDB, 2018). The report further shows that Kenya's economy is the most diversified and advanced with its major contributing industries or the key sectors consisting of agriculture, manufacturing, real estate and services. Private enterprises, whether foreign and local, are free to start, acquire, and dispense with business enterprises as stipulated in the Companies Act. Kenya's constitution also protects private property owners and provides for prompt and fair compensation in case of expropriation.

FDI is fundamental to many of the nations' economic growth since it links the variance between the investments and savings of each nation necessary for a substantial GR. These investments are often risk-free, imports innovative technology and management practice to the country and open access to commodity markets. Nyaosi (2011) established that FDI leads to injection of financial resources to countries that are hosts, bringing in innovations besides improving the efficiency of existing technologies. Mwega (2009) in support, claims that FDI also helps in the development of skills and management techniques in the host country.

Several countries, more-so the developing countries, pursue increasing FDI inflows to their economies to leverage on the numerous advantages they stand to gain. The capital and technology transfer leads to improved productivity hence the creation of employment opportunities as well as an expansion of infrastructure. Ultimately this will lead to reduced levels of poverty and long term economic growth. Ismaila & Imoughele (2010) posit that FDI makes resources available to the world's developing countries that are significant in their economic growth.

This paper proposes that the foreign currency exchange rate (ER), economic GR and inflation are key influences of FDI in Kenya. Multinational companies are thought to seek to invest in countries that post weak currencies to earn from these operations and thereafter convert the earnings to their home currencies at better ER (Madura & Fox, 2011). This study, therefore, seeks to establish whether this argument is true for the Kenyan case. It also seeks to identify the level of significance of the economic growth of the host country on influencing FDI inflows. Many empirical reviews have pointed out that the economic GR of a country is an inducement for FDI inflows, for example, Blonigen et al (2007), Mohammed & Sidiropoulos (2010) and Jimenez (2011) among others. The surge in the inflation rate (IR) leads to a decline in the returns on investment by firms, hence inhibiting FDI inflows. Studies such as Rogoff and Reinhart (2002); Ahmed et al (2005); Elijah (2006) have concluded that foreign investors shy away from host countries experiencing a rise in inflation.

1.1.1 Foreign Currency Exchange Rate

Foreign exchange (FX), according to Obura & Onyango (2015), is the value that a country's domestic currency trades for the currency of another country. Essentially the value that the foreign currency compares to the local currency. Exchange rates can be fixed or flexible. Fixed type of exchange rates does not fluctuate according to the foreign exchange market (FOREX) but is set by governments at a fixed rate. On the other hand, flexible exchange rates are determined by FOREX and fluctuate from time to time. The Central Bank of Kenya (CBK) regularly posts indicative exchange rates for major world currencies. These rates reflect the average buying and selling rates of the major currencies at the open of trade every day.

The behavior and volatility of the foreign exchange rate have been quoted as among the key determinants of the FDI (Muema, 2013; Ndung'u, 2001; Parajuli, 2012). Depreciation in a country's domestic currency leads to reduced production costs and therefore supports foreign direct investments (Muema, 2013). The foreign investors can acquire more capital from their capital reserves. An appreciation in the domicile nation's local currency will bring about a rise in the real value of the non-local firms and may bring about further investments.

The exchange rate is also significant in international trade as it has an impact on the value of imports and exports. A weak domestic currency promotes export and discourages importation. A strong currency on the other hand stimulates imports but hampers export trade. Foreign investments at the onset tend to increase import and increase in exports at the long run. The prevailing exchange rates, therefore, influence these foreign investments. Lagat & Nyandema (2016) observed that foreign exchange rates also affect other factors such as capital gains from domestic investments, interest rates and inflation levels. It is a fundamental economy price whose flexibility and level affects the growth and allocation of resources.

1.1.2 Economic Growth Rate

Foreign investments have innumerable progressive impacts on a country's economy, in as much as it had earlier been viewed as "parasitic" and impeding development of local industries. Nabende & Ford (1998) observe that positive

factors such as technology transfer, skills development among others have served to change this point of view. Governments have therefore strived to put in place measures that will promote more FDI to spur economic growth. These special incentives offered, according to Carkovic and Levine (2002), stems from the fact that FDIs lead to positive effects as technology transfers among others.

Most African, and more so Sub-Saharan Africa, see the attracting of FDI as a core tool on the economic growth (EG) plans. Much effort has been put in place to attract transnational establishments into these countries due to the numerous acknowledged advantages. The governments have undertaken to expand the trade environment in their respective countries with the attraction of FDI in mind. Indeed, among the key pillars on the formation of the New Partnership for Africa's Development is to escalate the accessible financing to over US$64 billion by the consolidation of reforms, enlistment of resources and a favourable setting for FDI (Funke & Nsouli, 2003).

1.1.3 Inflation Levels

The inflation rate (IR) is a constant upsurge in the overall commodities' price levels in a country at a given time (McLean et al, 2016). This constant upsurge in commodity prices generally results in a unit of currency purchasing less than it did in previous periods. It indicates a shrinkage in the buying strength of an economy's currency and is expressed as a percentage. Ebiringa & Anyaogu (2014) postulates that as the inflation rates in one country rise compared to another country's rate, the first country's exports decreases and imports increase leading to a decline in the country's home currency value. This generally leads to an adverse bearing on the cost of living that consequently lead to a deceleration in economic growth.

With a rise in levels of inflation, risk-averse foreign investors will hold back their investments hence inadequate FDI to host countries. These investors will not be willing to risk their profits in business ventures in the affected countries (Kadongo, 2011). The high rate of will send a message that the regulatory policies, particularly the monetary-fiscal policy fusion is inappropriate (Macpherson, 2013). It is therefore imperative on the governments to put in place policies that will ensure

inflation rate stability to appeal to imported capital (Aijaz, Siddiqui, & Aumeboonsuke, 2014).

Kenya's inflation rates for the period 2005 - 2019 have oscillated between a high of 31.50 and a low of 3.18 averaging below 6 per cent in the recent months. Dureval & Sjo (2012) indicated that Kenya should not be considered a hyper-inflation economy as the inflation rates have averaged not more than 10 per cent. The instances where the rate was higher was during prolonged droughts that impacted on the country's agricultural yields.

1.1.4 Foreign Direct Investments in Kenya

In Kenya, investments from foreign countries remain considerably low bearing in mind the size of its economy. As per The World Investment (2018) publication by the United Nations Conference on Trade and Development (UNCTAD), Kenya is the fourth most preferred FDI recipient in the East Africa region. Their report indicates that Kenya's FDI Inflows improved by 27 per cent to US$1.6 billion, mainly due to investments in sizeable infrastructure projects in the manufacturing, hospitality, chemicals and oil and gas sectors.

The Kenyan government has been undertaking some reforms to establish itself as an attractive investment destination. This has resulted in an improvement of their ranking in "Doing Business" as per the World Bank's publication. It was able to improve 16 places in 2017, 12 places in 2018 and gained 19 places in 2019 to rank position 21 out of 190 countries (World Bank, 2019). Some of the reforms put in place include the simplification of business creation, registration of property, paying taxes and resolving insolvency among others.

The country's Strategic Plan "Vision 2030" brought about the development of Public-Private Partnerships (PPP) that has also positively affected the nation's FDI. One of the Strategic Plan's objective was to achieve global competitiveness in attracting FDI to enable the country to attain its goal of achieving the status of a newly industrializing mid-income country by the year 2030. Several Multinational Corporations (MNCs) have established their bases in the country, mainly due to its

market size, the improving ease of doing business, infrastructure development, and the country's strategic location in the East African region.

1.2 Research Problem

Foreign direct investment continues to attract studies, especially on its benefits to hosting countries. It is broadly believed, especially by the policymakers that FDI's contribution is immense to the hosting country's development. Questions, however, abound on whether financially developed countries experience a better impact in terms of economic growth than the less financially developed ones. Other areas of interest include finding out the particular determinants of FDI in host countries, marketing tools and techniques to attract FDI and the specific ways FDI will promote economic growth.

Lokesha and Leelavathy (2012) opined that the features of micro and macro environments have an effect on the level of capital inflows as well as their outcome. These characteristics vary from country to country, and even across the world regions. Negative macroeconomic factors are thought to push Multinational Corporations to transfer their investments from their home countries to the host countries. Understanding these determinants therefore is essential to the host countries to ascertain the specific determinants of the inflow of capital to their economies. This allows the government to formulate policies that enhance their capacity to attract FDI.

With increasing volumes of FDI flows, several factors have been identified as key determinants due to the glaring indication by the trends over the years. The inflation rate is amongst the key determinants that drive FDI. It is noteworthy that there was minimal FDI in the 1970s to 1980s when the inflation rates in the developing countries were on the rise reaching an average of about 49%. During this period, FDI inflows to Gross Domestic Product (GDP) averaged 0.74% in the '70s, rising to just nearly 1.08% by the early 1990s. On the hand, with declining IR between the mid-1990s and early 2000s, the proportion of FDI to GDP in developing countries more than doubled to over 2.85% by 2005 (World Bank, 2006). It can be

seen therefore that, coincidentally, high inflation rate coupled with low FDI and low inflation rate with high FDI in developing nations. This apparent relationship calls for more study in this area to determine the level or nature of influence by this determinant.

A substantial surge in FDI has been noted in the US during periods when the US dollar depreciates. Depreciating currency leads to a reduction in the cost to produce goods and lowers the cost of capital hence encourages FDI. In this scenario, foreign investors can obtain more capital with their existing wealth (Froot and Stein, 1991). On the other hand, the appreciation would result in the rise in the MNC's real wealth which may lead to further investments. Exchange rate, therefore, is a key factor of FDI and more studies need to be done to ascertain the link between the two variables. What's in question, though, is the host country's balancing between encouraging FDI and managing the cost of living for its citizens.

Economic growth is another key factor that researchers and policymakers are keen to study to find out its influence on the country's allure of FDI. Faster growing markets are seen as attractive to foreign investors due to the perceived production cost efficiency, benefiting from economies of scale among other reasons. (Agosin & Machado, 2007; Carstensen & Toubal, 2004) argues that growing markets facilitates a more effective production level because of the economies of scale attainment. High economic growth rates will translate to expanded markets hence providing growth prospects for future profitability. This would be more appealing to foreign investors as it motivates the initiation of new projects or expansion in production.

As per the UNCTAD's World Investment Report (2019), FDI worldwide has been on a decline, with a slide of 13% in 2018. The fall is however more notable for the developed countries compared to the developing economies. The report indicates that Africa experienced a rise in FDI level by 11%, with Kenya's increase at 27% - the biggest jump in the East Africa region. Sources from the Kenya National Bureau of Statistics (KNBS) indicate that the FDIs have been rising in the past 10 years. Kenya seems to possess certain attractions that pull foreign investments to her

territory while other countries, especially in the East African Community, are not up to bar. It also suggests that certain macroeconomic factors prevailing in Kenya are favourable to foreign investors.

Several research investigations have been undertaken on the influences of FDI inflow in Kenya however they have not been convergent in their conclusions. No research on the combination of the variables put forward for this study has been done before, presenting a research gap. Further studies, therefore, need to be carried out to ascertain how the FDI inflow to Kenya has been affected by these factors. This is necessary and useful not only in literature but also to the policymakers to position the country to benefit from further foreign investments. This investigation, hence, aims at answering the question, what is the influence of the exchange rate, inflation and EG rate on the FDIs inflows to Kenya?

1.3 Research Objective

The principal aim of my investigation hence is to establish the bearing of Foreign Currency

Exchange Rate, Economic Growth Rate and Inflation Levels on Foreign Direct Investment in Kenya.

The particular objectives are to:

i. Establish the correlation between FDI inflow and GDP growth in Kenya;
ii. Establish the extent to which inflation levels impacts on FDI in Kenya; and
iii. Examine the effects of the exchange rates on FDI flow into Kenya.

1.4 Value of the Study

Kenyan policymakers will find value in the findings of this study as FDI continues to impact positively on the country's development agenda. Kenya's economic development blueprint, the "Vision 2030", has specific macroeconomic targets geared towards lasting country's growth. This investigation, therefore, will be instrumental in informing the relevant policies and regulations that will promote FDI inflows.

The Central Bank of Kenya being a key regulator in the country's economic sector is instrumental in balancing between the stability of Kenyan currency and acceleration of economic growth rate. It, therefore, has to provide prudent policies and guidelines that will ensure acceptable levels in the cost of living but also not inhibiting economic growth. They will, therefore, find this study useful as they come up with monetary policies. Multinational Corporations and foreign investors will also find this study useful as they make their investment decisions into Kenya. Factors that will ensure maximizing of profits and an increase in shareholders' wealth will motivate initial capital investments and future re-investments.

The investigation's outcomes will be invaluable to scholars and investigators in this field as it will give acumens on how the selected macroeconomic factor influence the foreign direct investments. It will lay a foundation for further studies in the subject hence contributing in a big way to the existing literature on the subject. Researchers and scholars will therefore find this study important as it will not only inform future studies but also, naturally, contribute to the area of study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two outlines the foundational theories on which the study is based. Theories and empirical evidence will be reviewed and outlined for answering the research question. The theories underpinning this study are the Eclectic Paradigm Theory, the Purchasing Power Parity and the Neoclassical Economic Growth. The chapter will provide an empirical review and overview of the study variables.

2.2 Theoretical Review

This segment will focus on the theories that explain the link between the FDI and the various study variables.

2.2.1 Eclectic Paradigm Theory

This paradigm or OLI framework has been established by John Dunning through his publications (Dunning 1980, 1981, 1988, 1992). It approaches the question of whether or not to make a foreign direct investment from an enterprise's perspective. It provides a 3-tier framework that an enterprise should pursue, that is, Ownership, Location and Internalization (OLI) advantages. The extent, geography and industrial structure of Multinational Corporations' (MNC's) production in foreign markets is determined by the intersection of the three interdependent variables.

An entity cultivates competitive advantages at its home nation, relating to its ownership (O), that edges out other competing multinationals. This ownership relates to the firm being the proprietor of particular invaluable, rare, and difficult-to-imitate resources that gives it a competitive edge above the foreign competition. The sub-paradigm underlines the fact that whenever these competitive advantages belonging to the investor exceed those owned by competing entities, majorly the ones in the foreign nation, it is highly possible that the establishment investing will involve itself in or boost its production in a foreign nation (Dunning 2005). Once the MNC has established the competitive advantages locally, it transfers them abroad contingent upon Location (L) advantages. These Firm-Specific Advantages

(FSA) ought to be easily transferable between the MNC's home and foreign branches (Gillies, 2005).

The L advantages speak of the alternative host countries that the MNCs can undertake their production activities aimed at value addition. Denisia (2010) opines that the L advantages are used for comparing the various economies' strengths and opportunities. Some of the L advantages of comprising geographic, resources availability, proficient and uncostly labour, or special tax systems or tariffs. Once the MNC decides on the most suitable host country, it then makes use of its advantages culminating to FDIs.

Internalization (I) advantages are the ultimate call which a firm's managing team must evaluate before finally deciding for either licensing or choose FDI. The host nation abroad should be able to offer more benefits for undertaking value addition there than doing it in the home country. The MNC should also determine if it would be a wise decision to control its activities as opposed to outsourcing the same to external firms abroad through licensing. Dunning (2005) concluded that it is expected that MNCs will realize higher earnings if it settles on foreign production as compared to granting other commercial entities in foreign nations rights. Once the MNC has decided that FDI is the better option, it can achieve this by entering into joint enterprises with domestic establishments, acquisitions or by initial investments.

The Eclectic Paradigm Theory developed many decades ago, has been advanced to explain what informs the decision-making process by the MNCs relating to FDI. This brings the question, is the theory adequate to explain the current realities of multinational companies and FDI? The O advantages as a motive for FDI in this theory is determined by too many factors, both tangible and intangible. The L advantages have also been broadly defined that sometimes it is hard to differentiate between the (O) and (L) advantages. (I) advantages seem to be too interconnected with the O advantages. The theory mainly gives reasons for FDI in a host country.

When the MNC accumulates substantial owner advantages for instance technology, technical skills and marketing, it can reduce the weight of initial establishment of

manufacturing in the foreign markets. The Internalization advantages confirm the benefits of investing directly than relocating the same to foreign companies, and Location advantages due to low-cost production, large markets that accrue economies of scale or better state of existing infrastructure which encourage investment in foreign markets. Ghosh (2014) posits that the existence of benefits that cannot be transferred which can be utilized by corporations leads to foreign investments.

2.2.2 Purchasing Power Parity Theory

The theory stipulates that the price level to exchange rate ratio amongst two different countries must be equal. This is to say a product P in country X should cost an equivalent amount in Country Y once the exchange rate has been taken into account. Advanced by Cassel (1918), the PPP theory is among the oldest and widely studied area in international economics. It has its basis on the law of one price that stipulates a similar selling price for identical goods given no cost of transportation or inconsistent tax in any two markets (Suranovic, 2012). This simply means a relative price of a basket of groceries, regardless of currency or location, will be matched when quoted in similar currency.

The PPP theory entails two versions, absolute and relative. The absolute PPP claims that a basket of commodities' relative prices should be equal regardless of place and currency when its price is given in one currency (the law of one price). On the other hand, the relative version recognizes imperfections in the market that should be taken into consideration. It, therefore, posits that the ratio of changes in the exchange rate and price levels be equal.

Mundell-Fleming (Mundell, 1962 & Fleming, 1962) open economies model proposed that weak domestic currencies attract investment since domestic products will be cheaper and more competitive in markets abroad. Investment therefore is positively related to the devaluation of the real exchange rate in such markets. Developing economies tend to import most of the capital goods and so strengthening of the local currencies tend to encourage more investment as the imports become cheaper.

The PPP as a criterion has been used to indicate the levels of FDI, more so in emerging economies. However, it is said that currencies of most of the developing countries have been over-valued. Appreciation of currencies in these economies leads to increased investments. Alejandro (1963) lends credence to this idea as he suggested that economies take advantage of cheaper imported capital during moments of strong currencies and therefore lead to an increase in investment.

2.2.3 Market Imperfections Theory

This is a trade theory came about since of the obvious imperfect nature of competition in the international markets. The conditions for a perfect market don not get satisfied hence occasioning an imperfect market situation. The reason for this is the asymmetric market information, product differentiation, governments' interventions and the difficulties in entry or exit to the markets by businesses. Mankiw (2009) asserts that in such markets, the firms would be making strategic decisions to invest taking in to account a risk factor.

The theory, originally expounded by Hymer (1960), gave a methodology for foreign productions based on the imperfect nature in the market. According to the Hymer-Kindleberger hypothesis, an MNC must own some Firm-Specific Advantages (FSA) to venture into FDI since they are naturally disadvantaged compared to domestic companies (Hymer 1960, 1968). The foreign investments necessitate the relocation of financial capital and intangible assets for instance skills and technology. FDI happens therefore due to the existence of transnational market imbalances for these assets.

Firms the world over aim at maximizing profits and growing shareholders' wealth. Hymer (1968) therefore agreed that the best internationalization strategy for a firm would be through FDI in contrast to other internationalization approaches such as licensing. The support for this is explained by how difficult it is to price the firm-specific advantages, the necessity to remove licensing charges and how impractical it is to sell oligopolistic power.

Hymer (1960) also called for an understanding of control while trying to explain FDI. He provided that an entity need to exercise some control on its foreign

undertakings to eradicate problems while taking advantage of the hosting nation. Centralizing the making of decisions to control foreign undertakings will be more advantageous compared to a different structure in the several nations of operation. Imperfect markets would not let those owning certain advantages from considering the yields arising through advantages if it took control over its use, realized from FDI.

2.3 Determinants of FDI

The key variables identified for this study that influence the Foreign Direct Investments inflows in Kenya are the ER, IR and the EG rate. Studies were done on how these variables affect the level of FDI inflows in Kenya are still divergent, giving room for more studies to be carried out. Numerous methods to study the factors influencing FDI in Kenya do not annul each other but are complementary (Kinuthia, 2010).

2.3.1 Foreign Exchange Rate

It is employed in converting one currency to a different one to facilitate trade in the local market. Foreign exchange (FOREX) markets came about to enable the exchange of money to various currencies that then ensures the transactions take place (Kidwell et al, 2008). In essence, the purchasing power of one currency is converted to another currency's purchasing power. This will then be used not only in international trade but also services such as foreign currency deposits, currency swap as well as futures and options contracts (Eun & Resnick, 2009).

Foreign currency ER, therefore, has a bearing on the purchasing of foreign goods and resources into the destination country as the foreign investors will have to trade their foreign currencies for the local ones. Asiedu (2002) indeed confirmed that the FDI inflow level is impacted by the prevailing exchange rates. While choosing the location of their foreign investments, the MNCs have to take into considerations the rates at which their domestic currency will be the exchanged to the destination country's exchange rate. Dunning (1993) indicated that a firm would be more interested in future exchange rate volatility the more they invest in fixed capital.

This volatility in the exchange rates therefore will be a key determinant in the choice of FDI location by an MNC (Goldberg & Kolstad, 1994).

Studies have pointed out that an adverse link exists between the fluctuations of a currency's exchange rate and foreign direct investments. Behera et al (2008) showed that exchange rate instability is substantial and vital in determining FDI since it directly influences the transaction uncertainties for the investing entities in the destination country. Gastanaga (1998) also posited that the risk associated with exchange rate has a major contribution to the explanation of FDI.

2.3.2 Economic Growth

This is indicated by a rise in a country's aggregate output or the real GDP, which is the aggregate value of a nation's final product in consisting of final goods and services manufactured over some time. Economic growth is a key measure of a healthy economy as it affects a nation's development level in terms of national income, employment levels and general living standards of the citizens. According to Li and Liu (2005), the EG of the hosting nation is among the major location determinants of FDI.

Studies continue to be undertaken to learn the level of influence the economic growth has on FDI. Lim (2001) suggested that rapid economic growth has the potential to provide more opportunities for higher profits than economies with lower economic growth rates. Studies by Mishkin and Eakins (2009) indicated that economic growth and FDI are positively correlated. This was also corroborated by Gastanaga et al. (1998) who showed that this positive correlation existed between 1983 and 1986.

Many reasons can be deduced on why investors are interested in FDI preferably in countries with faster economic growth. This includes the economies of scale realized, efficiency in production associated with large markets. The larger the market, the larger the market demand which is an attraction to FDI. The prospects for higher growth is also an attraction as this signals the future profitability of investments in the economy. MNCs whose objectives are to maximize profits would, therefore, be attracted to the locations that offer better opportunities at

making profits as well as future growth prospects. It is therefore indicative that the state of economic growth is an FDI determinant.

2.3.3 Inflation Level

This is a quantitative measure indicating the rate that average prices of goods increase over a time which results on a decline in the purchasing power of a nation's money. One of the ways to measure inflation levels is through the fluctuations in the Consumer Price Index (CPI) that can either be an annual average or 12-month inflation (CBK, 2019). Determinants for instance surge in production costs and the sharp escalation of demand for goods and services will lead to a rise in inflation levels. This would be interpreted as the presence of tension the economy or poor fiscal policy by the governments.

Kadongo (2011) inferred that higher inflation level would result in a drop in FDI given that foreign investors may be risk-averse and may not be ready to risk their profit objective. Studies done on the subject have resulted in divergent conclusions. Hailu (2010) found out that high levels of inflation tend to be costly to foreign companies that would wish to invest in a country. When the cost of production factors comprising raw materials and wages increase, the costs are passed on to the customers leading to rising in prices of final products. Inflation stability is therefore critical in attracting investments (Gastanaga et al., 1998).

Developing countries such as Kenya often experience inconsistent fiscal policies that end up causing a rise in inflation. MNCs that get themselves in such environments will face uncertainties in their long term plans and budgeting. It makes it difficult to establish the net present value of their expensive capital investments. Export of goods produced in such a country will be limited hence discouraging the resource seeking FDI. Asiedu and Lien (2004) confirmed that high inflation levels impede the FDI inflow into the developing nations. This was also supported by Onyeiwu and Shrestha (2004) who alluded to the reality that the lack of stability in macroeconomic variables indicated by high inflation levels inhibits a country's attractiveness to FDI.

2.4 Empirical Review

This is to review the existing literature that was relevant to this study. The key elements that determine FDI have been deliberated in several works of literature, the diversity in the combinations of determinants studied notwithstanding. It should be observed that there is need to further consider the proposed combination of the variables affecting FDI in Kenya as the available literature has not been exhaustive in confirming the key determining factors of FDI inflows in Kenya.

A few studies have concluded that macroeconomic variables and FDI inflows are negatively correlated (Hailu 2010; Schnabl, 2007 and Manyanza, 2012) while some have noted a positive relationship (Luther, 2014; Ahmed and Mayowa, 2010; Ogun et al, 2009; Azee et al., 2012). Some studies did not find any significant relationship at all (Wanjiru, 2014; Muthoga, 2003; Chingarande et al, 2012 and Ochieng, 2013). These studies, however, presents research gaps that this study would fulfil.

Many approaches to the research on the influences of the FDI flow into the developed and emerging economies have been put forward. The basis of these approaches have largely been influenced by the motivation of the research carried out. Among the approaches is pegged on the globalization that has tended to bring change over time, hence giving rise to the traditional or non-traditional type of factors. One approach focusing on production brought out the classification of factors to be either on the demand side or supply (Nunnekamp, 2002). Ahmed et al (2005) elucidated a different approach that identified characteristics specific to individual countries, giving rise to the factors of push (external) and pull (domestic). The external aspects comprise of conditions prevalent globally while the domestic factors include the conditions in the socio-economic environment of the firm (Wint and Williams, 2002).

Global studies provide rich literature on the FDI determinants subject, especially to the developing economies. Despite the positive association between FDI and EG, human capital, stable economies and liberalized markets will still be required from the hosting countries to gain from FDI inflows in the long term (Bengos & Sanchez-Robles, 2003). Indeed, Bende-Nabende et al (2002) asserted that FDI significantly

and positively affected economies of less developed countries compared to the more advanced economies.

An examination by Bollard et al (2013) on twenty-four Economic Cooperation and Development economies data set for 1985 – 2007 period found out the real ER volatility affected the flow of the FDI. The study similarly established that the real GDP and exchange rate instability influenced potential foreign investors in specific countries. Zhang (2001) maintained that what FDI brings about EG depends on its socio-economic state. This means the FDI's influence on an economy's growth differs from one country to another and from period to period.

A study conducted in South Africa by Rusike (2007) using data for the period 1975 to 2005 intended to determine the trends and what influences FDI inflow to the country. He established that the principal determinants of FDI to the South African economy included the exchange rate, market size, openness and financial development. Kiat (2010) also studied the extent to which the exchange rate unpredictability in South Africa could influence FDI to the country. He found out that the stagnation of FDI inflow to South Africa could be resulting from the exchange rate volatility as he established that this factor was significant in determining FDI to South Africa.

Some studies conducted in the developing countries have ascertained that inflation is a substantial variable in determining FDI. Investigations such as Elijah (2006); Ahmed et al (2005); Onyeiwu and Shrestha (2004) have concluded that a surge in IR brings about a decline in the return on investments and thus a discouragement to investments, especially by foreign investors. Some studies, though, have not ascertained a substantial link between inflation and FDI, for example, Moosa and Cardak (2006); Hsiao and Hsiao (2006) and, Wijeweera and Mounter (2008).

Comparatively, a few local pieces of research focusing on FDI inflow to Kenya. Nyamwange (2009) researched the FDI in Kenya, seeking to identify the major influencers of FDI. He concluded that human capital level, the market size (indicated by GDP) and steady regulatory policies were the fundamental determinants of Kenya's FDI inflow. The study employed an annual time series

data analysis. An investigation by Elly et al (2013) to establish the connection between the ER and FDI in Kenya discovered that there existed a positive link between the two variables.

Kwoba et al (2016) explored how macroeconomic factors influenced FDI inflows into Kenya. This study established that GDP GR, ER and IR did not pose a substantial impression on the FDI. This study, which utilized time series analysis using SPSS, seem to contradict many other studies that have indicated significant influence by these variables on the FDI. My study will therefore seek to establish a correct position on the same. Wanjala (2001) also found out that the rate of real GDP growth was among the factors that significantly determined FDI inflows in Kenya. This investigation utilized panel data analysis on data from twenty Sub-Saharan Africa but with specific reference to Kenya for the period 1990 to 1999.

The literature reviewed has clearly shown that conclusions arrived at are still divergent as to the determinants of FDI inflow in Kenya. Not many studies have specifically focused on Kenya and especially on the proposed set of variables in this study. A clear observation, therefore, is that there is room for further investigation to exhaustively look at the key elements affecting the FDI inflow to Kenya. This research gap is significant informs the purpose of my study, to enable the crucial players in better understanding the determinants of FDI in inflow in addition to the link between the study variables with Kenya's FDI growth.

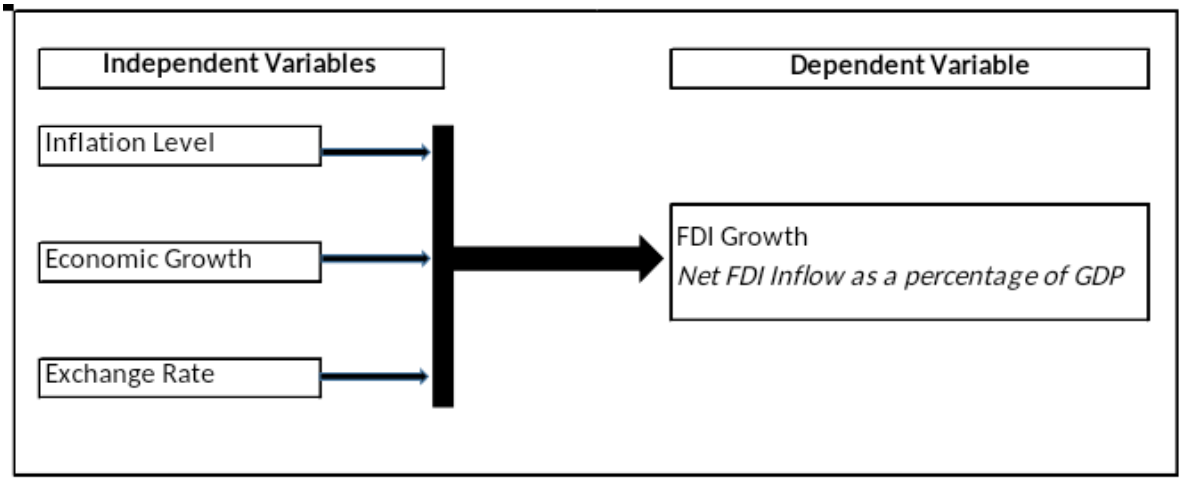
2.5 Conceptual Framework

Abala (2014) and Ibrahim (2015) identified inflation level, real GDP and the exchange rate to significantly influence the flow of FDI. Some studies such as Kwoba et al (2016) contradicted that conclusion, finding their effect insignificant. This, therefore, creates a gap that needs to be addressed as their role in determining FDI should be established. The conceptual model depicted in the figure below brings out the projected connection between the investigation variables.

The dependent variable identified is the net FDI inflow as a proportion of Kenya's GDP. The independent variables will be the Annual Real Gross Development

Product, Prevailing Exchange Rate in the economy against USD and the Inflation Rate.

Figure 2.1: Conceptual Framework



2.6 Chapter Summary

Numerous theoretical frameworks have been brought forward to try and elucidate the main determinants of FDI. Three paradigms namely the eclectic paradigm, purchasing power parity and market imperfections paradigms have discoursed in this study's literature review. The paradigms more often than not only work in a perfect market. While governments are interested in a stable fiscal environment to sustain economic growth, MNCs are always interested in making profits and growing shareholders' wealth. Key variables identified for this study include the economic growth rate, inflation level and exchange rate. Empirical studies carried out have not arrived at a consensus on how these variables impact the FDI flow into Kenya.

Numerous studies carried out on the factors influencing FDI have been carried out. Many factors have been identified as facilitating the FDI inflow notwithstanding in varying degrees. The absence of consensus on how the impact of this variable FDI gives room for further study to establish the correct position. This study, therefore, seeks to fulfil the research gap to pinpoint the magnitude to which the identified variables explain the inflow of FDI into Kenya.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The approach to be utilized in the investigation is outlined in this chapter. These are the phases as well as the steps that will be followed to complete the study. Research methodology, design, study population, data collection and analysis are the subsections that will be elaborated.

3.2 Research Design

Dooley (2007) pronounces that it represents the organization of the investigation, that is, it cements together the aspects of the investigation. Creswell (2003) additionally elaborates that research design is an arrangement, framework or plan employed to get solutions to the research problem. This research will deploy a descriptive cross-sectional research design as it will collect data about an existing situation to describe relationships between the variables. Kothari (2004) holds that once the research problem is defined, and the researcher intends to describe some issues about the problem, then the descriptive cross-sectional research design is appropriate.

Correlation analysis will be undertaken to establish the association between IR, ER and economic growth rate with the foreign direct investment inflows into Kenya. Pearson's Product Moment correlation, regression test, and multiple regression analysis will be done to confirm the relationships.

3.3 Data Collection

Secondary data collection method will be regressed from the study population which consists of a specified set of elements or events that are being investigated. Keya (1989) observed that the study population should fit the researcher's specifications. This data from secondary sources will be advantageous in that time will be saved and ensures no biased data from primary sources is collected. Data for the period 1988 to 2018 will be collected. This, therefore, means the amount

and the quality will be larger and higher than would be possible to collect from primary sources.

Published and publicly available data from renown sources, for instance, the World Bank, KNBS, CBK will be collected and analyzed. This data has been collected and stored by professional and experienced researchers hence reliable.

The main variables for this study will be the FDI inflows to Kenya, IR, ER and EG rates. The investigation's population will include all sectors of the Kenyan economy for data relating to foreign exchange, inflation, economic growth and FDI inflows. The real GDP will be utilized as a representation for EG with the economic GR epitomized by the constant value of GDP expressed in Kenya Shillings. Annual inflation rates and the prevailing ER against the USD will be obtained and analyzed.

3.4 Data Analysis

Regression analysis will be employed to investigate the data to estimate the relationship between the variables. The data analysis will be done using the STATA versions 16.0. Correlation and regression will be useful in examining the correlation between the output variable (FDI) and the predictor variables; the IR, ER and economic growth rate.

3.4.1 Analytical Model

A linear log-log regression model to analyze the bearing of the predictor variable on the output variable since there is evidence of linearity between these variables. The mathematical manifestation of the regression model for analysis is as follows;

$$FDI = \beta 0 + \beta 1\ (GDP) + \beta 2\ (EXCH) + \beta 3\ (INF) + u$$

Where;

FDI = Foreign Direct Investment

GDP = Annual Real Gross Development Product in Kenya (GDP rate)

EXCH = Prevailing Exchange Rate in the economy against USD

INF = Inflation Rate

$\beta 0$ = Constant

u = Error

3.4.2 Test of Significance

The correlation coefficient (r) will be ascertained and used to indicate the direction and extent of the linear link between the output variable (FDI Growth) and each of the given predictor variables. The coefficient of determination (R^2) will also be established to quantify the variability in the output variable described by predictor variables. The F test will also be employed to check if statistical evidence of correlation at 5% level of significance is present.

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter gives a presentation of the outcome from the investigation carried out on the to ascertain whether the selected macroeconomic variables had an impact on the foreign direct investments in Kenya. The foreign direct investment - net inflows (% of GDP), the inflation rate - consumer prices (annual %), GDP growth rate (annual %) and KES to US$ Annual Average exchange rate were obtained from the World Bank Open Data. The data sought will be useful in meeting the objectives of the study. It was cross checked for errors to confirm validity of the data. Descriptive statistics, regression analysis, correlation analysis and graphical presentation have been used to provide insights on the data.

4.2 Descriptive Statistics

The descriptive statistics are useful in providing quantitative descriptions of the sample data used in the study. Table 4.1 below highlights the mean, standard deviation, minimum and maximum values of the data.

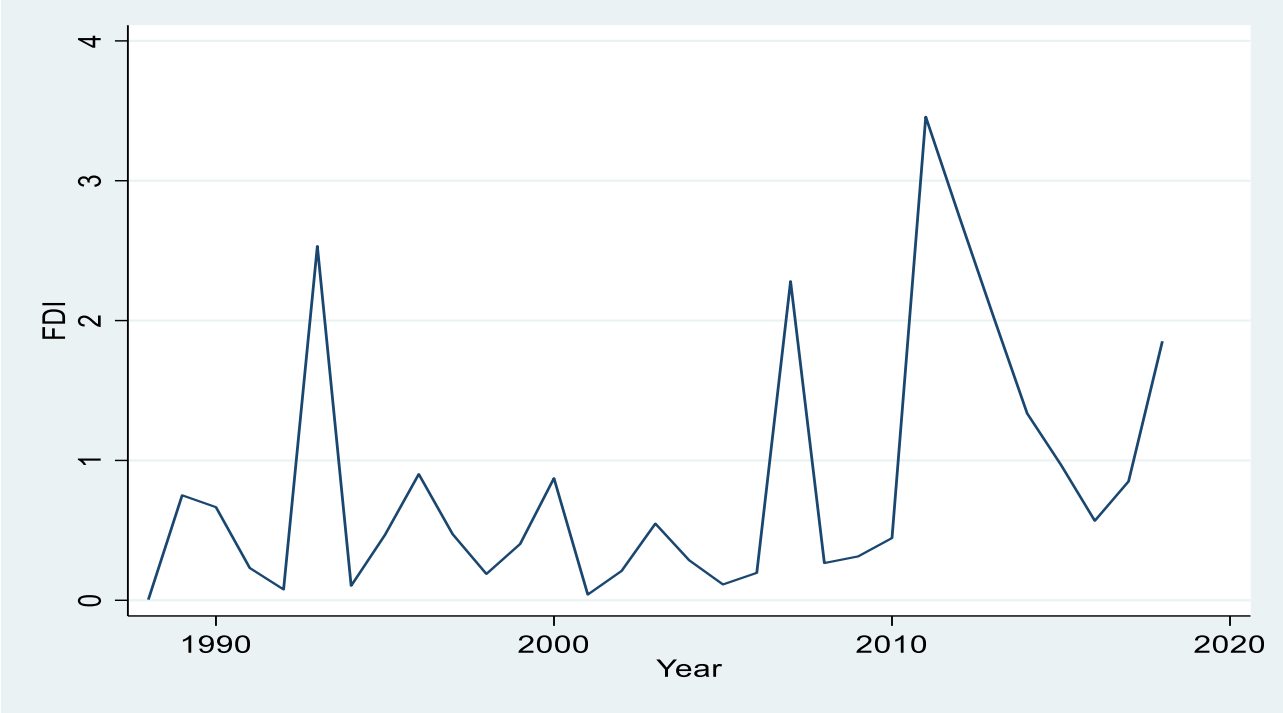
Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
FDI	31	.844	.902	.005	3.457
Inflation	31	12.095	9.321	1.554	45.979
GDP	31	3.939	2.356	-.799	8.406
Exchange	31	68.197	23.882	17.747	103.41

As shown above, the analysis of the data has established that FDI had a mean of 0.844%, standard deviation of 0.902 with minimum and maximum values being 0.005% and 3.457% respectively. The mean values for inflation, GDP and Exchange rates were 12.095%, 3.939% and 68.197 respectively. Inflation rate had standard deviation of 9.321%, minimum of 1.554% and maximum of 45.979%. The GDP growth rate had standard deviation of

2.356%, minimum and maximum of -0.799% and 8.406% respectively. The exchange rate had standard deviation of 23.882, minimum of 17.747 and maximum of 103.41.

Figure 4.2: Foreign Direct Investment Trend

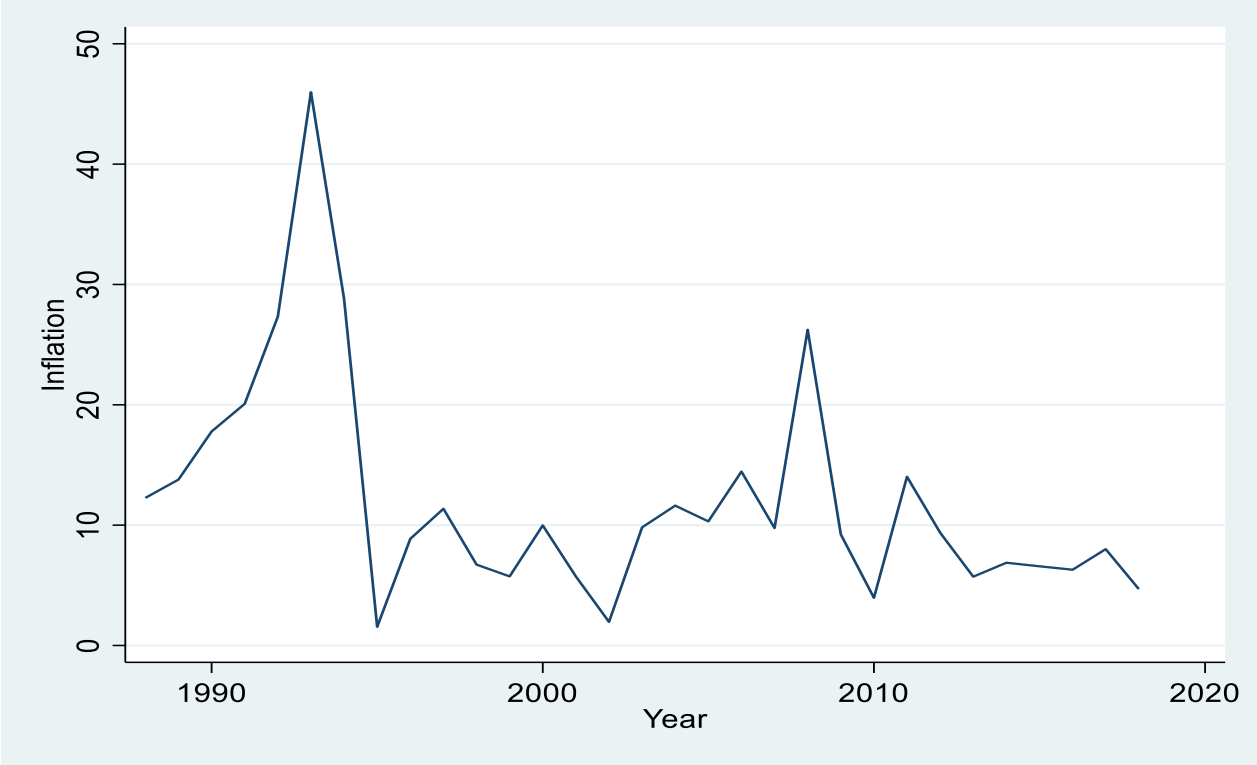


Source: The World Bank

Figure 4.1 above shows the trend of the FDI inflow into Kenya indicating a sharp increase in the year 1993 from the general trend of values below 1%. The same was replicated in the year 2011, with the rate remaining above 1% from 2011 through to 2014. An upward trend is also observable from the year 2016 to 2018.

The data analysis, as depicted in Figure 4.2 below, has also revealed that the inflation rate steadily increased from 1988 to 1993, hitting its maximum point. The rate then drastically declined to hit the minimum value in a period of two years. The rate thereafter oscillated around 6 – 10%, except for the sharp increase in 2009.

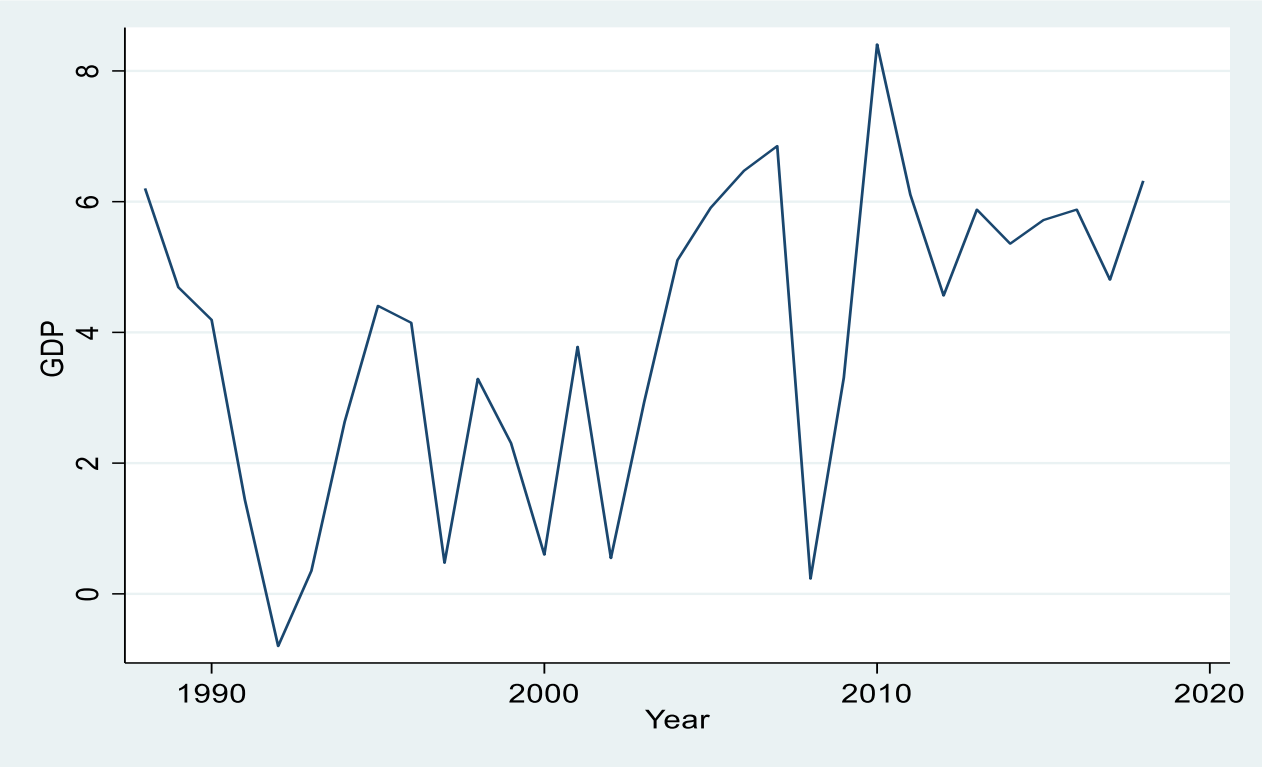
Figure 4.3: Inflation Rate Trend



Source: The World Bank

Figure 4.3 below shows the analysis of the gross domestic product, showing a remarkable sharp drop in the growth rate from 1988 to its lowest value in 1992. The GDP rate increased from 1993 but with intermittent drops in subsequent years. The rate dropped to its second lowest point in 2008, followed by a sharp increase to its highest value in 2010. Thereafter, the rate oscillated around 5% point from 2011 to 2018.

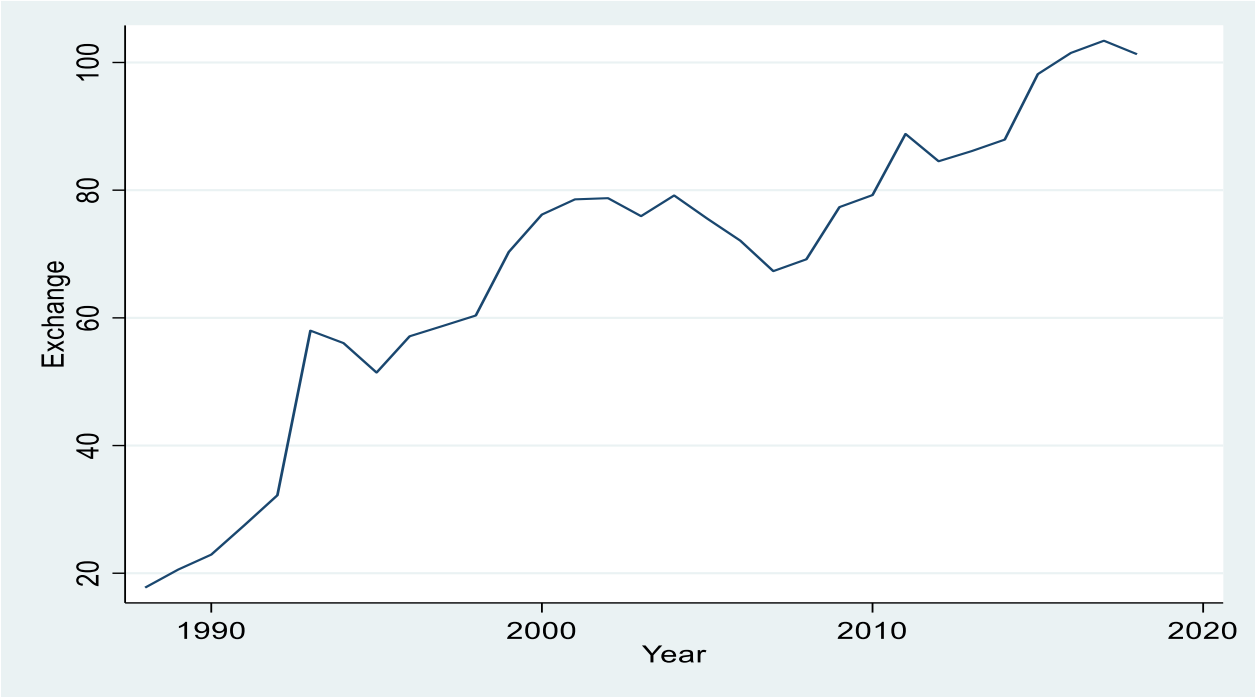
Figure 4.4: GDP Growth Rate Trend



Source: The World Bank

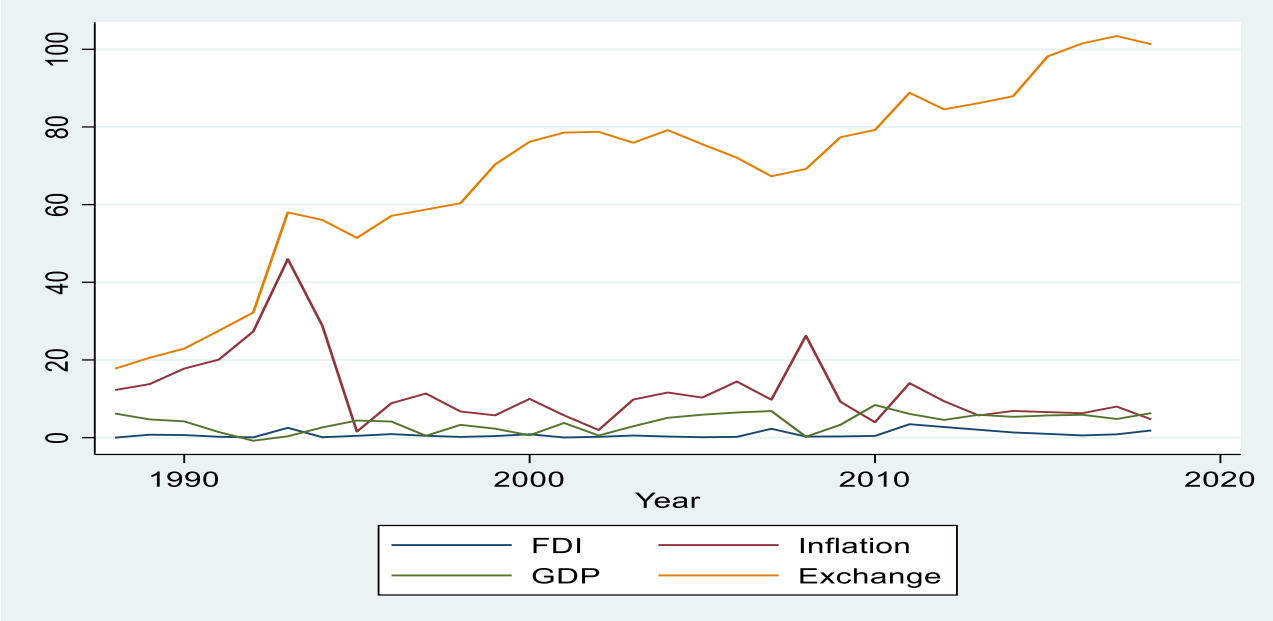
The analysis of the exchange rate of the Kenyan shilling and the United States Dollar established that the rate has been fluctuating with an upward trend from 1988 to 2018. The lowest value was recorded in 1988 with the highest rate being in 2017 as shown in Figure 4.4 below.

Figure 4.5: Kenya Shilling and US Dollar Exchange Rate



Source: The World Bank

Figure 4.6: Combined Line Graphs of FDI, Inflation, GDP and Exchange Rates



Source: The World Bank

Figure 4.5 above presents a combined line graph for the study's selected variables.

4.3 Correlation Analysis

The correlation analysis, which is a statistical method for evaluating the strength of the relationship between two quantitative variables, was carried out. This analysis outputs correlation coefficients that are useful in determining whether the variables are highly correlated (strong relationship) of weakly correlated (weak relationship). The coefficients lie between (-1) meaning strong negative correlation and (+1) which indicates strong positive correlation.

Table 4. 2: Correlation Analysis

Correlations

		FDI	Inflation	GDP	Exchange
FDI	Pearson Correlation	1	.103	.249	.331
	Sig. (2-tailed)		.583	.176	.069
	N	31	31	31	31
Inflation	Pearson Correlation	.103	1	-.498**	-.420*
	Sig. (2-tailed)	.583		.004	.019
	N	31	31	31	31
GDP	Pearson Correlation	.249	-.498**	1	.317
	Sig. (2-tailed)	.176	.004		.082
	N	31	31	31	31
Exchange	Pearson Correlation	.331	-.420*	.317	1
	Sig. (2-tailed)	.069	.019	.082	
	N	31	31	31	31

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The results from the analysis shown in Table 4.2 above indicate that there is a weak positive correlation between FDI and the selected variables; the inflation rate, the GDP growth rate and the KES/USD exchange rate for the period 1988 to 2018. This implies that the

macroeconomic variables had an influence on FDI decisions but not in a very significant way. This study also found out that there was a negative correlation between inflation rate and the other two variables – GDP and exchange rate. There was, however, a positive correlation between GDP and Exchange rate.

4.4 Regression Analysis

Regression analysis was carried out to confirm the degree to which the independent variables impacted the dependent variable.

4.4.1 Linear Model Goodness of Fit

The goodness of fit for the linear regression model was measured using the R-Squared statistic to evaluate the percentage of variation on the dependent variable that is explained collectively by the independent variables.

Table 4.3: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.516[a]	.267	.185	.814490353742373

a. Predictors: (Constant), Exchange, GDP , Inflation

As shown in Table 4.3 above, the R-Squared computed was 26.7%, meaning that the three selected macro-economic variables explained 26.7% of the variance in the foreign direct investment inflow to Kenya between 1988 and 2018. This shows that the inflation rate, GDP growth rate and the Exchange rate influence on the dependent variable was low, given the computed R-squared. The larger part of FDI decisions (73.3%) are therefore influenced by other factors not examined in this study.

4.4.2 ANOVA Analysis

The analysis of variance test was carried out to determine whether the results of the study are significant.

Table 4.4: ANOVA Analysis

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.515	3	2.172	3.274	.036[b]
	Residual	17.912	27	.663		
	Total	24.427	30			

a. Dependent Variable: FDI

b. Predictors: (Constant), Exchange, GDP , Inflation

Table 4.4 above illustrates the that the significance F, which outputs the probability that the regression model is wrong and should be disregarded, is 0.036. Given that the desire is to have a low as possible this probability, the lower the significance F the better. The computed value significance F of 0.036 means there is only 3.6% chance that the results obtained could have occurred by chance, hence significant at 5% level of significance. This means that the regression model is statistically significant in predicting the outcome variable, that is, it is a good fit for the data. The F-Value of 3.274 is associated with the small p-value of 0.036 indicating that the independent variables reliably predicts the dependent variable at 0.05 alpha level.

4.4.3 Estimated Model

Table 4.5 below gives the estimated coefficients of the regression model.

Table 4.5: Coefficients of the Model

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.248	.689		-1.812	.081
	Inflation	.043	.019	.445	2.219	.035
	GDP	.131	.073	.341	1.777	.087
	Exchange	.016	.007	.410	2.238	.034

a. Dependent Variable: FDI

The multiple regression model informs the relationship between the dependent variable, FDI, and the independent variables Inflation, GDP and Exchange. The results from the examination as shown in Table 4.5 above shows that the regression coefficients for inflation, GDP and Exchange are 0.043, 0.131 and 0.016 respectively.

From the output, therefore, the regression equation is:

$$FDI = -1.248 + .043Inflation + 0.131GDP + 0.016Exchange$$

Figure 4.7: Regression Standardized Residual

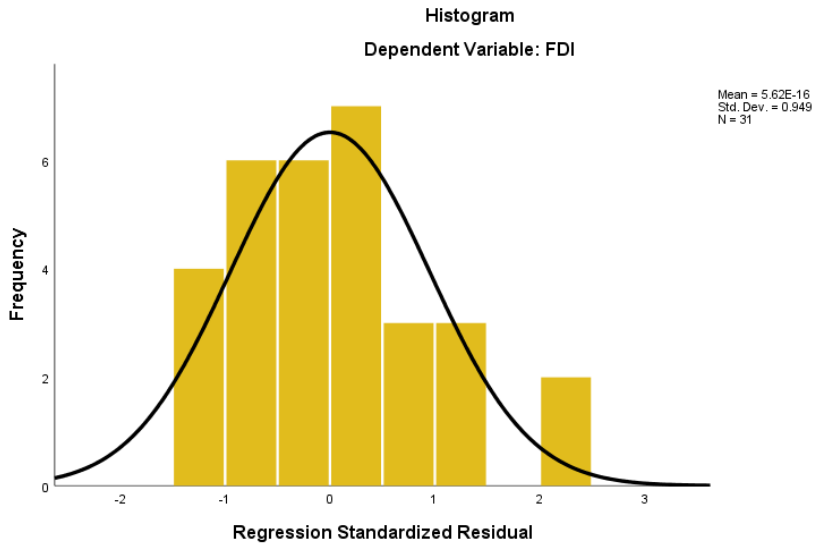


Figure 6 above shows that the residuals are normally distributed hence it confirms that the error terms are normally distributed. This confirms that the assumption of a linear model was valid.

4.5 Discussion of the Findings

The aim of this study was to find out the impact of the selected macroeconomic variables on foreign direct investments in Kenya for the period 1988 to 2018. The dependent variable was the foreign direct investment inflow into Kenya measured as a percentage of the country's GDP. The independent variables were the inflation rate measured by the consumer price index (CPI), the annual GDP growth rate and the KES to US$ Annual Average exchange rate. The impact of the independent variables on the response variable have been analyzed with regards to its strength and direction.

Pearson coefficient correlation computed for the variables indicated a weak positive correlation existing between the dependent variable FDI, and the independent variables – Exchange rate, Inflation and GDP growth rates. The model summary showed an output R-squared of 26.7% meaning that the independent variables; inflation, GDP and Exchange have a low predictive effect on the FDI inflow into Kenya. The result was significant at 95% confidence level given the F-vale of 3.274 which confirmed the assumption that the

regression model was significant prediction model to explain the impact of the selected macroeconomic variables on the FDI inflow to Kenya between 1988 and 2018.

This study's findings concur with the findings of Aoki (2007) who concluded that there is a low positive correlation between FDI inflows to less developed countries and the economic variables. The findings also agree with Wanjala (2001) who found out that the rate of real GDP growth was among the factors that significantly determined FDI inflows in Kenya. Asiedu (2002) also proposed that the exchange rate significantly influenced foreign direct investment. A number of studies have also pointed out the significance of inflation in FDI decisions. Madura & Fox, (2011) for instance, suggested that there is a positive correlation between FDI inflows and low inflation. According to Mishkin and Eakins (2009), the country's economic growth had a significant positive effect on FDI inflow.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study sought to establish the relationship between the Foreign Direct Investment inflows into Kenya and selected macroeconomic variables, the GDP growth rate, the inflation rate and the Kenya shilling – US Dollar exchange rate. This chapter therefore outlines the summary of the findings, conclusion and recommendations based on the results of the study.

5.2 Summary of the Findings

The principal aim of this investigation was to establish the impact of selected macroeconomic variables; the KES/US$ Exchange Rate, Economic Growth Rate and Inflation Levels on Foreign Direct Investment inflow to Kenya from 1988 to 2018. From the analysis of the data, this study found out that the FDI inflow as measured as a percentage of GDP had a mean of 0.844%, with the value remaining steadily below 1% for most part of the period except the sharp increases in 1993 and the 2011. There is also an observed upward trend from 2018 to 2018. The data analysis revealed that the country's inflation rate steadily increased from 1988 to 1993 when it hit its highest point before dropping to its lowest in 1995. The rate then oscillated around 6% and 10% for most of the period except for the sharp increase in 2009. The GDP growth rate on the other hand recorded a sharp decline in the period 1988 to 1992 before a steady increase thereafter. The data analysis also revealed that the exchange rate represented by the KES/US$ rate has been experiencing an upward trend for the study period to its highest in 2017.

The analysis of the data found out that there is a weak positive correlation between the FDI inflow and the selected macroeconomic variables: the inflation rate, GDP growth rate and the exchange rate as indicated by the computed Pearson correlation coefficients. Regression analysis revealed that the dependent variable had a correlation of 26.7% with the independent variables as depicted by the R-squared value. At 95% confidence level, the regression model was fit for the data as the F-value was 3.274 is associated with the

small p-value of 0.036 indicating that the independent variables reliably predict the dependent variable.

5.3 Conclusion

From the findings above, this study concludes that the selected macroeconomic variables contributed to 26.7% of the variations in the FDI inflow into Kenya. That means the GDP growth rate, inflation as well as the exchange rate hand an influence on FDI decisions. The magnitude of the influence, however, has been established to be minimal. This means there are other factors that influence the FDI decisions, for instance, the rising problems of poor infrastructure as well as high cost of living impacted negatively on FDI inflows in Kenya according to KPMG (2012).

5.4 Recommendations

Given the finding that the selected macroeconomic variables had a significant influence on the FDI inflow into Kenya, the government therefore needs to put in place policies that will ensure the macroeconomic factors are favorable to foreign investors. The country, for instance, should use economic stimulus programs to boost the country's GDP. The Central Bank of Kenya should also regulate the exchange rate which is significant in influencing the inflow of capital as well as goods and services to the country. CBK should also ensure that the inflation levels are favorable to attracting foreign investments. The trend analysis also revealed that there was a sharp rise in inflation and exchange rates during electioneering periods which had an effect of reducing the FDI remittances to Kenya. The country therefore need to ensure that there is a conducive environment during such turbulent periods for foreign investors to carry out their business in the country.

5.5 Limitations of the Study

This study was conducted using secondary data from the World Bank over the period 1988 to 2018. The reliance on the secondary data which was gathered for different purposes hence susceptible to shortcomings with regards to their accuracy. The study period could also be extended to earlier years of Kenya's history in order to fully capture the full picture of this study's problem. This study also used annual data, which was the year's average, hence the assumption that the specific measure was equally distributed throughout the year.

5.6 Suggestions for Further Study

The main focus of this study was the impact of the selected macroeconomic variables on the inflow of foreign direct investments into Kenya. The variables selected were the GDP growth rate, the inflation rate and the foreign currency exchange rate. The study found out that these variables influenced FDI inflow to Kenya but not to a greater extent. This means that there exist other factors that have greater influence on the FDI inflows to Kenya. More study is therefore needed to be conducted in order to establish the main determinants of FDI in Kenya. Further research is also necessary on each of the variables individually in order to establish the particular impact it has on FDI in Kenya. It is also recommended that further studies be carried out on foreign investments on specific sectors of Kenya's economy. This will help the country to understand the sectors that are more attractive to FDI and their determinants.

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