DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN THE ECONOMY OF KENYA

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ABSTRACT

Foreign Direct Investment (FDI) is an important source of capital generation in the Kenya because a large capital is needed to finance the various government projects. FDI inflows into Kenya remained low throughout the 1990s, despite the increase of FDI in the neighbouring East African countries of Tanzania and Uganda. This paper analyses the determinants of FDI in Kenya, in an attempt to explain the low levels of FDI in the country despite the government relaxing the rules of engagement with foreign investors. Using a sample of amount of FDI inflows from 1990 to 2010, the empirical results show that GDP and Exchange rate significantly determine FDI in the country. While GDP encourages FDI, deteriorating exchange rates deter FDI. Therefore, the country should strive to stabilize the exchange rate and maintain a steady GDP in order to attract investors.