ABSTRACT.

Investment is a major component of private spending. It plays major roles such as; leading to a change in the aggregate demand and hence business cycles and also lead to capital formation. Foreign direct investment may facilitate access to export market thereby playing an important role in strengthening the export capabilities of domestic economy. It may also enhance skills and managerial techniques and provide cleaner technologies and modern management systems. These positive externalities may justify the favourable treatment of foreign investors versus domestic investors.

Recognizing that foreign Direct investment can contribute a lot to economic development, all governments of Africa including that of Kenya want to attract it. Indeed, the world market for such investment is highly competitive, and Kenya in particular, seeks such investment to accelerate her development efforts.