THE ROLE OF BUSINESS LICENSING AS A FACTOR INFLUENCING FOREIGN DIRECT INVESTMENT IN KENYA

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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

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DEDICATION

This research project is dedicated to my family for their inspiration, encouragement, understanding and prayers towards the successful completion of this course. I also pay glowing tribute and gratitude to the Almighty God who has given me the wisdom to undertake this course.

ABSTRACT

Foreign direct investment is important in a developing country where there exist a high level of unemployment and generally a need to improve the livelihood of the people. In this context therefore, there is need for a country to develop a conducive business environment that will attract the same the foreign investors and establishment of one stop shop where all enquiries pertaining to both local and foreign investment in the country will be available, is such one step. Licensing process in a country will also affect the rate of investment by foreign investors.

Towards the realization of the same objective, a descriptive research design was adopted in which questionnaires were distributed to Kenya Investment Authority and the Ministry of Local government offices. The respondents had attained different academic qualification and years of experiences in dealing with implementation of the institutions strategies for attracting direct foreign investment in the country. As a result, they were found to be knowledgeable to the research subject area.

The findings of the study were that foreign investors are majorly concerned with the operating cost of their businesses and as well as the security of their investment. The respondents pointed out that before 2008, the country had multiple licensing agencies which in most cases had duplicating functions but it was also realized that this has been remedied by the coming up of a central bureau of licensing new businesses. The licensing process of foreign investor has been hampering the level of FDI coming to the country over time. The respondents observed that after the country coming up with a one stop shop where all prospective investors –both local and foreign- seek advice and all requirements pertaining to licensing in the office.

Attraction of direct foreign investment to a country is of importance in terms of creating employment and increasing the general economic development of the country. Therefore, it is important that a country establishes all necessary mechanism that will attract these investors. The necessary conditions such as efficient communication and road network should be availed and the cost of production also are made affordable through a supply of affordable labour, raw materials and power for running the factories.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Globalization is formed and fashioned in and through particular political economies and techno-economic relations. Additionally, globalization is characterized by structural reforms such as trade and investment liberalization and increased trade and international investment flows promoting growth, altering the composition and geographical distribution of economic activities, stimulating competition and facilitates the international diffusion of technologies having significant effects, both positive and negative, for sustainable development (Vernon, 2005). Multinationals are the vehicles for much of this globalized economic activity, and in turn, foreign direct investment by multinational corporations accounts for an increasing proportion of global economic activity. The escalation in international investment means that a country's sustainable development is progressively more influenced by multinational enterprises (MNEs).

The importance of investment flows to a country cannot be overstated. If a country is to continue on the journey of strengthening their industries so as to become globally competitive and improve their export capacity, then they need to attract investment that will be both sustainable and enable them to achieve this goal. This will then go a long way in positioning the countries favorably when they negotiate various terms and conditions under the Economic Partnership Agreements (EPAs).The growth of international production is driven by economic and technological forces. It is also driven by the ongoing liberalization of Foreign Direct Investment (FDI) and trade policies,

(Winsted and Patterson 2008).In this context, globalization offers an unprecedented opportunity for developing countries to achieve faster economic growth through trade and investment.

The Government is responsible for the formulation and implementation of laws that will ensure that the country attracts foreign investors by ensuring that they operate in an environment which is better than other countries. This involves ensuring that the number of licenses needed to operate is few, the duration it takes to grant the license is minimal and these results from the institution an environment where it is committed to transparency, fiscal decentralizations tasked with granting the license being few. This therefore calls for one stop shop where foreign direct investors can get all the required licenses. Governments of developing countries are now giving new attention to the potential for FDI in their economies. This is because many developing countries now desire to extend the market price system and the private sector and to mitigate the external debt problem by attracting more private foreign investment. When a country suffers a resource or savings gap, it will also confront a foreign exchange gap that will have to be filled with an inflow of foreign capital. During the past two decades, foreign direct investment (FDI) has become increasingly important in the developing world, with a growing number of developing countries succeeding in attracting substantial and rising amounts of inward FDI (Graham 2006).

1.1.1 Foreign Direct Investment

FDI is defined as an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an

economy other than that of the foreign direct investor. An equity capital stake of 10% or more of the ordinary shares or voting power of an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for FDI. Foreign direct investment, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment (UNCTAD, 2002).

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property. In the past decade, FDI has come to play a major role in the internationalization of business. Reacting to changes in technology, growing liberalization of the national regulatory framework governing investment in enterprises, and changes in capital markets profound changes have occurred in the size, scope and methods of FDI, (Carkovicand Levine,2002). New information technology systems,

decline in global communication costs have made management of foreign investments far easier than in the past. The sea change in trade and investment policies and the regulatory environment globally in the past decade, including trade policy and tariff liberalization, easing of restrictions on foreign investment and acquisition in many nations, and the deregulation and privatization of many industries, has probably been the most significant catalyst for FDI's expanded role.

Foreign direct investment combines aspects of both international trade in goods and international financial flows, and is a phenomenon more complex than either of these. The growth of international production is driven by economic and technological forces. It is also driven by the ongoing liberalization of Foreign Direct Investment (FDI). Foreign direct investment has been an important element of Kenya's economic development process. The product life cycle theory by Vernon (1966) states that "production location for products moves from one country to another depending on the stages of the products life cycle." In other words, developed countries undertake FDI in other countries once demand there grows large enough to support local production and the domestic market is saturated and facing the rising cost of labour.

1.1.2 Business Licensing Process in Kenya

Kenya's inability to attract FDI is due to growing problems of corruption and governance, restrictions on participation in business had seen foreign investors, inconsistencies in economic policies and structural reforms, deteriorating public service, poor infrastructure, delayed reforms aimed at kicking out bureaucracies in business licensing and management which has seen delays in legislation on the Companies Act, Partnership Act

and Business Regulation Act are responsible for Kenya's drop in ease of doing business UNCTAD (2011). The factors which influences licensing process include bureaucratic barriers distributed in public sector are considered a main challenge causing failure of government to attract investors, either by prohibiting foreign investment below a certain size, through minimum capital investment or by requesting prior approval or licensing from which domestic investors are exempted, whereas complex governmental procedures relating to licensing for investment and slowness in execution and continuous and intentional delay causes loss in investors, time because of routine, i.e. bureaucracy in transactions performance (Gabriel, 2007). In addition to variety of decision making centers that the investor deals with, which put investors in confusion, worry and non-confidence condition which affects his desire to invest.

Generally, there are no restrictions on the percentage of equity that foreign investors may hold in a locally incorporated company. Similarly, there are no legal provisions restricting joint venture agreements between Kenyan companies and foreign Companies, or even prohibiting the acquisition of Kenyan firms by foreign owned firms. The freedom of contract is the operative principle in such transactions. Registration of a company in Kenya is done by the Registrar of Companies. This could be a branch office of an overseas company or a locally incorporated company, or registration could also be done under the Business Names Act

The approval and licensing procedures of new investments in Kenya is done through the Kenya Investment Authority. The Kenya Investment Authority (KIA) will process and grant approvals of new investment, once proposals are submitted on a prescribed

application form. Proof of company registration must be attached to the application. Where the investment may have adverse impact on security, health or environment, clearance from the competent authorities such as National Environment Management Authority and Public Health authorities will be required before approval is granted. Also, clearance is required from parent ministries for investments in restricted areas before KIA approval is granted

According to UNCTAD (2011), Kenya lost its grip in the battle for foreign direct investments (FDI) to Uganda and Tanzania as heightened political tensions and restrictions on foreign ownership in some sectors turn away multinationals. The FDI inflows to Kenya dipped from Sh67.8 billion in 2007 to Sh13.1 billion in 2009 and Sh12.4 billion in 2011. The introduction of the Kenya Investment Authority (Ken Invest) marked the centralization of investment procedures within the government. Kenya is now among the easiest country to invest in, in regards to establishment of companies by foreign investors. The Ken Invest developed a simple step by step manual to investment in Kenya which simplified the procedures to a 5 step process. One key area of the reforms was in the business licensing where some 315 licenses were eliminated in 2007 and another 379 of the 1,325 identified as hindering growth of small businesses simplified. That effort continued last year leading to the reduction in the number of licenses required to set up a business from 300 to 16 and the identification of an additional 337 business licenses for review.

1.1.3 Kenya Investment Authority

Kenya Investment Authority (Ken Invest) is a statutory agency charged with the prime responsibility of promoting and facilitating investments in Kenya and was set up through the Investment Promotion Act of 2004. Ken Invest is the successor institution to the Investment Promotion Centre, which was established in 1986 with the primary role of attracting and retaining local and foreign direct investment in the country. The main functions of the Centre were to, promote investments in Kenya by local and foreign business enterprises, liaise with the relevant Ministries, responsible for approving all new private sector projects and expansion of existing projects, assist business enterprises in implementing projects approved by the relevant Ministries, monitor the performance of the projects approved by the relevant Ministries and compliance with the conditions of approval and advise the government periodically on changes in policies, strategies and administrative procedures necessary for the promotion and enhancement of investments in Kenya. In addition the Authority undertakes policy advocacy to improve Kenya's investment climate.

In 1992, the Centre was vested with the power to issue a Certificate of General Authority (GA) in respect of any new business enterprise, upon the application of any person proposing to invest in or establish that enterprise. The GA was introduced to reduce the bureaucracies involved in acquiring the various licenses that an investor required in setting up a project. It entitled an investor to start his project immediately, provided that any licenses he required were covered by the GA, and were subsequently acquired within twelve months. However, as there were a number of different laws that dealt with or had an impact either directly or indirectly on foreign investments, it was decided after wide consultations, that Kenya needed a legal framework contained in a single piece of

legislation that specifically and substantively covered the matter of direct investment in the country. This would not only give greater clarity in dealing with investments into Kenya, but would also give transparency and confidence to investors.

Consequently, after years of intensive and interactive consultations, the passing of the Investment Promotion Act on December 31st, 2004 created the Kenya Investment Authority, with an expanded mandate under the Act in executing its role of investment promotion, investment facilitation and policy advocacy. The key features in this regard include: The power to issue an Investment Certificate (which replaced the Certificate of General Authority) with regard to any new investment, upon satisfying requirements for the same. It is optional for both foreign and local investors and the Authority is expected to give a written decision within 20 working days, after receiving an application for an investment Certificate, Re-modeling the Authority into a one-stop shop for investors, as per the Investment Program of the Economic Recovery Strategy, thereby significantly raising its profile and responsibilities, and the expectations of investors for more efficient service delivery and the power to determine whether an investment is lawful and beneficial to Kenya.

1.2 Research Problem

The impact of FDI on economic growth is one of the most controversial topics in development economics. According to the modernization hypothesis, FDI promotes economic growth by providing external capital and through growth, spreads the benefits throughout the economy (Contractor et al., 2003). It is the presence, rather than the origin of investment that is considered to be important. Moreover, FDI usually brings with it advanced technology, and better management and organization which can be considered

as the engine of the growth in developing countries. However, despite the role that foreign direct investment plays in the economies of the countries, it has been noted that that often than not cumbersome and bureaucratic administrative regulations has been noted to affect the flow of FDI especially in the developing countries (Erdal, 2001).

Setting up a one stop shop, is one of the projects Ken Invest has envisioned to undertake, which would enable the institution to execute its mandate more effectively and efficiently, and in line with best practices around the world. A One Stop Shop would thereby reduce the number of bureaucratic procedures that hamper investment flows through increased costs and time wasted. Lessons learned from a number of countries lend credence to the efficacy of a One-Stop-Shop in the efficiency and cost effectiveness in the promotion and facilitation of investment whereby the issuing of all relevant licenses to investors and the provision of other assistance and incentives are under one roof. Foreign Direct Investments (FDIs) into Kenya are increasing at a steady rate given the continued streamlining of registration and set up processes by the government. It required an investor a lot of business licenses and registrations to be able to do business in the country. All these licenses would be from separate ministries and local authorities and one had to hop from one place to the other. Most investment attempts by foreigners became a cropper before they even started when they came to realize it might cost them more in under the table dealings than it would to actually put down their money to invest. However, the government has in the recent past eliminated and simplified some of the licenses in order to lessen the time it takes for foreign investors to acquire the necessary licenses these has not however helped the country to compete with other countries whose licensing process takes a much shorter time.

Several studies have been undertaken locally in the subject area of foreign direct investment. Iseme (2008) in his part researched on an empirical study of location determinants of foreign direct investment in Kenya and found out that there exist a strong relationship of around 72% between a location of a country and the foreign direct investment in that country. Dinga (2009) undertook a study of the impact of foreign direct investment on economic growth in Kenya and found out that foreign direct investment provides a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development. On his part Njuguna (2009) carried out a study on the factors that influence the contribution of foreign direct investment in the growth of Telecommunication sector in Kenya. In this study he did note that few and easy to achieve licensing procedures in a country plays an important role in attracting FDI in the country. On the basis of the above studies, it is evident that there has been no study that has been done on the licensing process in attracting foreign direct investment in Kenya. This therefore leads to the following research question; what factors influence the licensing process in attracting foreign direct investment in Kenya?

1.3 Research objectives

The objective of the study was to determine the role of business licensing as a factor influencing foreign direct investment in Kenya.

1.4 Value of the study

The study will help the management of the Kenya Investment Authority to come up with clear guidelines on the procedure which an investor needs to follow when seeking the license and also on the need to reduce the number of licenses which the investor needs to have in order to operate. In this way it will reduce the time it takes for an investor to acquire the license. Also seconding of more qualified personnel and developing existing staff to equip them with the necessary know how that will facilitate effective performance in their duties.

To the government: This study will benefit the government especially the Ministry of Finance and that of Trade in making policy decisions whose overall objectives are to accelerate the rate of growth in the amount of foreign direct investment and take advantage of the growing world markets. The study will support policy makers in devising strategies on promoting investment from both local and foreign sources.

The study will be important to the scholars as the study will increase to the body of knowledge in this area and also they can offer advice to the government on what if done will attract more foreign direct investment to the country.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the previous literature on foreign direct investment. An overview of the various theories underlying foreign direct investment, factors influencing foreign direct investment licensing process will be reviewed.

2.2 Foreign Direct Investment

Foreign direct investment (FDI) constitutes long-term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based (Salvatore, 2004). Various motives account for FDI. These include attraction of new sources of demand for their products, penetration of markets where excessive profits are available, full benefit from economies of scale, use of cheap foreign factors of production such as labour and land. According to United Nations Conference on Trade and Development (UNCTAD) (2002), foreign direct investment FDI is an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor. An equity capital stake of 10% or more of the ordinary shares or voting power of an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for FDI.

Foreign direct investment has played an effective role as a source of financing to a lot of developing countries. Although the impact of FDI on economic development is

debatable, there are many empirical findings that support its positive contributions. Research by Mbekeani (1999) on the impact of FDI on domestic investment, exports and economic growth showed positive relationship in Mexico and Malaysia. Another research by Larrain, Luis and Andres (2001) showed positive effect of FDI generated by Intel in terms of net exports, investment, wages and benefits and local purchases for the Costa Rican economy. Hill (2001) in his study on the role of FDI in 69 developing countries found that it not only stimulates economic growth but also has a larger impact than investments by domestic firms. Developing countries are thus, competing to attract FDI into their economy. There are many factors that attract the movement of FDI throughout the world. These factors may differ significantly from one location to another depending again on the attractiveness of the particular region or country.

2.3 Theories of Foreign Direct Investment

This section presents a brief discussion of some of the theories of FDI. The main theories discussed here are the Imperfect Market Theory, Product Life cycle theory, Location Advantage Theory, Competitor Theory and the Client Theory.

2.3.1 Imperfect Market Theory

According to the imperfect market argument, which is based on transaction cost theory, MNCs should internalize their operations (Hennart, 1982). According to this theory, market imperfections arise due to barriers such as tariffs and foreign exchange controls that restrict the free flow of goods between nations. To avoid such barriers, it is better for MNCs to move abroad through FDI instead of exporting or licensing its products. Furthermore, the transaction costs of exporting or licensing are much higher since the

MNCs may incur costs of search, costs of negotiation, costs related to enforcement of contract, transport cost and payment of taxes (Hill, 2001). These justify the reason for shifting production abroad. Logically, a multinational corporation (MNC) is bound to incur additional transportation costs, face language and tax barriers and may face the risk of expropriation if it decides to move abroad. However, Dunning (1991) observe that MNCs are still rapidly crossing borders and expanding their businesses all over the world through FDI.

2.3.2 Product Life Cycle Theory

The product life cycle theory by Vernon (2005) argues that the production location for products moves from one country to another depending upon the stages of the product's life cycle. In other words, MNCs undertake FDI in other countries once demand there grows large enough to support local production and the domestic market is saturated and facing rising cost of labor. However, Hill (2001) argues that if this is the case, it still does not explain why MNCs use FDI and not exporting. According to the ownership advantage theory where MNCs are fully exploiting certain intrinsic competitive advantage that the local firms may not have (Caves, 2002). These advantages refer to certain technological advantages including superior production techniques, better management methods, brand name, reputation, benefits of economies of scope and scale, monopolistic advantage and ownership of scarce resources (Hill, 2001). These factors are also known as firm specific advantages.

2.3.3 Location Advantage Theory

According to the Location advantage argument provided by Dunning (2005) that explains the nature and direction of FDI based on certain locational factors. MNCs carry out their FDI due to certain locational factors inherent in the host market. These locational factors are further divided into demand factors and supply factors (Coskun, 2001). The demand factors are: large market, high domestic demand, openness of the economy, potential growth, etc. while the supply factors are cheap and skilled labour, infrastructure quality, government incentives, logistic cost, access to technology, etc. The Multimedia Super Corridor (MSC) in Malaysia is an example of an area with certain locational specific advantages since it attracts concentration of information and technological companies that conduct research. These factors are also known as country specific advantages.

2.3.4 Competitor Theory

Knickerbocker (2003) Follow the competitor theory argues that, FDI flows are a reflection of strategic rivalry between firms in the global marketplace. He examined the relationship between FDI and rivalry in the oligopolistic market structure and found that there is a tendency for firms to follow the leader. In the service sector, this is evident when service firms internalize as a reaction to competing firms. Coskun (2001) in the investigation of Swedish banks found that there is a tendency for them to follow the leader when competing in a foreign market. However, Hill (2001) argues that this theory still does not explain why the leader decides to go abroad through FDI rather than exporting.

2.3.5 Client Theory

On their part, Contractor et al (2003), Follow the client theory, another theory that gathered momentum in the 80s and tried to explain the expansion of service based MNCs. According to this theory, advertising, financial services and market research companies tend to follow their multinational-manufacturing clients abroad. According to Erramilli and Rao (2003), it seems that from the 1980s onwards, knowledge based service sectors tended to expand internationally using the follow the client theory when they followed their multinational clients abroad.

2.4 Factors Influencing the Business Licensing Process in Kenya

Developing countries look forward to foreign direct investment (FDI) as a stable source of non-debt creating capital. FDI also offers these economies access to advanced technology and global marketing networks. Similarly, foreign firms investing in developing country markets look for some conditions to be met in host countries, which allow them to produce more efficiently through better exploitation of their typical intangible assets, like superior patented technology, management and marketing skills (Soci, 2006). Otherwise, foreign firms have the option of serving new markets through either exports or arm's-length arrangements like licensing. Of course, success in capturing new markets through exports depends heavily on barriers to trade, while licensing, particularly in products involving advanced know-how, needs to overcome critical problems arising from informational asymmetry between foreign sellers and local franchisees. Nevertheless, foreign firms commit to overseas investment by 'internalizing' operations once they find it cheaper to produce abroad (Buckley and Casson, 2008), given some intrinsic features of developing host countries.

Many transition and developing countries see the important role of foreign direct investments (FDI) in their economic development. Therefore they undertake different measures in order to attract foreign direct investments. Some of them are oriented to tax relieves and financial incentives, subsidized loans and subventions (Artige and Nicolini, 2005). Others focus their efforts on infrastructure improvement and satisfying specific investor's capital needs. Many countries are trying to create more favorable climate for FDI attraction by liberalizing administrative barriers, simplifying certain procedures and by concluding international commercial arrangements. Large number of countries established state agencies. The main goal of these agencies is to attract FDI and help foreign investors when investing on a particular market. The efficiency of the legal system, institutions and the level of corruption is essential for the foreign investors to make decisions. For them, corruption is one of the basic obstacles for investments. In recent times, much attention has been devoted to the ease of doing business in different countries as a key factor influencing incoming FDI. The ease with which companies can do business in a foreign location primarily refers to existing procedures and regulations in the latter that either facilitate or impede growth of business ventures.

Classifying a country as 'more' or 'less' attractive for doing business depends on various factors. Singh and Jun (2009) looks at some key issues in this regard, which include time taken to start a business, number of licenses and permits required to be taken and the time involved in doing so, labour market flexibility in terms of ease of hiring and firing workers, land market rigidities as indicated by time and cost of acquiring property rights, protection available to foreign investors, effectiveness of contract enforcement mechanisms, time and cost required for resolving bankruptcies. It is evident that being an

attractive place for doing business is not sufficient for explaining why some countries get bigger shares of FDI relative to their counterparts. However, countries with relatively easy procedures and efficient institutions certainly induce greater investor confidence. But manifestation of such confidence into actual FDI requires host countries to possess additional vital attributes, which offer sources of long-term competitive advantages to foreign investors. The extent that difficulties in doing business lead to high transaction costs, efforts to reduce such costs can significantly improve the competitiveness of host countries (UNCTAD, 2003). Removing labour and land market rigidities are particularly important in this regard. However, enabling rules and efficient institutions, while 'necessary' for drawing FDI, cannot be 'sufficient' for ensuring FDI inflows, unless matched with distinct economic advantages like high labour productivity and developed technological capabilities.

New laws on foreign investment have been formed to permit profit repatriation since the early 1990s, while accessions to international agreements and institutions as well as conclusions of bilateral investment treaties and double taxation treaties have accelerated (UNCTAD, 2001).The foreign direct investment to some of the larger recipients has been boosted by good policies. The largest foreign direct investment recipients have an average World Bank policy rating of 4.1, compared with 3.3 for other developing countries. The favorable Regulatory or Policy framework may be implemented in a variety of ways, such as through privatization, rules regarding entry and operations, institutional environment for financial and corporate restructuring, liberal trade policy (tariffs and non tariffs) and tax policy, etc. (World Bank, 2002)

The literature on FDI, both theoretical and empirical, suggests that FDI flows into a country are determined by a number of country-specific factors. These include the size of the domestic country market, labour costs, openness of the economy, exchange rate stability, quality of infrastructure services, availability of human capital, technological capabilities, enabling policies, investment incentives and business climate, among others. While economic factors like market size, labour costs, human capital, and technology, do explain cross-country variations in FDI flows in many cases, they alone, unfortunately, fail to provide sufficient explanations in some key cases.

The size of the foreign market and its potential growth are regarded as key factors influencing choice of location (Knickerbocker, 2003). Furthermore, proximity and access to a free trade area are also key factors, and as such, the size and growth of the larger, free trade area may be more important than the size and growth of the particular country in which the firm has chosen to invest. In addition, increased knowledge of a foreign country reduces both the cost and uncertainty of operating in a foreign market (Buckley and Casson, 2005). Related to knowledge is experience which is thought to provide important tangible and intangible advantages. Again it is generally believed that a firm with greater experience of a particular location is more likely to invest there than a firm with less experience (Anand and Kogut, 2007). Although financial incentives have been studied extensively for their effect on investment decisions, it is generally concluded that they have relatively little impact on location choice. Furthermore, it has been noted that FDI can be quite shallow and therefore transient if the investors are attracted merely by financial inducement rather than by fundamentals such as skilled labour

A transaction cost approach has been frequently employed to explain why firms own and control operations in foreign markets. Stemming from this is the cost minimization school of thought, which implies that a company will choose the lowest cost location for its production activities abroad (Tatoglu and Glaister, 2008). While transport and raw materials are undoubtedly key cost factors, it is the cost of labor that has been explored most extensively in the FDI literature. However, previous research has produced mixed findings. Some studies have reported that higher wages reflect a more productive workforce and, as such, are associated with increased foreign investment (Buckley and Casson, 2005).

Access to technology has been regarded as an influencing factor in investment location and specifically the ownership level of the investing firm, as mentioned previously (Knickerbocker, 2003). Bernama (2004) warns that even if a country has a high level of research and development expenditure, this may not be due to a high level of technological dynamism across the board but rather the result of a structural leaning towards industries with high research intensities. This bias will be mitigated only to the extent that industry structures between advanced countries tend to be fairly similar. In the context of FDI, political stability or risk pertains to the risk that a host government will unexpectedly change the “rules of the game” within which businesses operate. It also incorporates the risk of adverse consequences arising from political events.

Workforce factors refer to variables such as cost of labor-wages, education level, skill level, etc. Empirical evidences from variables investigated found mixed results. Globerman and Shapiro (2009) found in their empirical investigation that wages are negatively associated with FDI. Service industries such as banking, insurance,

information technology, telecommunication and BPO are capital and knowledge intensive. These industries depend on semi-skilled and educated labour. They able to supply such workforce at relatively lower cost compared to established service economies that is why, this sector still attracts a substantial amount of FDI. A report by Bernama (2004), said that Shell's success in Malaysia was largely due to the availability of cheap, highly talented, highly trainable and capable Information Technology (IT) workforce. However, in certain services sector, such as the hypermarket retailing business, cost of manual labor may be more relevant since this sector employs unskilled workforce. So, whether cost of labor is an important determinant may depend on the type of service industries under consideration. In addition, government variables such as government incentives, economic policies, political environment and government promotions towards FDI influences the level of direct foreign investment in a country.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter provides a discussion of the research methodology that was used in this study. It will discuss the research design, the target population, data collection instruments and the techniques for data analysis.

3.2 Research Design

The research design adopted descriptive research design. According to Cooper and Schindler (2000), a descriptive research design is concerned with finding out the; who, what, when and how much. Furthermore, a descriptive research design is structured, as investigative questions and part of formal studies. The design is deemed appropriate because the main interest is to explore the viable relationship and describe how the factors supported matters under investigation.

This was used for the study as it enabled the researcher to have an insight on the role of business licensing as a factor influencing foreign direct investment in Kenya. Descriptive design method provided quantitative data from cross section of the chosen population. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. This design provided further insight into research problem by describing the variables of interest.

3.3 Data Collection

The study used primary data which was collected through self-administered questionnaires. The structured questionnaire was used to collect data on the role of distribution strategy as a source of competitive advantage. The questionnaire consisted of both open and closed ended questions designed to elicit specific responses for qualitative and quantitative analysis respectively. The questionnaire was administered through "drop and pick later" method. The respondents for the study were the ministry of Local Government as the representative of all local authorities and the Kenya Investment Authority.

3.4 Data Analysis

The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variations). Once the data was collected, the questionnaires were edited for accuracy, consistency and completeness. However, before final analysis is performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. The responses were then coded into numerical form to facilitate statistical analysis. Data was analyzed using SPSS based on the questionnaires. In particular, the descriptive analysis employed tables, pie charts, percentages, mean and standard deviations to summarize the respondent answers.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The research objective was to establish the role of business licensing as a factor influencing foreign direct investment to Kenya. This chapter presents the analysis and findings with regard to the objective and discussion of the same. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 17 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 17 questionnaires issued out, 14 were returned. This represented a response rate of 82%.

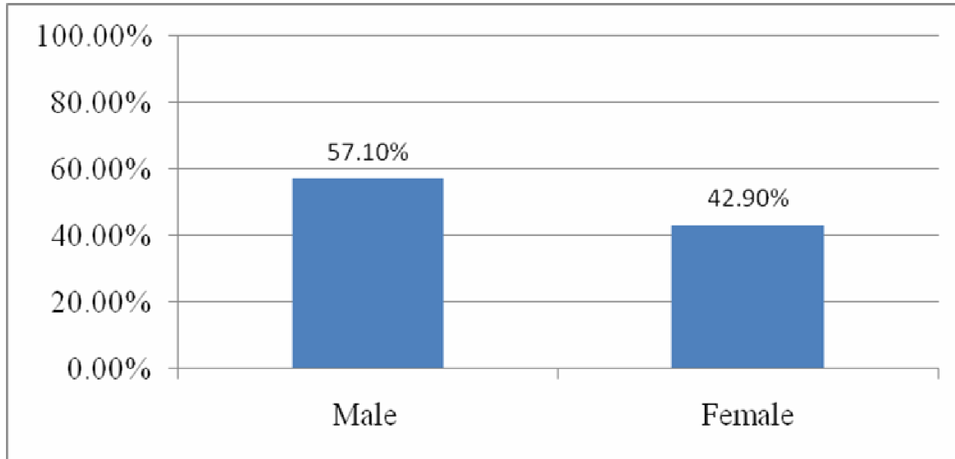
4.2 Demographic and Respondents profile

The demographic information considered in this study included gender of the respondents, age bracket, highest level of education and length of continuous service with the institution,

4.2.1 Respondents Gender

This is a set of characteristics that are seen to distinguish between male and female. The respondents were asked to indicate their gender and of the 14 respondents, 57% were male while 43% were female.

Figure 4.1: Respondents Gender



The distribution of the gender parity implies that the respondents were distributed equally among the two genders and one can safely conclude that the results obtained from the respondents will be representative and absent of any gender bias.

Table 4.1: Respondents age bracket

Years	Frequency	Percent	Cumulative Percent
under 30	2	14.3	14.3
31-40	3	21.4	35.7
41-50	5	35.7	71.4
over 50	4	28.6	100.0
Total	14	100.0	

The above findings indicate that 21.4% of the respondents were between 31 and 40 years while 14.3% were under 30 years old while majority of the respondents were found to be in the age bracket of 41 -50 years which formed 35.7% of the respondents. Cumulatively,

71.4% of the respondents were 50 years and below. This means that the work force sampled from this research can be considered to be generally younger and it is possible that majority of the respondents could have worked in the same organization after their schooling. In addition, 28.6% of the respondents had ages over 50 years implying that this category of the respondents have worked most of their life's and can be deemed to have accumulated adequate knowledge that can facilitate answers to the research questions.

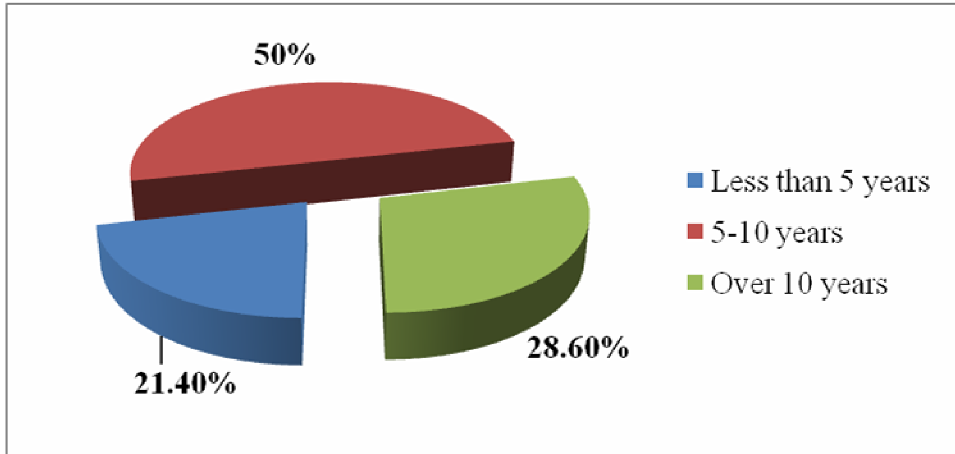
Table 4.2: Respondents Level of education

	Frequency	Percent	Cumulative Percent
Post graduate	8	57.1	57.1
University	4	28.6	85.7
Tertiary college	2	14.3	100.0
Total	14	100.0	

The findings indicates that 57.1% of the respondents were post graduate certificate holders , 28.6% were university graduates while 14.3% were Tertiary college leavers. Cumulatively, 85% of all the respondents had attained the university level education and one can therefore conclude that they were versed with the research questions of the study. on cross tabulating the results of the age and level of highest education, it was found out that majority of the graduate respondents were those with ages less than 50 years. This means that the institutions that the research was contacted i.e Ministry of Local

government as well as Ken invest have generally a youthful and learned workforce by virtue of their age brackets.

Figure 4.2: Length of Continuous Service



The results presented in figure 4.2 shows that the number of years of service in the current organization varies from a period of less than 5 years to over 10 years. 50% of the respondents had worked in the organization for a period of 5 to 10 years, 29% of the respondents indicated that they had worked for over 10 years while 21% of the respondents indicated that they had worked for a period of less than 5 years. Majority of the respondents had worked in the organization for over 5 years, thus there is high level of understanding of the workings in the institutions.

4.3 Foreign Direct Investment in Kenya

This section of the questionnaire wished to establish from the respondent what the current foreign direct investment climate in the country is like. This position will help to assess whether the Kenya Investment Authority is currently able to play its rightful role of facilitating the attraction of foreign investors in the country.

Table 4.3: Level of Foreign Direct Investment

	Frequency	Percent
Very large	5	35.7
Large	3	21.4
Moderate	5	35.7
Low	1	7.1
Total	14	100.0

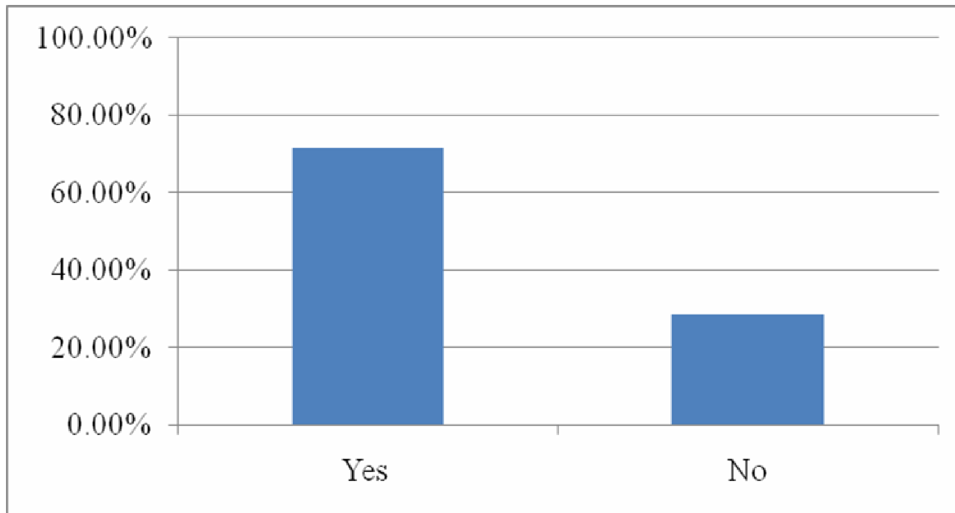
The findings above indicates that 35.7% of the respondents said that the country has to a very large extent attracted foreign direct investment in the last ten price compared to 7.1% who felt that FDIs over the same period was low. Cumulatively, over 90% of the respondents felt that indeed the operating environment over the same period at improved. These results are in line with the improvement in infrastructure, reduction in labor cost, inflation and reduction in the cost of raw materials due to the better infrastructure. In addition Kenya has witnessed the resurgence of marketing bodies such as Brand Kenya, Kenya Tourism Board and more visible marketing initiatives by the government ministries such as Ministry of Trade and East Africa community.

4.3.1 Role of Ken Invest in attracting Foreign Direct Investment

This section of the questionnaire aimed at establishing from the respondents how Ken Invest has played in attracting foreign direct investment. From the figure below 70% of the respondents pointed out that Ken Invest has since its establishment has played its rightful role in marketing Kenya as a foreign direct investment destination and with this

role, the level of investment to the country has increased. Only 30% of the respondents thought otherwise that Ken Invest has not been able to achieve its objective.

Figure 4.3: Success of Ken Invest in attracting FDI



4.3.2 Local factors contributing to the attraction of FDI in Kenya

Foreign direct investment to a country is affected by several factors. This section of the questionnaire seek to establish from the respondents the extent to which several identified parameters affected the level of foreign direct investment in Kenya.

The respondents were to give their independent opinion on the extent to which the factors in the table influenced the foreign direct investment in Kenya using a five point Likert scale. The range was 'Very Great extent - (5)' to 'Not at all - (5)'. The scores of very Great extent /great extent agree have been taken to present a variable which had a mean score of 3.5 to 5 on the continuous Likert scale; (3.5≤ S.E <5). The scores of 'moderately extent' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: 2.5≤M.E. <3.4) and the score of Not at all/small extent have been taken to represent a variable which had a mean score of 0 to 2.5 on a continuous

Likert scale; 0≤ L.E. <2.5). A standard deviation of >0.8 implies a significant difference on the impact of the variable among respondents.

Table 4.4: Factors affecting the attraction of FDI

	Mean	Std. Deviation
Changes in technology	3.8571	.66299
Liberalization the Business sector	4.4286	.64621
Free trade zones	3.5714	.64621
Improvement in business climate	4.0000	.67937
Good Infrastructure	3.9286	.61573
Incentives	4.0714	.82874
Efficiency of the legal system	4.0000	.67937

The above results shows, that all the factors were above a mean of 3.5 - Great extent. The respondents indicated that improvement in the business environment in Kenya through the betterment of several of the factors have influent largely investment by foreign investors; changes in technology (mean 3.8571), liberalization of business sector (mean 4.4286), free trade zones (mean 3.5714), good infrastructure (mean 4.000) and favourable incentives (Mean 4.0714). There was a low variation on the extent to which the above factors influences FDI and this means that Kenya has indeed improved on the factors to attract the level of FDIs in the country especially over the last 10 years. Kenya has experienced Roads and telecommunication infrastructure improvement over the last 10 years and this has brought about investors exploring new investment opportunities in the country.

4.3.3 Indirect factors influencing the flow of FDI

The respondents were to describe the extent to which other indirect factors resulting from both the central and local government procedures and incentives affect FDI in a five point Likert scale. The range was 'strongly agree (5)' to 'strongly disagree' (1). The scores of strongly agree/agree have been taken to represent a variable which had mean score of 3.5 to 5.0 on the continuous Likert scale ;(3.5≤ S.E <5.0). The scores of 'moderate extent' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: 2.5≤M.E. <3.4) and the score of both disagree and strongly disagree have been taken to represent a variable which had a mean score of 0 to 2.4 on a continuous likert scale; 0≤ L.E. <2.4). A standard deviation of >1.3 implies a significant difference on the impact of the variable among respondents.

Table 4.5: Indirect factors influencing flow of FDI

Factor	Mean	Std. Deviation
Strategic rivalry in global market place	3.7857	.42582
Large market	3.7143	1.06904
Openness of the economy	3.5000	.94054
Cheap and Skilled labour	4.2143	.69929
Government incentives	3.3571	1.00821
Favourable Taxation and regulatory policy	3.8571	.66299
Exchange rate stability	3.1429	1.23146

The findings above show that the respondents agreed that the indirect factors that can be addressed by government regulation, to a great extent will influence the level of foreign direct investment and that existence of a strategic rivalry in the market place among the players had a positive effect on FDI (mean 3.7857) and that a large market will also be a positive factor (mean 3.7143). The respondents were however, moderate as to the expectations of the government incentives (mean 3.3571) and the exchange rate influence (mean 3.1429). However, there was a high variation among the respondents as indicated by the standard deviation; with the exchange rate stability having the highest deviation (S.D 1.23146) while the existence of a strategic rivalry in the market having the least deviation (S.D 0.42582).

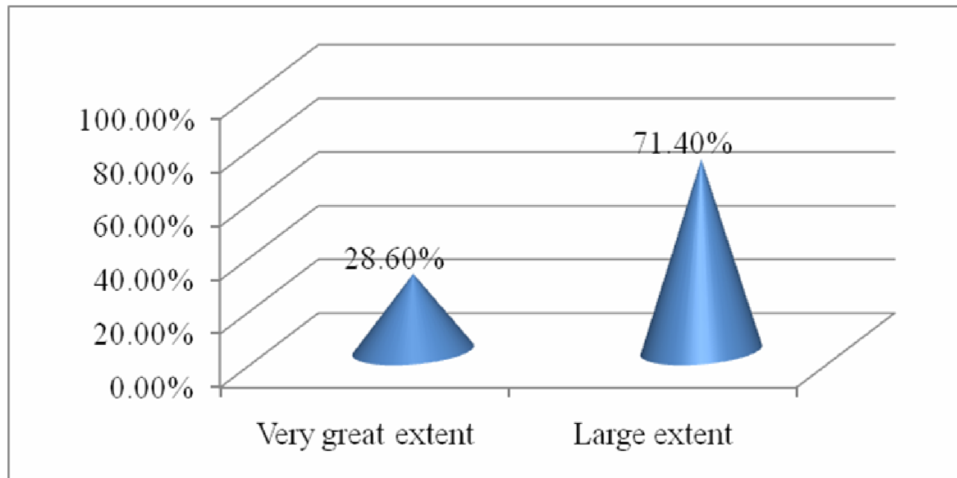
4.4 Role of Business Licensing in Influencing FDI

This section of the questionnaire aimed at establishing from the respondents, the role of business licensing process in influencing foreign direct investment in Kenya.

4.4.1: Effect of licensing process

On being asked whether they consider the licensing processing to influence the level of foreign direct investment in the country, the majority of the respondents (71.4%) agreed that to a large extent, the licensing process does affect the level of FDI to the country and 28.6% pointed out that the licensing process to a large extent influences the FDI.

Figure 4.4: Effect of Licensing on FDI



The implication of the above results is that if the government will desire to encourage foreign direct investment in the country then it needs to streamline its licensing process both the national level as well as at the local government level. One of the ways of streamlining this process in a country is do away with the many licensing bodies in different ministries and authorities and instead centralize all the licensing process to hasten up the procedure and also save time for foreign investors. This move has been adopted in Kenya and Rwanda whereby a foreign investor will need to just visit a single office to get all the investment opportunities available and raise any issues arising from the inquiry and make them address promptly.

4.4.2 Business Licensing as a factor Influencing Foreign Direct Investment

This section of the interview guide wished to establish from the respondent how the various licensing procedures and steps affect the investment in the country from other countries. The answers to this section of the questionnaire will help in identifying the

points at which government intervention will be required to streamline the process of licensing foreign investors. In addition, these factors will help to assess whether the Kenya Investment Authority is currently able to play its rightful role of attracting foreign investors in the country.

The respondents were to give their independent opinion on the licensing process characteristics influencing the flow of foreign direct investment in the country in a five point Likert scale. The range was ‘Small extent (1)’ to ‘Very great extent’ (3). The scores of small extent/ not at all have been taken to represent a variable which had a mean score of 0 to 1.7 on the continuous Likert scale; (0≤ S.E <1.7). The scores of ‘moderate extent’ have been taken to represent a variable with a mean score of 1.8 to 2.4 on the continuous Likert scale: 1.8≤M.E. <2.4) and the score of great extent have been taken to represent a variable which had a mean score of 2.5 to 3.0 on a continuous likert scale; 2.5≤ L.E. <3.0). A standard deviation of >0.7 implies a significant difference on the impact of the variable among respondents.

Table 4.6: Licensing factors influencing foreign direct Investment

	Mean	Std. Deviation
Most domestic business are exempted from some licenses unlike foreign investors	4.0714	.73005
Bureaucracies exist in the business licensing and management and hence leads to delay	3.7857	.89258
Corruption and governance issues exist in the licensing process	4.5714	.64621
There exists restrictions on participation in some businesses	3.5000	.75955
There exists inconsistencies in the economic issues and structural reforms in the licensing process	3.8571	.66299
Poor infrastructure hampers the licensing process	3.9286	.82874
Complex governmental procedures relating to licensing for investment	4.0000	.55470
There exists no commercial arrangements	3.2857	.72627

The findings on the licensing characteristics that influences direct foreign investment was that; the licensing attribute of most domestic business being exempted from some licenses unlike foreign investors had a mean of (4.0714), Bureaucracies exist in the business licensing and management and hence leads to delay mean (3.7857), corruption and governance issues exist in the licensing process (mean 4.5714), there exists restrictions on participation in some businesses (mean 3.5000), there exists inconsistencies in the economic issues and structural reforms in the licensing process

(mean 3.8571), poor infrastructure hampers the licensing process provides basis for continuous improvements (mean 3.9286) and Complex governmental procedures relating to licensing for investment (4.0000). The results indicate that several factors identified above on licensing procedure in Kenya influences the attractiveness of foreign direct investment in the country.

4.4.3 Country specific factors influencing Foreign Direct Investment

The respondents were requested to indicate the extent to which some particular country factors will influence the foreign direct investment in the country through the various licensing requirements in a five point likert scale. The range was ‘Not at All (1)’ to ‘very great extent’ (5). The scores of Not all/ Small extent have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous likert scale; (0≤ S.E <2.4). The scores of ‘moderate extent’ have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous likert scale: (2.5 ≤M.E. <3.4) and the score of both great extent and very great extent have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; (3.5≤ L.E. <5.0). A standard deviation of >0.7 implies a significant difference on the impact of the variable among respondents. The results are presented in table 4.5.

Table 4.7: Country specific factors influencing foreign direct investment

	Mean	Std. Deviation
Time taken to start a business	4.3571	.63332
Rigid land market conditions to foreigners for ownership	3.9286	.91687
Less protection to foreign owned assets during instabilities	4.0000	.96077
Insufficient contract enforcement mechanism	3.7857	.97496
Increased adoption to international agreements and bilateral investment treaties	4.3571	.49725

The results in table 4.6 indicate that factors considered important in a country by the respondents were the time taken to start a business (mean 4.3571), Rigid land market conditions to foreigners for ownership (mean 4.0538), less protection to foreign owned assets during instabilities (mean 4.0436), Insufficient contract enforcement mechanism (mean 3.7857) and Increased adoption to international agreements and bilateral investment treaties (mean 4.3571. The low variation of standard deviation indicates that the respondents were unanimous on the factors considered important by the company.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The Chapter presents the summary of findings, conclusion drawn from the findings and recommendations made. The conclusions and recommendations drawn focus on the objective of the study.

5.2 Summary of the Findings

The study shows that majority of the respondents were over thirty years of age, had attained university and above in their education and also worked in the respective institutions for more than five years. In addition, the respondents were found to be well versed with the subject matter of the research which was to establish the role of business licensing as a factor influencing foreign direct investment in Kenya. As a result of the above, the researcher felt that the results obtained from the respondents reflects the true position of the organization in attracting FDI.

It was found out in the study that with many countries in the region developing a efficient environment for foreign investment, it has become imperative that Kenya follows suit to become an investment destination of choice. It was found out that foreign investors are majorly concerned with the operating cost of their businesses and as well as the security of their investment. In addition to the operating environment, another major factor that affects the level of foreign direct investment in Kenya is the licensing process for foreign investors. The respondents pointed out that before 2008, the country had multiple licensing agencies which in most cases had duplicating functions but it was also realized that this has been remedied by the coming up of a central bureau of licensing new

businesses. This means that apart from a country coming up with a good business environment, it should also streamline its licensing processes. A country has to develop a secure business environment that is coupled with efficient communication infrastructure, labor cost, reduced inflation and available raw material. On the factors that influence the level of direct foreign investment in a country include a growing GDP level and market share, a country's market size.

The licensing process of foreign investor has been hampering the level of FDI coming to the country over time. The respondents observed that after the country coming up with a one stop shop where all prospective investors –both local and foreign- seek advice and all requirements pertaining to licensing in the office. The country has also set up agencies that hasten the licensing processes such as KenInvest which facilitates approvals of prospective investment projects which have their details submitted on a prescribed application form issued by the organization. KIA has provided one-stop shop advantage office for investors in that all issues pertaining to local investment can be found in the office. In addition, Kenya Investment Authority (KIA) has developed a code that set forth guidelines on investment that enumerate the various investment incentives and mandate that all new projects should obtain before approval is granted. In addition, the respondents observed that KIA has been continuously lobbying the government to harmonize investment regimes in all the East African Community countries and which will eventually aim to remove all tariff barriers between the states.

In addition, the respondents pointed out that that Kenya is a signatory of a number of international agreements such as member of Multinational Investment Guarantee Agency (MIGA) an affiliate of the World Bank which guarantees investors against loss of investment to political problems in host countries as well as being a signatory to International Centre of Investment Disputes (ICSID) which is a channel for settling disputes between foreign investors and host governments. With all these protection the respondents noted that the Kenyan government has streamlined its licensing processing upon realizing that apart from other country specific factors, licensing of foreign business is also an important factor that influences level of foreign investment.

5.3 Conclusion

From the research findings, some conclusions can be made about the study:

Attraction of direct foreign investment to a country is of importance to the host country in terms of creating employment and increasing the general economic development of the country. Therefore, it becomes imperative that the country establishes all necessary mechanism that will attract these investors. The necessary conditions such as efficient communication and road network should be availed and the cost of production also are made affordable through a supply of affordable labour, raw materials and power for running the factories. In addition, in the current globalized world, there is need for a country to be a member of several multinational agencies that aim to protect foreign investment as well as establishing internal mechanism that will safeguard the interest of both foreign and local investors.

Apart from the establishment of ground conditions that will attract foreign investment, there is need also for a country to come up with an institution that will facilitate communication between a potential investor and the host country. Investors will prefer existence of a one stop shop where all inquiries will be directed as well as their licensing process be done. It is also important that the local institutions established to attract foreign investment be empowered to facilitate most of the licensing process and not have limited powers that will need them to consult other institutions that will lengthen process. The licensing process need to be streamlined in a way that a one stops shop of all the necessary licenses is done in the same office so that the process does not become a source of discouraging foreign investors.

5.4 Recommendation

The study recommends that the government directs more resources to the financing of institutions concerned with licensing of both local and foreign investors. Since the findings have found out that government licensing procedures can be a catalyst and at the same time an obstacle to the setting up of businesses in the country, there is need for the government to reduce the licensing bureaucracies and streamline the operations of the one stops shop for licensing that it currently operates. The financing could take the form of seconding more qualified personnel in the institution, training and development of existing staff to equip them with the necessary know how that will facilitate effective performance of their duties. In addition funds should be availed for the institutions to direct go outside the country approach individual investors that the country offers to their business. Indeed with Kenya being strategically located a relatively developed

communication infrastructure and more skilled manpower, the country can tap on this competitive advantage to attract foreign investors.

The management of the government institutions that are entrusted with the task of wooing foreign investors in the country need to appreciate the importance of their institution in enhancement of the country's' status as good destination of foreign investment. In this way they will need to lobby further the government to streamline all processes required for investing in the country. In addition, the current level of partnership between the institutions and stakeholders need to be enforced to capitalize in all the strengths accruing from relationship. However, the institutions should be wary of investors whose demands might not be met and come with conditions that will be disadvantageous to the country.

5.5 Suggestions for Further Research

The study confined itself to the role of business licensing as a factor influencing foreign direct investment in Kenya. With the country moving on to economic blocks such as East Africa Community, there is need to study the harmonization of the licensing procedures among the East African countries with a view of coming up with a single licensing process such investors will be attracted to the region which is under one policy guideline unlike the present state where each country has its own licensing procedure. In addition, a local research should be undertaken to establish the effectiveness of the various techniques employed by these government institutions to attract FDI and therefore facilitate ranking based on their importance.

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APPENDIX I: LETTER OF INTRODUCTION

RUTH W. WAMUGI
UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
P.O BOX 30197
NAIROBI

Dear Respondent,

<u>RE: COLLECTION OF SURVEY DATA</u>

I am a postgraduate student at the University of Nairobi School of business. I am presently carrying out a study on the "Role of Business licensing as a factor influencing foreign direct investment in Kenya". This research is a partial fulfillment requirement for award of MBA degree at the University of Nairobi.

As part of this exercise, I would be grateful if you could spare some few minutes of your time to respond to the questionnaire attached herein. Be assured that the response from this survey will be treated with utmost confidentiality and will be used for academic purpose only.

Thank you in advance for taking the time to participate in this study.

Yours faithfully

Ruth W. Wamugi

MBA Student University of Nairobi

APPENDIX II: Questionnaire

Please give answers in the spaces provided and tick (√) in the box that matches your response to the questions where applicable.

PART A: DEMOGRAPHIC AND RESPONDENTS PROFILE

1) Name of the organization…………………………………………………………………

2. Gender: Male ( ) Female ( )

3. What is your age bracket? (Tick as applicable)

a) Under 30 years ( )

b) 31 – 40 years ( )

c) 41 – 50 years ( )

d) Over 50 years ( )

4. What is your highest level of education qualification?

a) Post graduate level ( )

b) University ( )

c) Tertiary College ( )

d) Secondary ( )

5. Length of continuous service with the organization?

a) Less than five years ( )

b) 5-10 years ( )

c) Over 10 years ( )

Part B: Foreign Direct Investment

6. How would you rate the level of foreign direct investment that has been attracted into the country in the last ten years?

Very large ( )

Large ( )

Moderate ( )

Low ( )

Very low ( )

7. Has the establishment of Ken Invest helped foreign investors in the attraction of FDI in Kenya?

Yes ( ) No ( )

8. To what extent has the following factors contributed in attracting the foreign direct investment into the country? Use 1- Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

FACTORS	1	2	3	4	5
Changes in technology					
Growing liberalization of the national regulatory framework governing investment in enterprises					
Free trade zones					
Improvement of business climate					
Infrastructure					
Development of incentives					
Efficiency of the legal system					

9. How does Ken Invest help in promoting local and foreign direct investment?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

10. To what extent do you agree that the following factors influence the flow of FDI in the country? Use 1- Strongly Disagree, 2- Disagree, 3- Moderate, 4- Agree and 5-strongly agree.

	1	2	3	4	5
Strategic rivalry between firms in the global marketplace					
Large market					
Openness of the economy					
Cheap and skilled labour					
Government incentives					
Favourable Regulatory or Policy framework being implemented such as through privatization, rules regarding entry and operations, institutional environment for financial and corporate restructuring, liberal trade policy (tariffs and nontariff) and tax policy					
Exchange rate stability					

Part C: The Role of Business Licensing as a Factor Influencing Foreign Direct Investment

11. To what extent has the licensing process affected foreign direct investors from investing in the country?

Very great extent ( )

Large extent ( )

Moderate ( )

Low extent ( )

Very low extent ( )

12. Are there any conflicting roles in the various licensing agencies in the country in the process of attracting FDI?

Yes ( ) No ( )

13 How will you describe the current licensing process of the FDI in the country? Can they be easily understood easily by investors?

Yes ( ) No ( )

14. To what extent do the following factors affect the licensing process of foreign direct investment in the country? Use 1- Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Factors	1	2	3	4	5
Bureaucratic barriers distributed in public sector either by prohibiting foreign investment below a certain size, through minimum capital investment or by requesting prior approval or licensing from which domestic investors are exempted					
Delayed reforms aimed at kicking out bureaucracies in business licensing and management					
Corruption and governance					
Restrictions on participation in some business					
Inconsistencies in economic policies and structural reforms					
Poor infrastructure					
International commercial arrangements					

15. Classifying a country as ‘more’ or ‘less’ attractive for doing business depends on various factors. To what extent do the following factors affect the attractiveness of the country to foreign direct investment? Use 1- Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Factors	1	2	3	4	5
Time taken to start a business					
Land market rigidities as indicated by time and cost of acquiring property rights					
Protection available to foreign investors					
Effectiveness of contract enforcement mechanisms					
Number of licenses and permits required to be taken and the time involved in doing so					
Accessions to international agreements and institutions as well as conclusions of bilateral investment treaties and double taxation treaties have accelerated					