Investor Perception of the Effectiveness of Kenya Investment Authority's Strategies for Attracting and Retaining Foreign Direct Investments: A Case Study of Investors in Nairobi

BY:

/Nazrine Halima Nurdin

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DECLARATION

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

Signed........^ V v v ^...............Date A3 I 1O sooi

Nazrine Halima Nurdin

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

Signed . . . .^ . M ^ M ^

Dr. Martin Ogutu

Chairman

Department of Business Administration

University of Nairobi

DEDICATION

This work is dedicated to my husband J. Machibi for being my daily inspiration and for believing in my capabilities, my daughter Iman for giving me a reason to keep going on until the end and my mother for helping me to always understand the value of hard work.

May God bless you.

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ABSTRACT

Foreign Direct Investments (FDIs) provide essential stimulus for driving economic growth and creating vibrant market economies however, attracting and retaining them is a major challenge for many countries. From statistics, by the year 2003, the volume of FDI's in Kenya had fallen far below one third on comparison to Uganda and Tanzania. This culminated in this study on Kenya Investment Authority (KIA) which is mandated by an Act of Parliament to attract and retain investments in Kenya. The specific objectives of the study were to determine the investor perception of the effectiveness of KIA's strategies for attracting and retaining foreign investments and to establish whether the effectiveness of these strategies is related to investor characteristics.

fhe study was conducted through a survey of 42 FDIs out of 147 in Nairobi in the manufacturing and service sector that were facilitated by KIA between January, 2003 and December, 2006. Data were collected using a 5-point Likert-type scale. Disproportionate stratified random sampling was use to select respondent firms from the target population. Descriptive statistics in the form of mean scores were used to test both objectives.

From the findings of this study, amongst all KIA strategies only a few strategies greatly influenced the investors' decision to invest and or retain their investments in Kenya rendering them most effective. It is therefore critical for KIA to continuously monitor and evaluate the effectiveness of its strategies resulting in the revision or replacement of the non effective strategies. From the study also, it is apparent that the effectiveness of investment promotion and retention strategies tends to have a relationship with some of the investor characteristics. It was recommended that KIA consider realigning these strategies to focus on FDI's with characteristics which are positively influenced by them.

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LIST OF ACRONYMS

Acronym	Meaning
ASIT	Advisory Services on Investment and Training
ERS	Economic Recovery Strategy
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPA	Investment Promotion Agency
IPC	Investment Promotion Centre
JBIC	Japan Bank for International Cooperation
KIA	Kenya Investment Authority
MIGA	Multinational Investment Guarantee Agency
MNE	Multinational Enterprises
OECD	Organization for Economic Co-operation and Development
RTB	Regional Trading Blocks
UNCTAD	United Nations Conference on Trade and Development
WIPO	World Intellectual Property Organization

CHAPTER ONE: INTRODUCTION

This chapter highlights the background of the study with regards to the strategies for attracting Foreign Direct Investment (FDI) by the Kenya Investment Authority (K.IA). Also dealt with in this chapter is the research problem, the research objectives and the significance of the study.

1.1 Background

Transition economies today need new private sector investment to underpin and drive their reform programmes. Private investment provides the essential stimulus for driving economic growth and creating vibrant market economies. Attracting Foreign Direct Investment (FDI) has become a key part of national development strategies for many countries (Litvak and Maule, 1970). They see such investments as bolstering domestic capital, providing diversification of output and exports, technology diffusion and knowledge transfer, linkages and spill over to domestic firms, and employment and skill levels, all of which are crucial to jump-starting economic growth. While many highlight FDI's positive effects, others blame FDI for "crowding out" domestic investment and lowering certain regulatory standards. The effects of FDI can sometimes barely be perceived, while at other times they can be absolutely transformative. While FDI's impact depends on many conditions, well-developed and implemented policies can help maximize its gains (Investment Policy Review, 2005)

During the Strategic Investment Promotion round table (2002) it was discussed that acquiring FDI is a major challenge for all countries. Competition is increasing world-wide, especially for smaller economies that may not have the drawing power of a major domestic market or natural physical resources to entice investors to invest in their country. Many developing economies have shown that attracting FDI can be highly successful if sound and effective economic and structural policies, leading to an environment that is conducive to business and a broad strategic approach to investment policy and promotion are pursued and implemented.

Rutherford (1999) defines FDI as investment in businesses of another country which often takes the form of setting up local production facilities or purchase of existing businesses. He contrasts FDI with portfolio investments which are the acquisition of securities. In various press releases by the United Nations Conference on Trade and Development (UNCTAD), FDI is defined as an investment involving management control of a resident entity in one economy by an enterprise resident in another economy. FDI involves long term relationship reflecting an investor's lasting interest in a foreign entity. Grosse and Kujawa (1992) on the other hand explain that FDI involves ownership and control of a company in a foreign country. In exchange for the ownership, the investing company usually transfers some of its financial, managerial, technical, trademark and other resources to the foreign country.

Barton (2005) on the other hand defines an investor as an individual who commits money to investment products with the expectation of financial returns. Generally, the primary concern of an investor is to minimize risk while maximizing return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher-than-average profits.

1.1.1 Strategies for Foreign Direct Investments (FDI)

There are various international successful practices in building competitive strategies which have been defined to attracting and retaining FDI. These international practices were discussed during the round table of Strategic Investment Promotion (June, 2002) and also have been described by Odle and Gara (1997). One of these successful strategies is establishing government policy on FDI and the vision for its role and contribution to the national economic development framework. Another strategy used is ensuring the provision of essential infrastructure needed by various industries. Also establishing an Investment Promotion Agency (IPA) and determining the objective and the legislative and governance structures for the agency for a host country is a strategy used. Promoting FDI by undertaking a comprehensive and professional marketing programme aimed at new and existing investors and by building an IPA as a credible and competent partner for investors is yet another strategy. Lastly, facilitating investment and servicing new and existing investors at all stages in the investment cycle from start-up through to post-investment and new expansion stages is a recommended strategy amongst many others.

Having these strategies properly adopted, helps attract and retain FDI which assists in the overall development of an economy and direct employment in the ever increasing competitive global environment. An Investment Promotion Agency (IPA) is able to communicate and articulate to the relevant stakeholders the vision and goals of the country clearly defining how to achieve them, such that it is able to gain their support which will give it the necessary status and credibility especially with the investors. Against these strategies, an IPA can measure and benchmark the success of its activities with those of other IPAs with whom they are competing with globally. Individual countries who have adopted these strategies have made significant advances in improving their policies and structures that support FDI with regard to the overall vision and strategy for the promotion of FDI and also co-opted the government to act as champions of FDI. This is achieved by listening and addressing the woes and cries of the foreign investors.

Despite the importance of having strategies to be used to attract and retain FDI, if a government has not decided on the aim and role of the FDI in the overall development of the economy then the strategies are futile. This includes the actual and expected benefits of FDI including its regional contribution to a balanced regional development. This is because successful practice is built on vision of the society at large. Similarly, the implementation of these strategies requires mobilisation of all relevant interest groups across government and society for its success as an IPA alone can not be able to deliver. Limitations in resources and finances are also likely to influence the non implementation of these strategies rendering them futile. Finally, there is also a danger of having the strategies not being monitored and evaluated very closely which may result in them not being effective (Greene and Villannueva 1991).

1.1.2 Kenya Investment Authority (KIA)

The Kenya Investment Authority (KIA), formerly Investment Promotion Centre (IPC) was established through the Investment Promotion Centre Act, Cap 485 of 1986 with the mandate of promoting private investments in Kenya for both local and foreign investors. The institution was formed by the Government of Kenya to act as a focal point to promote investments in Kenya since it was being done haphazardly previously.

The Act was further amended in 1992 to empower IPC to issue Certificates of General Authority immediately to investments that had no security, health or environmental implication, and are not on the restricted list; mining, forest products, Manufacturing under Bond (MUB), export processing zones, excisable goods, petroleum operations, ferries, insurance, banks, financial institutions and mortgages (Investment Promotion Centre Act, Cap 485 of 1992).

In spite of the liberalized economy and the amendment of the IPC Act in 1992, Kenya still experienced very low investment inflows (as shown in Table 1 below) resulting in the Government enacting the Investment Promotion Act, 2004. This transformed IPC to Kenya Investment Authority (KIA) which is aimed at making Kenya a more competitive investment destination by virtue of a widened mandate to eventually operate as a "one stop shop" for investor facilitation.

Table 1: FD1 Inflow Comparison Table

Table 1 FDI Inflows (Kenya, Uganda, Tanzania) (Kshs. Billion)			
Year	**Kenya**	**Uganda**	**Tanzania**
Average 1990-1995	20	44	39
1996	13	121	149

Table 1 FDI Inflows (Kenya, Uganda, Tanzania) (Kshs. Billion)			
Year	**Kenya**	**Uganda**	**Tanzania**
1997	40	175	158
1998	42	210	172
1999	42	222	183
2000	127	254	193
2001	50	229	224
2002	50	249	240
2003	82	283	248
Average 1996-2003	**50**	**193**	**174**

(Source - World Investment Report 2003, United Nations; Economic Surveys, CBS)

The role and mandate of KIA according to the Investment Promotion Act 2004, is to promote and facilitate investments in Kenya. In promoting and facilitating investments, KIA is to assist foreign and local investors and potential investors by issuing Investment Certificates, assisting in obtaining any necessary licences and permits, assisting in obtaining incentives or exemptions under the various taxation laws or other legislation; and providing information on investment opportunities or sources of capital. KIA is also to promote, both locally and internationally, the existing opportunities for investment in Kenya. KIA's other mandate is to review the investment environment and make recommendations to the Government and other stakeholders, with respect to changes that would promote and facilitate investment. Facilitating and managing investment sites, estates or land together with associated facilities on the sites, estates and land is another role. Finally, KIA may also appoint agents within the country to carry out certain functions on its behalf; as it may consider necessary.

The Kenyan Government launched an Economic Recovery Strategy (ERS) aimed at achieving a 6-7% annual growth rate, creating 500,000 jobs per annum and increasing national savings particularly through creating a conducive environment for private investments (Kenya Investment Programme 2003-2007). This objective together with the low experienced investment FDI inflows and competitive global investment environment, underscored the need for KIA to refocus its activities and create capacity for attracting and retaining foreign investments in Kenya. This assisted KIA in the formulation of its objectives and strategies.

One of the objectives as outlined in the Investment Promotion Act 2004 and KIA's strategic plan 2004-2008, is to attract, facilitate and enhance retention of FDI in Kenya. This objective is to be achieved by first preparing, maintaining and disseminating desired information for Investors and other stakeholders such as sector profiles, investors guide and investors roadmaps. Secondly, this objective is achieved by developing a marketing strategy for promoting Kenya as a first choice investment destination through assessing and prioritizing Kenya's investment potential and targeting sources of investments and developing investor targeting strategy through organizing seminars, workshops and meetings for the investors and potential investors with the relevant counterparts. Thirdly, this objective is attained by influencing expansion and retention of investments through developing and recommending targeted incentives for both new and existing companies. Finally KIA prepares, maintains and promotes joint venture opportunities.

Carrying out research and policy advocacy activities aimed at providing useful inputs in various policy interventions in critical areas in favouring of foreign investors is another objective. This is being achieved through operationalising the Investment Promotion Act 2004 that brings about stability and predictability in the investment environment and ensuring improved investment climate through policy advocacy. Also, this is achieved by ensuring improved investment climate by KIA identifying policy areas that need research and recommend the adoption of the recommendations with the relevant parties.

Another objective is providing aftercare services to existing FDI projects in the country especially in the targeted sectors. This is being done through tracking investment projects which have been approved or assisted by KIA in order to monitor their performance, concerns and impact on the national economy. This objective is also achieved by offering business advisory services to facilitate viable investment decisions, operating a 24 hour airport office for speedy and effective delivery of services to the foreign investors and facilitation of the revival and rehabilitation of collapsed or closed projects to enhance capacity utilization (Investment Promotion Act, 2004; KIA's Strategic Plan, 2004; Book 2005).

1.2 The Research Problem

In developing countries, and in particular Kenya, research into the effectiveness of strategies being used to attract and retain FDI is very minimal. A number of studies have been carried out to document different areas on foreign investments in Kenya (Musinga 1992; Mwabu 1989; Kioi 2003; Morriset and Johnson 2004).

In his study, Musinga (1992) investigated the factors that influence private investments in Kenya and estimated an investment function for Kenya based on the factors studied in order to bring into light those factors that are statistically significant in influencing FDI behaviour, and which should be a focus to policy makers.

Mwabu (1989) on the other hand did a study on the factors that influence FDI. Using stepwise regression techniques in his analysis he found that government investment in infrastructure, deviation of Gross Domestic Product (GDP) from the trend of the potential GDP and the previous year's level of FDI were the major factors determining the flow of FDI into the country. He also found that changes in the domestic investment climate had insignificant influence on FDI.

Kioi (2003) did a study that examined the empirical relationship between net FDI flows and per capita GDP growth rates in the three East African countries for the period between 1991 and 2000. The study also examined how that relationship is affected by the financial sector development as indicated by bank development and stock market development. The study sought to determine whether FDI has significantly influenced growth and whether this relationship is equally significant for the three countries.

Morriset and Johnson (2004) did a study on the effectiveness of attracting FDI by IPAs. The study covered a vast area on IPAs around the world. They studied how the amounts spent on investment promotion affects its effectiveness and if agencies need to exceed a minimum level of spending to have any effect on international investors. The study also focused on the extent to which the business environment or country's characteristics influence the effectiveness of investment promotion. Another area it covered was whether the effectiveness of investment promotion varies according to the functions or activities on which the IPA focuses. The final area of the study was whether the effectiveness of investment promotion is influenced by different agencies' characteristics, such as their structure, mandate, and institutional relationships.

From all the above studies none narrows down to any specific IPA, such as KIA which has been in existence since 1986. The studies also do not look into any specific FDI sectors. These studies on FDI and economic growth in Kenya do not specialise on any sectors hence leaving a gap for more research.

From Table 1 above, the statistics show that the volume of FDI in Kenya was about a half of the volume of FDI in each of the other two East African countries; Uganda and Tanzania in the early 1990's. By the year 2003, the volume of FDI in Kenya had fallen far below one third in comparison to each of the two individual countries again. In this regard, a perplexing question arises; are the strategies being employed by KIA to attract and retain FDI effective? The proposed study will investigate the effectiveness of the strategies being used by KIA to attract and retain FDI in Kenya.

1.3 The Research Objectives

This research has two major objectives as follows:

1. To determine the investor perception of the effectiveness of KIA's strategies for attracting and retaining foreign investments.
2. To establish whether the effectiveness is related to investor characteristics.

1.4 Significance of the study

The study will benefit KIA and the Government of Kenya. KIA will be able to establish whether they need to change their strategies in order to be more effective in attracting and retaining FDI in the country. Kenya Investment Authority will also use it as a tool to communicate and articulate to the relevant stakeholders its vision and goals which may assist them get the necessary status, credibility and assistance from them if need arises.

On the other hand, the Kenyan Government will benefit as they will use the outcome of the report on formulating its vision and strategy. They can then prioritise and champion the whole process of attracting and retaining FDI which is in line with KIA's mandate and the goals and objectives under the investment programme of the ERS. It will also assist the government mobilise all relevant groups across the entire government for its success.

1.5 Overview of the report

This report is divided into five chapters of which the subject matter of Chapter One is the introductory discussion that has been provided for in sections 1.1 through 1.4. It includes the strategies for FDI, details on KIA, the research problem and the research objectives. The second Chapter surveys the existing literature on FDI and is presented in four sections which include the importance of FDIs, factors affecting the inflow of FDI. strategies for attracting FDI and factors affecting effectiveness of FDI strategies. Chapter Three highlights the methodology to be applied in this study. It starts with the research design, and then defines the population of interest, followed by the sample design. After which, the data collection method is outlined. The chapter closes with a section on data analysis method to be used. This is then followed by Chapter Four which presents the data analysis and findings. It covers the sample characteristics, effectiveness of KIA's strategies for attracting and retaining FDIs and if effectiveness is related to the investor characteristics. Thereafter, Chapter Five follows and it covers the summary, discussions and conclusions of the study. Limitations of the study are also presented here together with the recommendations for policy, practise and further research. Finally after chapter five, the references material and the appendices are given.

CHAPTER TWO: LITERATURE REVIEW

This chapter expounds in details the importance of FDI globally, the factors that affect the volume of inflow of FDI to a host country and the strategies that are generally being used by countries around the world to attract FDI. Also in this chapter, the factors that affect the effectiveness of strategies for attracting FDIs are looked into.

2.1 Importance of FDI

According to Ball and McCulloch (1993), a foreign business denotes domestic operations within a foreign country and an FDI is regarded as a foreign business. Grosse and Kujawa (1992) on the other hand explain that FDI involves ownership and control of a company in a foreign country. In exchange for the ownership, the investing company usually transfers some of its financial, managerial, technical, trademark and other resources to the foreign country. They further explain that FDI is undertaken by a firm that seeks to serve a new market for its products or services or that seeks to obtain additional supplies for its markets. Meanwhile Rutherford (1999) defines FDI as investment in businesses of another country which often takes the form of setting up local production facilities or purchase of existing businesses. He contrasts FDI with portfolio investments which are the acquisition of securities

In the globalization process that characterises the modem world economy, FDI continues to be a driving force. The process has diminished the importance of territorial boundaries and every part of the world in one way or another. It is argued that FDI is the most favourable form of capital flows into a country other than donations. This is attributed to the fact that FDI contributes to economic growth directly as it increases the country's production capacity and creation of employment. Foreign Direct Investment may exhibit positive externalities through the dissemination of advanced technological and managerial practices such as marketing skills to the host country. It may also broaden the access of a host country to export market through channels established by the Multinational Enterprises (MNEs) (UNCTAD. 1999).

In their study of investments in least developed countries, Greene and Villanueva (1990) found that the rate of investments which include FDI in a host country is positively related to the GDP growth, level of per capita GDP and the rate of public sector investments. Graham and Krugman (1995) distinguish two categories of potential importance of FDI. The first group represents the benefits from increased integration and maybe analysed in the same way as the gains from international trade. The sources of this gains are comparative advantage with trade enabling countries to specialize in their different attributes: increasing returns to scale, where trade permits states to produce a narrower range of products or services and in this way generate a larger and more efficient scale of production; and greater competition through trade, thereby reducing the oligopoly power of large enterprises. Establishing a production operation inside a host country, a foreign investor is able to avoid government induced barriers such as tariffs. The second group takes the form of spill overs to the domestic economy in the form of technology of various types, through backward, forward and horizontal linkages; upgrading of workforce skills, which may then transfer elsewhere, and perhaps some encouragement to entrepreneurship.

Foreign Direct Investment assists in filling the saving and foreign exchange gaps associated with a rapid rate of capital accumulation and growth needed to overcome widespread poverty and to lift living standards to acceptable levels. According to UNCTAD (2000), long term bank lending has completely disappeared in Africa since the mid 1980s. Private inflows of capital into Africa have mainly consisted of short term bank lending and FDI which forms part of a package investment options. Athreye and Kapur (2002) explain that FDI can supplement domestic investible resources in a developing country enabling higher rales of growth. They further state that as a source of foreign exchange, it can relax the host country's potential balance of payments constraint on growth. Profit remittances on account of foreign equity are related to the performance of investments projects, unlike the inflexible repayments obligations of foreign debt; this risk sharing feature makes foreign equity preferred to foreign debt.

It is also argued that FDI promotes growth to the host country via specific productivity activities such as labour training and skills acquisition, product diversity and use of environmentally clean technology promoted by MNEs (Buckley et al 2002). Africa Foreign Investor Survey 2005 explains other importance of FDI which has effect in the local economy. This is achieved by use of local inputs in their operations; local outsourcing and subcontracting of various services needed in the investment and training, research and development expenditure during the formal and informal technology and know how transfer to the locals of the host country. Therefore, FDI can be an engine of economic growth in a host economy.

2.2 Factors Affecting inflow of FDIs

These are determinants that influence FDI inflows into a given geographical location. They give investors the confidence needed to invest in foreign markets. Some of the factors may be more important to a given investor in a given location at a given time than to another investor. Musinga (1992) observes that it is important to understand the factors that affect FDIs inflow as it will assist in formulation of its policies and strategies in a host country.

A foreign investor maybe motivated by economic reasons such as profitability index, market opportunities and market prices that prevail at the time of making decision to invest in a country. The investor undertakes an FDI so as to gain access to resources; escape from unfavourable conditions in their domestic markets, such as saturation of the domestic market, taxation and overcome tariff barriers. In such cases an investor compares the environmental conditions in his own country with those in the country in which he proposes to make his investment (Litvak and Maule 1970; Jacob and Pettit 1988).

Jacob and Pettit (1988) explain that the availability and the existence of an opportunity for any investment are of utmost importance. They also discuss that an investor's preference is vital; that is how strongly an investor feels about the relative desirability of the investment under consideration in a host country which maybe best ranked as from the most desired to least desired. Africa Foreign Investor Survey (2003) articulates the presence of investment opportunities in a country is an important FDI factor for consideration. The opportunities should be made known to potential investors. A location that possesses an optimal quantity and quality of the determinants can be said to be an attractive destination for FDI.

A foreign investor needs to consider various issues before investing in a host country. This includes considering the incremental cash flows from the project, as with other capital investment; rate of return; market efficiency; the costs of undertaking this alternative relative to the costs of other alternatives available to the firm such as exports or some other contractual form; the strategic fit of the project within the firm's global activities, taking into account the firm's competitive advantage and whether this type of internalization is preferable to other strategies (Grosse and Kujawa 1992; Jacob and Pettit 1988).

Economic factors indicate that for a market seeking FDI, factors to be considered include market size and per capita income; market growth; access to regional and global market; country-specific consumer preferences and structure of markets (Jacob and Pettit 1988).

Ball and McCulloch (1993) explain that foreign investments do occur because of a relative price difference among nations. These differences stem from differences in production costs, which are a result of differences in the endowment of the factors of production and the level of efficiency at which they are utilized.

Membership in Regional Trading Blocks (RTBs) which represent forms of economic integration among countries is also an important factor as RTBs are designed to promote trade, increase the size of a unified market and mobility of factor services within member countries. Common external tariffs imposed by RTBs are likely to force non members to enter the market through FDI rather than through trade (UNCTAD 1998; Aharoni 1966; Blue Book Kenya, 2005). A country's membership in a binding multi national investment agreement and institutions concerning FDI such as bilateral investment treaties and double taxation treaties can reduce the perceived risk of investing there. Among the organizations that have an impact on the flow of FDI are the World Intellectual Property Organization (WIPO); the convention establishing the Multinational Investment Guarantee Agency (MIGA); the convention on the recognition and enforcement of foreign arbitral award; the convention on the settlement of investment disputes between states and nationals of other states. This was also reiterated by Litvak and Maule (1970) that as part of the international environment, the investor will take into account the safe guards which may protect his foreign position as a result of international law, treaties and the actions of the United Nations and its agencies.

In the case of FDI of a resource/asset seeking type according to Aharoni 1966, the focus of an investor would be on raw materials, low-cost skilled labour as well as skilled labour, technological, liquidity position of the firm, size of the capital outlay, innovative and other created assets (like brand names), and physical infrastructure (ports, roads, power, telecommunications). The UNCTAD (1998) and Africa Foreign Investor Survey (2005) further explain that some FDIs would be increasingly geared to technologically intensive activities so as to maintain and enhance their competitiveness. A destination possessing strong indigenous technology base is therefore vital for attracting such FDI as it would be able to provide inputs for modem production system like the skilled workforce, good technical and physical infrastructure.

For an efficiency seeking FDI, the factors considered by an investor include favourable balances in the costs of resources and assets listed above, adjusted for labour productivity as well as in other inputs costs, such as transport and communications costs to/from and within the host country. A foreign investor may also be interested in whether the host country is part of regional integration agreements that may be conducive to the establishment of regional corporate networks (UNCTAD 1998; Athreye and Kapur 2002; Africa Foreign Investor Survey 2005). These factors are also explained by Ellis and Williams (1995) and they refer them to the pull factors. This is because they entice a firm away from their existing region because of perceived attractiveness of the host country.

Ellis and Williams (1995) also explain push factors which may contribute towards a foreign investor investing in another country and leaving their own country. This are perceived difficulties in a company in an existing market. This includes market saturation, increased cost of production/supply due to rising inputs costs or increasing difficult regulatory environment and deteriorating levels of profitability. Aharoni (1966) discusses that a foreign investor may consider the possibility of launching a project outside his home country because of strong competition from abroad within its home market. He also explains another factor that influences an FDI is band wagon effect which acts as an important source of information on the foreign country. This refers to very successful activities abroad of a competing firm in the same line of business such that a potential investor will want to explore the same in order to maintain their relative size and relative rate of growth.

In addition, Litvak and Maule (1970) state that political factors impinge on the investment decision in many ways. First, economic policy in the patent country will be based in part on the political ideologies of those holding power. Second, the political ideology prominent in the host country will have a major bearing on the decision to invest. Third, and associated with the previous point, the political stability of the host country is a relevant consideration. This will be assessed by the potential investor on the grounds of the host country's record of nationalizations and expropriations, the process of governmental change, the political posture of the power elite, such as the politicians, union leaders, the armed forces, academics and mass media towards foreign investment. Lastly, as part of the international environment, the investor will take into account the safe guards which may protect his foreign position as a result of international law, treaties and the actions of the United Nations and its agencies.

The policy framework that affects the inflow of FDI is also reiterated by UNCTAD (1998) and Aharoni (1966). Tax exemptions, tax holidays or tax reduction for foreign investors, and similar incentives would play a positive role in attracting FDI into a given destination. Other types of incentives that may influence level of FDI include guarantees against arbitrary treatment in case of nationalization; government provision of such utilities as water, power and communication at subsidized prices or free of costs; tariffs or quotas set for competing imports; reduction/elimination of import duties on inputs; interest rates subsidies; guarantees for loans and coverage for exchange rates risks; wage subsidies; training grants and relaxation of legal obligation towards employees.

Unfavourable domestic tax laws have ceased to stimulate foreign investment just like court decisions that have been unfavourable to the domestic expansion of companies. In addition, balance of payments policy, which has at times been voluntary and at other times mandatory, has been a reason why some investors have invested abroad less than they might otherwise have done. The relevant aspects of the legal environment of the host country include taxation, freedom to repatriate earnings and capital, the degree of financial disclosure required, repatriation of dividends and capital, the extent to which equity participation by residents of the host country is required, the form of business organization permitted and the extent to which nationals of the host country must be employed to the company (Litvak and Maule 1970).

Policy permissive factors include right of establishment and related entry requirements; implementing regulations; and operating rules and administrative practices and procedures concerning the fiscal regime and incentives, repatriation of profits, dividends and capital, among others influence the inflow of FDI. These factors are the ones over which governments have the most control, and most countries have undergone a process of policy reform or structural adjustment which has made their economies more attractive to foreign investment (Aharoni 1966; Odle and Gara 1997). Economic and structural reforms are important factors in winning foreign investor confidence. They should aim at creating maintaining and/or improving the environment for business. This may include relaxation of entry restrictions in various sectors, deregulations in various industries, abolition of price controls, easing of controls over mergers and acquisitions and trade practises, removal of government monopoly, privatization and removal of foreign exchange, exchange rates and interest rate controls (UNCTAD 1998).

Odle and Gara (1997) also state that institutional structures and practices which include the fair and equitable nature of the judicial system; the existence of the rule of law; good governance, and general friendliness towards both local and foreign investors; political stability; and macroeconomic stability and predictability of the investment regime are factors that result to FDI inflows. Also for certain types of investment, for example those with heavy capital outlay and a long gestation and payback period, as in the case of mining projects, stability and predictability are of critical importance.

Litvak and Maule (1970) outline that any FDI in areas which are considered to influence the culture of the host country are likely to be resisted. They further explain that the question of political patronage is in existence despite the westerners considering it as being immoral to grease the palm of some foreign government official or businessman in both developing and developed countries. Also they state that in some countries foreign investors have neglected to appreciate the diversity of major cultural groups which have led to embarrassing and costly experiences. It is therefore important to acknowledge the social cultural factors of the host country before one invests.

2.3 Strategies for Attracting FDI

There are various international successful practices in building competitive strategies which have been defined to attracting and retaining FDI. Having strategies provides a means for top management to identify opportunities and threats from all over the world, formulate ways to handle them, and stipulate how to finance the strategies' implementation (Ball and McCulloch 1993). According to the Africa Foreign Investor Survey 2005, economic growth is driven by productivity and technology requires the articulation of appropriate FDI promotion strategies.

Where a government has, within a liberal framework, priorities and special goals in terms of attracting FDI that will most positively affect the country's performance, a well-targeted promotion programme can provide the means of achieving those goals. Such priorities or special goals may relate to the country's level of development and regional development programmers (Odle and Gara 1997). Therefore establishing government policy on FDI and the vision for its aims, role and contribution to the national economic development framework including its contribution to balanced regional development is vital. This action needs to be underpinned with legislation and institutional structures to give proper effect to policy. Unless government as a whole is convinced of and committed to an FDI policy, it is unlikely to maximise the opportunities for FDI or succeed with such policies in the longer term. Continuity and predictability of overall economic policy are important to maintain foreign investor confidence as it demonstrates political and economic stability. Therefore, the government should try to secure the understanding and support of wider society for the stated objectives and role of FDI in the economy, and thereby gradually remove fundamental objections to such broad policies as issues in adversarial political debate. Periodic evaluation of FDI policy is key to long-term success in attracting FDI and maximising benefits from investment.

Wells and Wint (2000) explain that a government can carry out investment promotion to attract investments itself, but this approach has the disadvantage that the government organization may be unable to acquire skills that are required if the activity is to be managed properly. The required skills may reside in the private sector and be difficult to attract to the public sector, especially with the salary constraints typical of civil services. An alternative approach is for the government to delegate the management of investment promotion activities to the private sector but this approach often has the disadvantage that the private sector will not handle well the attributes of the task that are more like traditional government tasks, such as servicing investors by acquiring permits and approvals from other government departments. Indeed, neither the wholly public nor the wholly private approach to the management of investment promotion is ideal. To avoid these two extreme approaches, the government conducted investment promotion through quasi-government organizations that is IPA.

Strategic Investment Promotion (2002) explain that establishing an IPA and determining its objectives and the legislative and governance structures of the agency is another strategy for attracting FDI by a host country. The IPA has to have a clear legal structure, powers and resources to carry out its mandate efficiently and effectively and be run professionally to be competitive in the world of attracting FDI. This is the primary reason why many countries have established dedicated IPAs and endeavoured to ensure that such institutions have the capacity and resources to deliver results. Economic development, including promotion of foreign investment, is a long-term process. The institutional framework should ideally be protected from short term political pressures that affect the efficiency of its operations.

Inculcating within the IPA a professional management and service culture, result-oriented ethos and innovative marketing approach in order to compete successfully in attracting new FDI and to ensure satisfactory continuity of the organisation culture can be used as stated in Strategic Investment Promotion (2002). Implementing the empowering legislation and establishing an IPA will not in themselves ensure a successful FDI programme. The IPA itself must be a professionally run organisation staffed by people who are dedicated and understand the mentality and business strategies of foreign investors and are prepared to go the extra distance in terms of helping investors to become established and run their businesses. The key to establishing a culture of direct relationships with potential investors and making things happen lies in the first instance in the selection of the governing board structure and the chief executive of the IPA as they will set the tone and direction for the institution. They provide business solutions to potential investors and improve the wider environment for investors by liaising with relevant government and other bodies concerning changes needed. They should be innovative in seeking investment in new and emerging sectors as they have the mandate and resources to undertake their work and are perceived as central to national development policy. Wells and Wint (2000) state that these agencies have the flexibility to attract personnel with the marketing expertise successful investment promotion requires who could simultaneously be easily controlled, evaluated, and motivated. This will enable the above be achieved.

Host country policies, laws and regulations relating to FDI together comprise a basic framework for the business-enabling environment that is conducive to capital inflows. In terms of best strategies used world wide to attract FDI , the effectiveness of policies, laws and regulations in attracting increased FDI requires that they be comprehensive, clear and fair, affording the investor the opportunity to establish and operate its business free from undue government interference and from subsequent unilateral change in the terms and conditions of the investment. A country's record in the implementation of its policy and legislative framework is also important, since its consistent application over time will enhance investor confidence in the country and contribute to the development of an attractive "investment climate". The policies, laws and regulations comprising the investment framework of a country include laws and regulations governing the establishment of business by investors, investment protection which is based on bilateral or multilateral treaties and fiscal regime applicable to investors (Odle and Gara 1997).

Deciding on incentives policy and ensure objective and regular evaluation of costs and benefits is another strategy. The government should take a look at the use of incentives and, before introducing any incentive, confirm that it is needed in order to compete. Numerous surveys of investor determinants have highlighted that incentives rank lower in importance than, for example, political and economic stability. If the location is fundamentally uncompetitive or if the commercial reasoning for the investment is faulty, incentives will not rectify the situation. Incentives need to be properly justified and reviewed regularly and then adapted or phased out once they have achieved their purpose. At the same time, peremptory or retrospective changes to existing incentives, which may damage the location as an investment destination in the eyes of international investors, should preferably be avoided (Odle and Gara 1997).

Strategic Investment Promotion (2002) indicate that it is vital to promote FDI by undertaking a comprehensive and professional marketing programme aimed at new and existing investors and by building the IPA as a credible and competent partner for investors is yet another strategy. This can be achieved by use of surveys of investor perception of the country as the basis for an image building programme that is aimed at the foreign investment community and international business media. Image-building is particularly important for countries which are new to investment attraction, are undergoing rapid political and/or economic reform, have been faced with violence or terrorist acts , or are small and therefore receive little international media coverage. Its role is primarily that of focusing on investor interest on the location and overcoming negative perceptions rather than directly persuading a multinational company to invest. Techniques which can be used to image building include segmenting markets, direct marketing, telemarketing, investment exhibitions, missions and seminars, targeting individual companies and key decision makers. Where possible, the existing foreign investor community, political figures and government officials could be used in promotion activities as "ambassadors".

As emphasised by Odle and Gara (1997), first and foremost, positive image building activities which are basically aimed at convincing the investor community that there exists, in a given country, a comparatively liberal and attractive environment for business operations is vital. The desired result is to maximize investor interest in discovering more about that country. However, to be effective, disseminated information must be accurate: the existence of an environment that is actually conducive and business-enabling is a prerequisite for image building activities. Otherwise, investors may significantly lose confidence in the country if initial inquiries reveal fundamental differences between reality and the publicized images of the promotional campaign. An IPA therefore needs tangible foundations on which to build credibility before taking on image building activities.

Odle and Gara (1997) continue to explain that the strategy of attracting FDI requires a targeted approach. A host country which is proactive in targeting investment will be better able to attract the kind of investment that is most appropriate to the country's longer-term development objectives than to those of a country which are inactive, or which use a broad-brush all-industry approach, and whose countries may otherwise therefore receive disparate, non-complementary and un-networkable kinds of investment. This could be done by identifying and targeting growing sectors where the country can offer competitive advantage can be used. Organising and conducting well planned country visits by potential investors, ensuring the provision of all relevant information and advice necessary to assess the country's attraction as an investment location could assist in achieving this strategy. To develop a marketing programme one has to understand FDI trends and factors propelling overseas investment and issues faced in harnessing FDI so as to foster growth and economic development. One has to also create an Investment Promotion Strategy explaining how to use an understanding of a location's strengths and weaknesses, build effective partnership that benefits can be derived and monitor and evaluate all this promotional activities.

Lastly, another strategy for attracting FDI is facilitating investment and servicing new and existing investors at all stages in the investment cycle from start-up through to post-investment and new expansion stages. Once the potential investor displays real interest, the process of country visits, negotiations, legal and regulatory matters, financing, location choice, property, and post-investment facilitation must all be provided in a professional way to the investor at the cost of the host country. Impressions count, even if the objective location determinants are of paramount importance. It is also important to remember that the investor is likely to be visiting other short listed locations on the same trip. Potential investors will always be interested in visiting existing foreign investors in the country, especially those from the same country or the same sector for unsolicited recommendation. The servicing of investors will also include the management of the post-visit and follow up and aftercare processes which involves putting together a development package for the investor, handling of requests for assistance on matters such as taxation, work and residency permits, company registration, tariffs, building permits and utility connections. The links with investors should be ongoing after start-up, with the objective of embedding the affiliate in the host economy and maximising the benefits associated with its presence, to the mutual benefit of the country and the investor (Strategic Investment Promotion 2002; Blue Book, Kenya 2005).

The above strategy is also reiterated by Odle and Gara (1997). They state that facilitating the entry of new investment and the operations of established investors is important. This is the provision of services to prospective investors in order to facilitate their start-up as well as to established foreign firms in order to keep them in the host country. Facilitation is the linchpin between the generation of investment and positive image building. Facilitation services convert the interest of investors into actual investments and ensure investor satisfaction with the business climate well into the implementation stage and beyond which is also referred to aftercare. A satisfied investor becomes the best advertisement a country can offer to prospective investors.

2.4 Factors Affecting Effectiveness of Strategies for Attracting FDIs

For most countries, there are factors that affect the effectiveness of attracting FDI. These factors can be measured by the host country in terms of the impact on job creation, exports or technology transfer. Musinga, J.M (June 1992) explains that no existing investment function can be considered as appropriate in explaining the factors that affect the effectiveness of FDI. This is because the conventional models developed are not appropriate for certain host countries especially in the developing countries due to the institutional and structural constraints in these countries such as absence of well functioning financial markets and other market imperfections. He further explains that the models for attracting and retaining FDI have been developed to suit only host countries conditions which tend to omit some seemingly important variables that influence some investments without proper justification.

According to Wells and Wint (2000), having activities that disseminate information about, or attempt to create an image of the investment site and provide investment services for the prospective investors is one of the factors that affect effectiveness of FDI, otherwise local firms may voluntarily restrict information flows to prevent the entry of new potential competitors.

Wells and Wint (2000) also explain that having activities aimed at improving the business environment in the host country assists in the effectiveness of strategies of FDI. This role can range from providing assistance to potential and existing investors in their daily problems to lobbying for key policy and legal reforms. The neoclassical view is largely based on the premise that if governments work hard to build good investment climates, investors will automatically seek out the best investment opportunities. It is much easier to convince a potential investor to invest in an attractive business environment

The main and most robust variables appear to be the quality of the investment climate and market size of the host economy. The importance of these two factors is linked with the two main motivations for FDI: investments are especially sensitive to the investment climate, because multinationals can generally choose between locations, and investments aimed at the local market are most easily attracted by large markets. Other factors that affect the effectiveness of strategies for FDI include having the existence of genuine opportunities and proper infrastructure in a host country. If they lack despite having good strategies in place, there will be no FDI inflow.

The effectiveness of strategies can be affected by the stability and minimum level of budget and human resources allocated to attracting and retaining of FDI. Most of the funding comes from the host country's government (and sometimes from donors), which has a relatively slow adjustment cycle in its budgetary allocation. Anecdotal evidence collected at a country level reveals that fixed labour costs usually account for less than one-third of an agency's total budget according to Wells and Wint (2000). The bulk of expense is associated with buildings, promotion materials, advertisement, and promotional trips which affect the effectiveness of the strategies. Similarly, the professional staff assigned to attract FDI is correlated with the level of income from FDI in the host country. This is because a host country can achieve more when it has a minimal level of financing by paying for the staff and conducting unlimited and non discrete activities.

From the Strategic Investment Promotion round table (2002), it was discussed that allocation of resources both financial and human has to be optimal amongst the core functions which are devoted to the implementation of the strategies. These functions normally are image building, investor generation, investor services and policy advocacy. Generally, from various studies done before amongst various countries, policy advocacy tends to receive the smallest expenditures despite the very little emphasis put on this function. Policy advocacy collects information on investor perception which could be used to improve the business climate. This ranking reflects, at least partially, the fact that some functions are simply more costly than others and therefore the resources have to be optimally allocated depending on its contribution towards achieving the effectiveness of FDI strategies.

The characteristics of an IPA mandated to attract and retain FDI influences the effectiveness of its strategies. The conceptual framework developed by Wells and Wint (1991, revised 2000) suggests that an IPA's effectiveness to achieve the strategies is influenced by its institutional structures and reporting mechanisms. The most efficient agencies share a high political visibility and relatively strong private sector participation. These influences are generally magnified through the existence of a board of directors, which includes representatives from the private sector and is chaired by the country's prime minister or president. Other characteristics of the IPAs include the agency's legal status, age of agency, the institutional affiliation and linkages with the government, reporting arrangement to the central government, overseas representation and staff characteristics and salary policy. Participation of the private sector can also help increase the agency's visibility and credibility. Strong private sector linkages can enhance policy dialogue on investment issues and overall governance, management, and performance of the agency. In addition, it also raises the perception of objectivity by potential investors, who tend to be fearful of biased sources of information through purely governmental agencies.

The effectiveness of FDI strategies may be influenced an investor ceasing to have a competitive or ownership advantage relative to other Firms in the host country, the profitability of operating there may disappear. Or if the political or economic changes in the host country make the local project no longer viable, the reason for being there that is the locational advantage may disappear. Also, the local affiliate may be unjustified if the firm finds it no longer useful to internalize the activity, but may sell or rent it to another firm (Grosse and Kujawa 1992). This may be exogenous factors which are outside the organization's control but they may influence the effectiveness of the strategies.

CHAPTER THREE: RESEARCH METHODOLOGY

This Chapter discusses the research design, defines the population of interest and the sample and sample design which was used. The chapter also discusses the data collection and data analysis method used in this study.

3.1 The Research Design

This research was conducted through a survey method. The design was to enable the Researcher to examine the investor perception by looking at the role the strategies have played in attracting and retaining FDI from the perspective of various investors.

3.2 **Population of Interest**

The population of interest in this study consisted of 147 foreign investors in Nairobi (See Appendix II) in the two sectors namely; manufacturing and service. These foreign investors were facilitated by KIA between the year January, 2003 and December, 2006. This study excluded the population from previous period before the year 2003 because these strategies were not in place at KIA.

Nairobi was chosen because it comprises the largest population of FDIs which may be attributed to being the capital city of Kenya and the largest consumers of the products offered by the FDIS are based here.

3.3 **Sample and Sample Design**

Out of 147 foreign investments firms in Nairobi, 42 of them were selected for this study using disproportionate stratified random sampling as shown in table 2. This is because there was unequal sampling fraction from each stratum and it enabled better representation of smaller groups.

Table 2: Sample size

Sector	No of firms	No in sample
Manufacturing	41	17
Service	106	25
TOTAL	147	42

3.4 Data Collection Method

Primary data was used in this study which was collected using a questionnaire (See Appendix I). The questionnaire was divided into three sections, each with a specific purpose as follows;

Section A: To get information on the firm's profile

Section B: To establish the level of knowledge of the foreign investment on KIA

Section C: To capture data on effectiveness on strategies being used by KIA

The questionnaire contained both open and close ended questions. A 5 point Likert-type scale was also used with rates of 1 and 5 on both the firm's awareness of KIA strategies and influence the KIA strategies had on their decision to invest in Kenya.

Drop and pick method together with email was used. Information was sought from the investors. Follow up telephone calls was also used to improve the response rate.

3.5 Data Analysis Method

The unit of the analysis was the FDIs in Kenya. Once completed, the questionnaires were received back; they were checked and edited for accuracy, completeness and consistency. They were arranged to enable coding and tabulation before effecting statistical analysis (Cooper and Emory 1998) with the use of Microsoft excel software.

Descriptive statistics was used by way of mean scores to test both the investor perception of the effectiveness of KIA's strategies for attracting and retaining foreign investments and whether the effectiveness of the strategies is related to the foreign investment characteristics.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the results of data collected from the questionnaires in frequencies, percentages and cross tabulations analysis. 42 foreign investments based in Nairobi, were selected using disproportionate stratified random sampling from a population of 147 in two sectors; manufacturing and service. Questionnaires were distributed to the 42 firms of which 31 filled and returned. This represented a response rate of 73.8%, which was considered adequate for statistical analysis. The data collected was analyzed under the headings; sample characteristics, effectiveness of KIA's strategies for attracting and retaining foreign investments.

4.2 Sample Characteristics

Respondents were requested to give information on the sector their firm belongs to and the results are as shown in Table 3. The large majority (64.52%) of the firms who responded were from the service sector while the rest were from manufacturing sector (35.48%).

Table 3: Sector of firm

Type	Frequency	Percentage
Manufacturing	11	35.48
Service	20	64.52
TOTAL	31	100.00

Source Research data

Respondents were asked to indicate the number of branches their firms have within Kenya. The results as shown in Table 4 indicate that most of the firms have only one branch within Kenya (83.87%) while the rest have more than one (16.31%).

Table 4: Number of branches

No of branches	Frequency	Percentage
One	26	83.87
More than one	5	16.13
TOTAL	31	100.00

Source: Research data

Respondents were also asked to indicate whether they had any plans to expand their firms in Kenya in the future. Analysis of the data, as illustrated in Table 5, indicate that 67.74% of the firms responded saying they have plans to expand but dependent on improvement of the investment climate and the returns they will make from their investments. The other 32.26% expressed no interest in expanding their business in Kenya.

Table 5: Firms' plan to expand

Plans to expand	Frequency	Percentage
Yes	21	67.74
No	10	32.26
TOTAL	31	100.00

Source Research data

Table 6, below, indicates the results of the number of employees the respondents have in their firms'. According to the study, majority of the firms have over 25 and below 100 employees (38.71%), followed by below 25 employees (29.03%), then over 200 employees at 19.36% and lastly between over 100 and below 200 employees at 12.9%.

Table 6: Number of Employees

No of **employees**	**Frequency**	**Percentage**
= and >25	9	29.03
Over 25 but > or = 100	12	38.71
Over 200 but > or = 200	4	12.90
Over 200	6	19.36
TOTAL	31	100.00

Source Research data

Firms were requested to give a response with regard to their knowledge and interaction with the **KIA** as per the analysis shown in Table 7. The level of knowledge of the firms about **KIA** had a mean score of 2.84 out of 5 which is almost average. **KIA** needs to enhance awareness of its existence and its services amongst the investors to be more known. Both the duration taken by **KIA** to facilitate the firms various projects and the appropriateness of the duration had a mean score more than 3. The firms' average mean score of the rating of **KIA**'s services to them was 3.35. These scores are rated out of 5, which are slightly more than average thus leaving some room for improvement in terms of the duration taken to facilitate projects and services rendered to investors by **KIA.**

Table 7: KIA

Knowledge and interaction with KIA	**iMean score**
Extend of knowledge on **KIA**	2.84
Duration of project facilitation by **KIA**	3.81
Appropriateness of the duration taken by **KIA**	3.13
Rating of the services rendered by **KIA**	3.35

Source Research data

4.3 Effectiveness of KIA's Strategies for Attracting and Retaining FDIs

Respondents were requested to provide information which will assist in determining the investor perception of the effectiveness of KIA's strategies for attracting and retaining foreign investments which is the key objective of this study.

The strategies were put in a Likert scale where the greatest awareness and strategy's greatest influence to the firm's decision to invest in Kenya was given a value of 5 and absolutely no awareness was given a value of 1. This data was analyzed and the mean score per strategy was calculated and the results are shown in Table 8 below. The greater the mean score the greater the awareness and the greater the influence of the strategy towards decision made by the firm to invest in Kenya

Organizing workshops/ seminars/ meetings for foreign investors with relevant stakeholders and providing after-care services to foreign investments to monitor performance and concerns are the strategies that have the highest scores which are over 3.5 out of 5. This implies that most firms are aware of the existence of these two strategies on comparison to the other strategies being used by KIA. Mean while facilitating the revival and rehabilitation of collapsed investments is the least known strategy amongst the firms having a mean score below 2 out of 5.

Preparing and disseminating of investor information on Kenya and organizing workshops/ seminars/ meetings for foreign investors with relevant stakeholders strategies have mean score above 3 out of 5, being the highest in terms of influencing firms' decision in investing in Kenya. This implies that these two strategies have therefore played a role in influencing the foreign investors to invest and or retain their investment in Kenya, rendering them most effective. Facilitation of the revival and rehabilitation of collapsed investments and promotion of joint venture opportunities are strategies with the least mean score of less than 2 out of 5 in terms of influencing on firms' decision making. This implies that these strategies have played the least role in influencing foreign investors investing in Kenya.

Table 8: Strategies for Attracting and Retaining Foreign Investments

Strategy	**Mean Score Firm's awareness**	**Mean Score Influence on firm's decision**
Prepares and disseminates investor information on Kenya	3.48	3.32
Develops and recommends customised incentives for investors	2.94	2.52
Carries out research and policy advocacy to improve areas on foreign investments climate	2.65	2.48
Operationalise the Investment Promotion Act, 2004	3.35	2.16
Organizes workshops/ seminars/ meetings for foreign investors with relevant stakeholders	3.87	3.23
Provides after-care services to foreign investments to monitor performance and concerns	3.55	2.42
Offers business advisory services to facilitate viable investment decisions	2.90	2.10
Operates a 24 hour airport office for delivery of service to foreign investors	3.29	2.32
Facilitates the revival and rehabilitation of collapsed investments	1.58	1.68
Promotes joint venture opportunities	2.7	1.90

Source Research daia

Firms were also asked to state whether there were any other strategies that they were aware of their existence and are being used by KIA which had not been listed in the questionnaire. Some of the strategies stated by the firms included KIA having memorandum of understanding with other relevant organizations, using missions abroad in dissemination of information on investments and assisting in acquisition of work permits.

Firms were finally asked to state any other strategies which KIA needs to adopt in order to assist in attracting and retaining investments in Kenya. The most popular strategies recommended by the firms included KIA to initiate a one stop shop facility, to facilitate the improvement of business environment, advertise themselves more and create incentives for different investments.

4.4 Effectiveness is related to Investor Characteristics

The second objective of the study is to find out whether the effectiveness of the strategies being used by KIA in influencing the firm in investing in Kenya has any relation with the firm's characteristics. The characteristics considered in this study include the sector the firm belongs to, the number of branches the firm has in Kenya and finally the number of employees the firm has.

Table 9, below, indicates the mean score of the respondent's responses with regard to the type of sector their firms belongs to. The mean score of the firms in service sector (2.51 out of 5) is much higher than the firms in manufacturing sector (1.98 out of 5). This shows that firms in the service sector are more influenced by the strategies being used by KIA than firms in the manufacturing sector.

Table 9: Mean score of strategies influence on sector of firms

Type	Frequency	Mean Score
Manufacturing	11	1.98
Service	20	2.51

Source Research data

Below in Table 10 are the results of the mean score of the respondent's responses with regard to the number of employees each firm has. The mean score of the firms with one branch is 2.21 while firms with more than one branch are 2.73 out of 5.This indicates that firms with more than one branch in Kenya are more influenced than those with only one branch by the strategies being used by KIA in making their decision to invest in Kenya.

Table 10: Mean score of strategies influence on number of branches of firms

No of branches	**Frequency**	**Mean Score**
One	26	2.21
More than one	5	2.73
TOTAL	31	

Source: Research data

The mean score calculated out of 5 for respondents' response in relation with the number of employees and their firm being influenced to invest in Kenya are shown below in Table 11. The mean score of the firms with less than 25 employees is 1.95, firms with less than 100 but over 25 is 2.36, firms with more than 100 but less than 200 employees is 2.65 and firms with over 200 employees is 2.8. This shows that firms that have over 200 employees are more influenced by the strategies being used by KIA to attract and retain investments in Kenya. It is followed by firms that have over 100 but less or equal to 200 employees and then firms with over 25 but less or equal to loo employees. The firms with equal or less than 25 employees are least influenced by the strategies used by KIA.

Table 11: Mean score of strategies influence on number of employees of firms

No of employees	**Frequency**	**Mean score**
= and >25	9	1.95
Over 25 but>or= 100	12	2.36
Over 100 but > or = 200	4	2.65
Over 200	6	2.80
TOTAL	31	

Source Research data

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Introduction

This study was undertaken to address two key objectives: to determine the investor perception of the effectiveness of KIAs strategies for attracting and retaining foreign investments **and** to establish whether effectiveness is related to investor characteristics. This chapter provides the summary of the findings, conclusions, limitations, **and** suggestions for further research of the study.

5.2 Summary, Discussions and Conclusions

The sample characteristics of the respondents show that majority of the I'DIs belong to the service sector. This could be attributed to the fact that this area has a lot of potential in terms of growth and opportunities in Kenya which are have not been fully explored. Service scctor encompasses various industries like computer services, telecommunication, multi level marketing, import and export of products, computer assembly, and call centers amongst many others. Majority of the respondents currently have only one branch in Kenya but have plans to expand in the future. This may be explained by the fact that most of the firms are relatively new in the market and are yet to fully explore the existing markets and other factors of that positively affect inflow of FDIs into Kenya. The respondents also indicated that they are not very much aware of the existence of KIA which could be attributed to KIA not advertising itself extensively or not using the right advertising channels.

The key objective of this study is to determine the investor perception of the effectiveness of KIA's strategies for attracting and retaining foreign investments in Kenya. From this study, the results show that majority of the firms which have invested in Kenya are mostly aware of two strategies. These strategies include organizing workshops/ seminars/ meetings for foreign investors with relevant stakeholders and providing after-care services to foreign investments in order to monitor their performances and concerns. Also from the results of this study, there are two strategies that have mostly influenced the investors' decision to invest and or retain their investments in Kenya rendering them most effective. They include preparing and disseminating of investor information on Kenya and organizing workshops/ seminars/ meetings for foreign investors with relevant stakeholders.

From the study, KIA has adopted some of the international successful strategies for attracting and retaining FDI as described by Odle and Gara (1997) of which some of them have proved to be effective. Against these strategies, KIA can measure and benchmark the success of its activities with those of other IPAs with whom they are competing with globally. Similarly, KIA can make significant advances in improving their policies and structures that support FDI with regard to the overall vision and strategy for the promotion of FDI. For the strategies which have not been effective, as discussed during the round table of Strategic Investment Promotion (2002), KIA may consider improving on them or replacing them with other strategies. It is therefore important to continuously monitor and evaluate the effectiveness of the strategies being used not to render them futile (Greene and Villannueva 1991).

The second objective of this study is to establish whether strategies effectiveness is related to investor characteristics. The characteristics studied include the number of branches and the number of employees the firms have and the sector they belong to. The results indicate that firms in service sector are more influenced than those in manufacturing sector and the more the branches a firm has, the greater the influence on investor's decision to invest in Kenya. The results also show that the lesser the number of employees the lower the influence and the higher the number of employees the greater the influence on the investor's decision to invest in Kenya.

On comparison with study done by Morriset and Johnson (2004) it clearly comes out that effectiveness of investment promotion and retention strategies tends to have a relationship with some of the investor characteristics. From this study, KIA may therefore consider realigning its investor targeting and retention strategies to focus on FDIs with characteristics which are influenced by the same.

5.3 Limitations of the Study

The researcher had financial and time resources limitations to survey all the 147 foreign investments in manufacturing and service sector in Nairobi. The other limitation was the unavailability of some of the directors of the FDIs' which resulted to some firms not responding to the questionnaire at all or on time. This made the researcher take longer time than had been anticipated earlier on.

5.4 Suggestions for Further Research

Further research could study all local investments and other foreign investments sectors such as tourism, agriculture and agro processing which have been omitted in this study. This study focused only on the foreign investments in the manufacturing and service sectors. A comparative research could also be carried out in other investment promotion agencies across the member countries of East African Community like Tanzania, Uganda and Rwanda who are some of the key competitors to KIA. This could assist KIA in repositioning itself amongst its competitors with regards to the strategies they are employing in attracting and retaining investments. Finally, an exact similar research in the manufacturing and service sectors in Kenya could also be carried out in future to check the future impact of both old and new strategies which KIA will have adopted by then.

5.5 Recommendations for Policy and Practice

This study lias identified that some of the strategies being used by KIA are more known to the investors than others. Similarly, some of the strategics have had more influence to the decision of the investors in investing in Kenya than others. KIA therefore needs to intensively and extensively create awareness of all their strategics to both potential and existing investors as these strategics may influence their decision to invest in Kenya. As emphasized by Odle and Gara (1997). KIA should embark on positive image building activities which may be embedded in their strategies of which in the process may create awareness as described above. Similarly, KIA can strengthen its position amongst competitors in attracting and retaining investments by taking advantage of the strategies that arc more known anil the ones that inllucnce investors to invest and or retain investments in Kenya. KIA may also focus more on the service sector than the manufacturing sectoi when attracting and retaining investments because from the results, they are more influenced in terms of their decision to invest in Kenya by the stmtcgics being used.

From the results also, it has emerged that there exists strategies which KIA has not adopted. Some of the recommended strategies by the study respondents lor adoption by KIA include initiation and implementation of a one stop shop facility for investors, having policy advocacy on improvement of business climate and creation of incentives for different investments. In conclusion, KIA therefore needs to keep updating and amending their strategies over certain periods of time in order to keep up with the investors' needs and wants. This could be achieved through having frequent research and interaction with all relevant stakeholders who include the investors.

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APPENDICES

APPENDIX I: Questionnaire

1. Please provide the following information by either filling in the spaces provided or ticking against the alternatives given. All your responses will be treated with strict confidence.

A: Organization Profile

1. Name of Company (optional)

2. Year Established

3. Country of Incorporation

4. Industry sector of the Company (Tick one)

Manufacturing	[ ]	Service	[ ]
Tourism	[ ]	Agriculture/Agro processing	[ ]

5.Nature of Business Activity of Company (e.g. Glass manufacture, Textile, Real estate, Banking, Security, Catering, Pharmaceuticals e.t.c)

6. How many branches do you have in Kenya?

7. Does the Company intend to expand business? If yes, approximately after how many years?

8. Which market segment do you serve? (Tick one)

Domestic [ ] Foreign [ ] both Domestic and Foreign [ ]

9. How many Employees do you have including the partners?

10. Respondent's job title in the Co

Partner/Director [ ] Manager [ ] other (specify) [ ]

B: Kenya Investment Authority (KIA)

Please tick one

11. To what extent had you known of KIA before you invested in Kenya?

1 Not known at all

2 Very little known

3 Moderately known

4 Quite known

5 Very well known

12. a) Approximately, how long did it take KIA to facilitate your project/needs after you first visited them?

1 More than 3 years [ ]

2 More than 2 years but less than 3 years [ ]

3 More than 1 year but less than 2 years [ ]

4 More than 6 months but less than 12 months [ ]

5 Less than 6 months [ ]

b) How appropriate did you find the above duration taken by KIA?

1 Not appropriate at all [ ]

2 A little appropriate [ ]

3 Moderately appropriate [ ]

4 Quite appropriate [ ]

5 Very appropriate [ ]

13. How would you rate the services you got from KIA?

1 Very poor

2 Poor [ ]

3 Fair [ ]

4 Good [ ]

5 Very good [ ]

C: **Kenya Investment Authority's (KIA) strategies for Foreign Investments**

14. To what extent would you say your decision to invest in Kenya was as a result of the following KIA strategies? Please rate your awareness of the strategy and the extent to which the strategy awareness influenced your decision to invest in Kenya.

Use a 5 point scale where 1= Not at all and 5 = Very Great.

	KIA's Strategies	**Your Awareness**					**Influence on your decision**				
		1	2	3	4	5	1	2	3	4	5
1	Prepares and disseminates investor information on Kenya	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
2	Develops and recommends customised incentives for investors	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
3	Carries out research and policy advocacy to improve areas on foreign investments climate	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
4	Operationalise the Investment Promotion Act, 2004	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
5	Organizes workshops/ seminars/ meetings for foreign investors with relevant stakeholders	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
6 **1**	Provides after-care services to foreign										

	investments to monitor performance and concerns	• [] [] [] []	[] [] [] [] []
7	Offers business advisory services to facilitate viable investment decisions	[] [] [] [] []	[] [] [] [] []
8	Operates a 24 hour airport office for delivery of service to foreign investors	[] [] [] [] []	[] [] [] [] []
9	Facilitates the revival and rehabilitation of collapsed investments	[] [] [] [] []	[] [] [] [] []
10	Promotes joint venture opportunities	[] [] [] [] []	[] [] [] [] []

15. Are you aware of any other strategies being used by KIA but not listed above? If yes, specify them below and rate the awareness and influence accordingly.

	Awareness					Influence				
	1	2	3	4	5	1	2	3	4	5
a)	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
b)	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
c)	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

16. Suggest any other strategies for KIA to adopt in attracting and retaining foreign investments

APPENDIX II: List of FDIs in Nairobi

SERVICE SECTOR

1 ACME Blue Chips
2 Adeel Marketing Ltd
3 Africa Clean Energy Transaco Ltd
4 Africa Clean Energy Windflow
5 Africa Geosurvey Ltd
6 African Grounds Ltd
Afro-Asia Investments Co. Ltd
8 Aggarwal General Trading Ltd
9 Al Jazeera International Ltd
10 Alcatel East Africa Ltd
11 Ama Industries Ltd
12 Ando Roofing Products (k) Ltd
13 Ansellia Holdings Ltd
14 Ariviakom (PTY) LTD S.A
15 Astool Factory Ltd
16 Bahco east Africa Ltd
17 Bakri International Energy Co. (K)
18 Best Brand Ltd
19 Business Day Kenya Ltd
20 Casmir Ltd
21 C edar International (EA) Ltd
22 Chengdu Guangling Kenya Co. Ltd
23 China Farm Products
24 Chinese School Kenya Ltd
25 Clips Limited
26 Convivium Housing Ltd
27 Dart Express Kenya Ltd
28 Datang Optical Company
29 De La Rue Currency & Security Print Ltd
30 East Morton Trading Co. Ltd
31 Ebizafrica Ltd
32 Edesa Kenya Ltd
33 Erdemann Property Limited
34 Exlusive African Treasures Ltd
35 ExpoLanka Ltd
36 Fasr Track Kenya Ltd
37 Go Africa travel Limited
38 Godrej& Boyce Manufacturing Co.
39 Great Benefit International Ltd
40 Greatland Pharmaceutical Ltd
41 Gypsum Art Limited
42 Havenlea Homes Ltd

43 Health Action International Africa
44 Highware Africa Ltd
45 Horizon Ivato Supermarket Ltd
46 Infinity Dynamic Enterprise
47 Interest Research Bureau (K) Ltd
48 Interlink Accet management/Advisory Service
49 IPCA Laboratories Ltd
50 IT Recycle Kenya Limited
51 Jan Weimar Baustoffe (K) Ltd
52 Jencons (Scientific) Ltd
53 Jetweb Limited
54 Jims Trading Co. Ltd
55 K.M. Drilling Ltd
56 Ken plastics Limited
57 Kenya Direct Company
58 Launch Tech East Africa Ltd
59 Lucky House International Ltd
60 Magdalene Telecom Kenya Ltd
61 Makini Exporters Co Ltd
62 Mysona and Associates
63 Net force Ltd
64 New Sudan Women Federation
65 Nokia Telecom Corporation
66 Norwegian Stars Kenya co. Ltd
67 Old Mutual Life Assurance Co.
68 Organic Foods Supplies Ltd
69 Pantex Pro (Agoa ATM Enterprises
70 Pasico Eastern Africa Ltd
71 Pat- Drill Africa Ltd
72 Pentax Investment (E.A) Ltd
73 Pharmax Wagaine Kavena Doudou Ltd
74 Phoenix Oil & Gas Ltd
75 Pick A phone Limited
76 Portals and E- Commerce
77 Q partnership East Africa Co. Ltd
78 Rasi Trading Co. Ltd
79 Reha Med Ltd
80 Ridgeback Ltd
81 Riftvalley Railways (kenya) Ltd
82 Roberts Consultancy Services
83 Safe School Bus
84 Scorpio Telecommunications Ltd
85 Sea Harvest (K) LTd
86 Skill Cntracting Co.Ltd
87 Socabelec East Africa Branch

88 Strategic Industries Ltd
89 Stuttafords International Fashion Co Ltd
90 Super Beauty Parlour ltd
91 Taiwan Trade Centre Inc.
92 Tasly Africa (Kenya) Ltd
93 Tata Africa Holdings (k) Ltd
94 Taylor Winch (Coffee) Ltd
95 This - me Africa Ltd
96 Tianchi Health Products
97 Transmed Pharmaceutical Co. Ltd
98 Visergy Ltd
99 Woodside Energy Kenya Pty Ltd
100 World Training Centres Inc
101 Wu yi Kenya Company Ltd
102 Xianghui (k) Co. Ltd
103 Xin Yuna Construction Investment Ltd
104 Y.B.P Enterprises Ltd
105 Zana Zindukana Ltd
106 Zenith Rubber Roller (E.A) Ltd

MANUFACTURING

107 Aucma Digital Technology Ltd
108 Baby World Ltd
109 Baus Optical Co Ltd
110 Changhong Electronics (E.A) Ltd
111 China San Yuan(Kenya) Ltd
112 Crystal Bull Kenya Ltd
113 Curacid Kenya Ltd
114 Dong Fang Auto Assembly Co. Ltd
115 Essential Structures Africa Ltd
116 Focus Motorcycle Manufacturing
117 Future Industry & Trade Co Ltd
118 Gold Lida Ltd
119 Hailat Knitting Enterprises Ltd
120 Hua Long Auto Repairs Co Ltd
121 Hwan Sung Industries (K) Ltd
122 K.P. Suppliers Co. Ltd
123 Kenkor Foods Ltd
124 Kenya AA Electric Crane Co
125 Kenya Poly plast Ltd
126 Kenya Xianghui Manufacturing & industry
127 Lulu Development Co. Ltd
128 Manchester outfitters (E.A) Ltd
129 Mc Croft Marketing & Distribution
130 MC Croft Tobacco Kenya Ltd

131 Mehag Enterprises Ltd
132 New line Ltd
133 New star Ltd
134 Olympic Products Ltd
135 Oracle Systems Ltd
136 Rajpal International Ltd
137 Reliable Electrical (NRB) Ltd
138 Russ motors EA Ltd
139 Santa Teresa Shoes Ltd
140 Seena Industries Ltd
141 Solar & Housing Limited
142 Speccon Company Limited
143 Sun-City Construction
144 Techno Plast Ltd
145 The Ice Man Limited
146 Universal Industries Gases Ltd
147 Weikang (k) Intern medical Applied Co

AGRICULTURE/AGRO PROCESSING

148 Pannar Seed Kenya Ltd
149 Phoeni paper Ltd

TOURISM

150 Afko Express lime Ltd
151 Al Pasha Coffee Bar
152 Blue Bell Ltd
153 China King Restaurant
154 Eyeson Africa Adventure safari ltd
155 First Button Dev. Ltd
156 For You Chinese Restaruant
157 Golden Jubilee Ltd
158 Golden Spur Ltd
159 Indaba East Africa Limited
160 Karen Country House Limited
161 Kingdom Hotels Ltd
162 Nineteen Twenties Sfari Camps Ltd
163 Oasis Adventures Ltd
164 Palacina Development Ltd
165 Pamba Grill Ltd
166 Pamba Investments Ltd
167 Pink Elephants ltd
168 Sawa Sawa Adventures Ltd