ABSTRACT

This research paper investigates the main drivers of foreign direct investment (FDI) in Kenya. It is now widely acknowledged that FDI has potential benefits that can accrue to developing countries. Kenya’s FDI record over the years has not been impressive. Even though Kenya was among one of the most favoured destinations for FDI in the 1970s in East Africa, it is now among the countries with very low levels of FDI. Few studies have investigated the reasons for low levels of FDI in Kenya and most of these studies are based on macroeconomic data in conjunction with other countries. This paper provides fresh evidence of the determinants of FDI based on several factors deemed to determine FDI with political instability being the new factor on board. The study findings reveal that most of the foreign firms in Kenya using a study period of 1980 to 2010 deem the following as factors that encourage FDI inflow; political instability, exchange rate and inflation rate while GDP growth rate deters FDI inflow.