

**INFLUENCE OF FOREIGN DIRECT INVESTMENT ON SOCIO -
ECONOMIC DEVELOPMENT OF KENYA COMMUNITY
DEVELOPMENT FOUNDATION IN KENYA**

BY

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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 the University Supervisor.

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DEDICATION

This research project is dedicated to my father Mr Fredrick Gachagua and mother Mrs Maryanne Gachagua for bringing me into this world and for all the support and love they have shown me over the years.

ABSTRACT

The purpose of the study was to investigate the influence of Foreign Direct Investment on Socio Economic development on Kenya Community Development Foundation in Kenya. Generally speaking FDI is an important tool in the development of a country and its increased role in the developing and emerging economies has raised expectations of its potential contribution to their development process. FDI brings significant benefits by creating large number of jobs, improving infrastructure and introducing modern production and management practices but with all its innumerable benefits governments need to be selective in their acceptance of all forms of FDI and channel high quality forms to socio economic areas such as education and healthcare so as to achieve holistic growth and reap fully from the benefits of FDI. The study adopted a case study format and was conducted through interview guides which were done face to face in order to gain a comprehensive in-depth perspective of the research topic. Data collected was analysed using content analysis.

The study established that FDI plays a very important role in the socio economic sphere and empowers communities to be self reliant and take charge of their developmental agenda in the long term. The study also investigated the factors that led to foreign firms investing in a particular country and factors such as the country's perception in the mass media and similar firms operating in the host country, educated workforce, governance issues, availability of opportunities, a conducive investment climate and proper documentation played a significant part in attracting firms to invest in a country. The study also highlights the vital role FDI plays in socio economic development and it was established that it played an important part in providing basic needs such as education, healthcare and food security that contributed

to sustainable economic growth, FDI also played an important role in introduction of income generating activities that enabled communities to be self-reliant and take charge of their developmental process and lastly it concluded that FDI plays a vital role in the long term development of a country through forming of partnerships and coming up with innovative solutions to local challenges.

The study concluded that FDI plays an important role to a country's development process and that it should be channelled to key sectors that will assist the country achieve holistic growth. The study therefore recommended in line with the importance FDI plays in socio economic development that the Kenyan government should work with intermediaries such as Kenya Community Development Foundation to channel foreign funds to socio economic sectors vital for the country's development, the study also recommends the need for the Kenyan government to come up with a clear policy paper on corporate social responsibility to act as guide as to which sectors foreign firms can invest part of their profits and lastly it was a recommendation of the study for local communities to build their capacity in terms of enhancing education standards and building sustainable partnerships with foreign firms in order to achieve long lasting development.

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LIST OF ABBREVIATIONS

FDI	-	Foreign Direct Investment
MNC	-	Multi National Corporation
TNC	-	Trans National Corporation
KCDF	-	Kenya Community Development Fund
ECD	-	Early Childhood Development

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

International business is special because it occurs within a dynamic integrated system that weaves together four distinct elements which are; forces of globalization, national business, international business environment and international firm management. First and foremost globalization is a potent force transforming our societies and commercial activities in countless ways. Drivers of globalization (technology innovation and falling trade and investment barriers) influence every aspect of global business environment.

On the other hand national business environment is composed of unique cultural, political, legal and economic activities that define business activity within that nation's border and differ from country to country but as nations open up and embrace globalization business environments are being transformed. Thirdly under international business environment, no business is immune to events in the international business environment, drivers of globalization are causing the flows of trade, investment and capital to grow and become more entwined and lastly as regards international firm management, companies must abide by the rules in every market in which they chose to operate and because of the widespread production and marketing activities firms commonly interact with people in distant locations within the international business environment. (Wild, Wild & Han, 2010)

International business is not an entirely new concept and has been with us for quite some time. International business developed from international trade that has a longer history than international business, it is as old as the civilization of man and can be

traced even to biblical times when King Solomon was involved with trade with the queen of Sheba from Ethiopia. Other key civilizations that were involved in the development of International trade were Mesopotamia, Greek and Phoenician merchants. The Roman Empire also played a pivotal role in enhancing foreign trade, after the fall of the Roman Empire there was a lull in international trade as the Catholic and Orthodox churches were the dominant forces at the time. The revival of international business came about when travellers from Western Europe and the Mediterranean countries went into other parts of the world and steady improvements and developments were made as they conquered new lands. Some of the first international companies to conduct trade were the British East India Company, Dutch East India Company and Hudson Bay Trading Company in USA and Canada (Yabs, 2006).

In a world where overseas development assistance (ODA) flows are diminishing and bank credit where available is subject to high and variable interest rates and portfolio investment carries its own risk, FDI according to the South Centre (1997) has come to be considered a major source of funds which also brings deeper integration into the world economy with growth potential it is deemed to offer and the notion that the 'business of business is business' is outdated. Decisions that are pro-business can also be pro poor. Companies that take a longer term view of their in-country operations have greater potential to contribute to poverty reduction and may also gain market share. (Clay, 2005).

1.1.1 Concept of International Business

International business in its current form can be defined as all commercial transactions including sales, investments and transportation that take place between two or more countries. Private companies undertake such transactions for profit while government undertake them for profit and other reasons according to Daniels, Radebaugh & Sullivan, (2013). International business involves commercial activities that cross national frontiers. It concerns the international movement of goods, capital, services, employees and technology, exporting and importing, cross border transactions in intellectual property (patents, trademarks ,etc) via licensing and franchising and investment in physical and financial assets in foreign countries (Bennett, 1999).

International business has grown in leaps and bounds and plays a paramount role in today's global environment and comprises a large and growing portion of the world's total business, therefore most managers need to approach their operational strategies from an international standpoint as the world become more integrated and interconnected through advances in technologies and business capacities as per Daniels et al. (2013). In addition as domestic markets become saturated and fully exploited and companies seek to grow profits and sales they need to acquire a global outlook and expand outside their home country. This is becoming a growing reality and therefore an awareness of major issues of international business is a valuable asset for a manger in a company that deals with supplies, customers, contractors and the like in other countries and it also develops a person's sensitivity to foreign cultures, values and social norms thus enabling individuals adopt broader perspectives and hence improve his or her managerial efficiency (Bennett, 1999).

1.1.2 Concept of Foreign Direct Investment

Foreign direct investment (FDI) by a rudimentary definition occurs when a firm invests directly in facilities to produce and/or market a product in a foreign country (Hill & Jain, 2006). To explain FDI we must explain control whereby the foreign entity wants to exercise control for two main reasons, firstly is to ensure prudent use of assets and thus ensure safety of their investment and secondly is the desire to remove competition between the foreign enterprise and enterprises in other countries to appropriate fully the returns on certain skills and abilities depending on the degree of imperfection in the market for the skill according to Hymer (1976) and the more ownership a company has the greater its control over decisions.

FDI is characterized by capital movement needed to acquire share of foreign enterprise and obtain desired control and the motivation of the investment is not higher interest abroad but profit derived from controlling the foreign enterprise. FDI came about when it followed that a spread of international investments would even out the firms worldwide revenues and enhance overall performance in the long run. Other macro-economic factors that have led to the enhanced uptake of FDI are the increase in world trade and opening of new markets, development of new technologies that can be transplanted between countries, liberization of economies of nations e.g. removal of exchange controls and on the repatriation of profits, establishment of common markets and regional trading blocs with common external tariffs (Daniels et al., 2013).

FDI has innumerable benefits such as it makes it possible for multinationals to exploit economies of scale. FDI helps both home and host countries expand economic

activities and make structural change less painful as per Ramstetter (1991). FDI is often valued for its contribution to capital formation, access to new export markets, training of the labour force, potential backward and forward linkages and introduction of new technologies and managerial skills as per Agosin, Bloom, Chapelier & Saigal (2007). And according to African Business (2011), firstly Greenfield FDI- where new operations are set up rather than existing companies taken over – can create large numbers of new jobs. Secondly, the financial influx can build infrastructure, provide technological expertise and inject human capital, all which can encourage associated African companies to become more efficient. Finally FDI can boost economic growth and generate more taxes, whether direct or indirect, to help fund national life, development and social welfare.

FDI is however fraught by various shortcomings such as it may displace domestic entrepreneurs or domestic investment according to Agesin & Mayer (2000) and when FDI remains an enclave operation exploiting natural resources with bad environmental practice, foreign affiliates take advantage of their proprietary assets to crowd out local competitors or engage in market distorting practices as per Agosin et al. (2007). Additional problems with FDI is the substantial investment it requires especially for Greenfield investments which are start-ups and for acquisitions and mergers satisfying precisely owners specific needs may be an uphill task (Daniels et al., 2013).

1.1.3 Concept of Socio Economic Development

The socio economic framework concerning FDI can be viewed from the angle of sustainable development which according to the Brundtland commission is defined as

development which meets the needs of the present without compromising the ability of the future generations to meet their own needs according to Daniels et al. (2013). FDI can and does make a positive contribution to a country's socio-economic development in a number of ways and to realise FDI full potential it is necessary to pursue a policy of firstly selectivity with respect to specific projects with preference to those with large technological spill overs and other socio-economic benefits and may involve limiting FDI to economic sectors and sub sectors regarded as promoters in a countries overall socio economic development.

Secondly selectivity with respect to magnitude and timing of capital inflows including FDI, government should be free to determine the composition of capital flows and be able to formulate appropriate policies of government intervention including those of FDI and lastly prudence with respect to total FDI flows as well as to the stock of FDI so as not to render the economy financially more fragile in context to future economic shocks. The country should have the right to select among FDI projects and regulate inflows for macro-economic reasons through the formulation of a policy framework to serve development interests and in essence be developmental friendly (South Centre, 1997).

Africa's and including Kenya's efforts to promote economic development have so far focused more on the liberalization sphere of the framework than on the economic growth, human and socio economic development sphere and without a doubt investment in education and health is crucial to sustainable growth in the region. Sustained economic growth requires a range of actions such as upgrading of Africa's physical and communications infrastructure will benefit from foreign investment.

FDI is nothing much than trade and as regards human and socio capital development there is widespread agreement that development without economic growth is unviable. No country has been able to attain higher levels of income for a broad spectrum of its population without a high rate of growth in income per capita sustained over several decades. There is agreement that development is a broader process than growth encompassing considerations of poverty reduction, equity, greater gender quality, greater productive employment for all, higher quality of employment, access to social services (e.g. education and health) that are indispensable for a life with dignity and preservation of the capabilities of people to satisfy their own needs. The United Nations Development Programme (UNDP) refers to human and social development to describe this broader notion of development. One of the major characteristics of human and social development is sustained long term growth and one of the indicators of quality of life is education in terms of school enrolment ratio and literacy (South Centre, 1997).

1.1.4 The Education Sector in Kenya

According to the Office of Public Communications (2007), the government of Kenya has heavily invested in education, given its role in spurring national development. The money spent on education has continued to go up over the years to match the increased school enrolment at all levels. In an effort to realise the Millennium Development Goals (MDGs) and Education for All (EFA) objectives by 2015, the government adopted the Kenya Education Sector Support Programme (KESSP) in 2005. There has been an increased access and participation at all levels, at the primary level the free primary school education (FPE) has led to increased pupil enrolment and more children joining secondary school. In addition the Government in

collaboration with development partners such as the Organisation of Petroleum Producing Countries (OPEC), the African Development Bank (ADB) and the United States Agency for International Development (USAID) has put in place infrastructure investment programme to coordinate the construction and rehabilitation in physical facilities in learning institutions. Commitment towards expansion and development of university education has been demonstrated by forming partnerships with private providers. And according to the Ministry of Education Science and Technology (MOSET, 2005), KESSP is based on the belief that quality education and training contribute to economic growth, enhance quality and leads to expansion of employment opportunities for all.

1.1.5 Kenya Community Development Foundation

Founded in 1997 and registered in Kenya as a public foundation, Kenya Community Development Foundation (KCDF) is a Kenyan development organisation that supports communities to drive their own development priorities, by linking them to resources and information. The foundation promotes sustainable development approaches by among other things, encouraging local resource mobilization, and helping communities to utilize resources that they have, rather than solely depend on external resources. The foundation was established to drive Kenyan communities toward self-progress by exploiting locally available resources and creating homegrown solutions to local challenges. As an organization that champions sustainability, KCDF overall aspiration is to be a resource that supports organizations supporting community development in perpetuity. To achieve this, with support from partners and indeed prudent investment, KCDF has invested substantial funds whose

returns will be used to support community development, in the long term through endowment funds. KCDF's theory of change is anchored on the premise that rapid and enduring change is possible when communities are able to initiate their own solutions to development challenges affecting them and harness and grow resources. KCDF encourages local ownership and leadership of development initiatives while partnering with organized community groups to strengthen their capacity and ensure they have appropriate governance structures that are accountable to beneficiaries and its stakeholders ([http:// www.kcdf.or.ke](http://www.kcdf.or.ke)).

KCDF is involved in education as it remains the only way of escape from poverty for the young generation. KCDF, since 2003 has invested both in physical and learning facilities for more than 24,000 children below 8 years; provided education scholarships support to more than 1,100 children in high school and youth in public and private universities and tertiary colleges. KCDF partners with various organizations such as Ford Foundation, Bernard Van Leer Foundation, MasterCard Foundation, ATE Bank –Greece and Microsoft. KCDF recognizes the role played by Early Childhood Development (ECD) in community and national development because it not only improves the situation of young children but is also a sustainable development strategy, integral to overall community development, thus in June 2004, Bernard Van Leer Foundation (BVLf) and KCDF signed a partnership agreement to help improve the situation of young children in Kenya. While the Kenyan Government has made commendable efforts in the implementation of the Free Primary Education Programme thereby increasing enrolment of children in primary schools to unprecedented levels, there remain troubling regional disparities in terms of quality of education for many children. In consultation with BVLf, KCDF designed

an ECD programme that would seek the wholesome development of the child. In addition, this programme would promote integration of ECD centers with income generating activities to ensure sustainability, pursue child rights and support development and use of appropriate teaching and learning methods and materials. Thus, investing in ECD provides future returns in reducing wastage in schools, reducing morbidity rates and improving the general health of the population. It not only enhances earnings and social adjustment but, in the long term, plays a big role in poverty reduction and economic advancement ([http:// www.kcdf.or.ke](http://www.kcdf.or.ke)).

1.2 Research Problem

There is a lot focus on the economic importance and implications of FDI yet the very aspect of the social implications are not adequately addressed or stressed upon and most developing countries want to fully liberalize the FDI coming into their country so as to gain a competitive advantage over other countries as they seek to attract FDI into their countries, but there are powerful arguments to suggest that a fully liberalized regime for FDI would not necessarily promote widespread growth and development or take account of developing countries socio-economic or political preoccupations (South Centre, 1997).

Education in Kenya plays a vital part in socio-economic development, as sustainable development is possible and such a profound change cannot be achieved without giving priority attention to the role of knowledge and education. Education in Kenya should be focused for sustainability but first focus should be given to educational for all where there should be programmes of meeting basic learning needs, reducing

illiteracy, expanding social service for children and improving quality of vocational education. According to Serageldin, Husain, Brown, Ospina & Damlamian (1997) a more educated society is by definition a more developed one where education should be viewed as a process of changing values and lifestyles, disseminating existing knowledge about need to achieve sustainable production and to improve management of natural resources and promote willingness within the general population to accept the changes required,

As regards investment in the education sector, Abagi & Olweya (1999) call on the government to give incentives such as tax waivers and/or low interest on education investment loans to be introduced to support development of education given the low investment levels and government inadequacies in financing and educational material provision. In addition according to the World Bank (1984) there is no question about the fundamental contribution of education to development of a productive population. Balanced education is required to meet specialized needs of a developing country and create healthier and more productive people and emphasis on basic education is required to generate the appropriate balance as it is heavily skewed towards university education and Kenya Community Development Foundation fills this gap. They recognize the role played by education in community and national development because it not only improves the situation of young children and youths but is also a sustainable development strategy, integral to overall community development.

Many studies have been carried out on the influence of investment in socio economic development specifically on the education sphere by among others Abagi&Olweya (1999), Ishumi (1994) and Abidi (1987). Their findings indicate that there are inadequacies in financing for education yet it is very important for long lasting

development and leads to increased earnings and material wellbeing and they call for the need of investment and funding in education to enhance economic growth through reallocations of funds to education, government incentives to investors among others. The researcher was unaware of any study that paid attention to the influence of FDI on socio economic development with particular emphasis on Kenya Community Development Fund which demonstrated a knowledge gap with regards to this research area.

The research therefore sought to find an answer to the question; to what extent FDI influences socio economic development of Kenya Community Development Foundation in Kenya?

1.3 Research Objective

The objective of the study was to determine the influence of Foreign Direct Investment on Socio-Economic Development of Kenya Community Development Foundation in Kenya.

1.4 Value of the Study

The study will be of importance to organisations that want to seek a more holistic approach to FDI and would like to approach it from a socio economic framework so as to make a greater, sustainable and meaningful impact in the areas where they operate and invest in given the importance that FDI has to the host country and the investing company.

The study will also enable the government formulate a policy that governs the use of FDI in a way that will enhance socio economic development in the country and act as

guide in terms of selecting of FDI inflows and channelling them into high priority areas that contribute to the overall development of the country.

The study would be a reference point for the development and donor agencies who seek to understand how foreign firms can assist in the socio economic development of a country through appropriate company policies that address sustainable development in the countries in which they operate and invest in and that also address forward and backward linkages.

The study would also be a reference point for the various stakeholders in the education sector who would like to better understand the contribution of education to the overall development of a country through a socio economic framework and its crucial role in sustainable development.

Lastly the study will be valuable and useful to other researchers who will pursue a similar line as it will contribute to the addition of existing knowledge and form a basis of further research. It will also be useful to scholars and the public at large.

CHAPTER TWO: LITREATURE REVIEW

2.1 Introduction

This chapter will discuss information derived from previous studies that are related to the current study. The researcher focused on selected factors that have been identified to study the influence of Foreign Direct Investment (FDI) on Socio Economic development. The factors that will be discussed are theories relating to Foreign Direct Investment, shortcomings of Foreign Direct Investment and FDI and socio economic development.

2.2 Theories of Foreign Direct Investment

According to Hymer (1976) if an investor directly controls the foreign enterprise his investment is direct investment. Once a firm undertakes FDI, it becomes a multinational enterprise as per Hill & Jain (2006). Based on this, the question would be on why a firm would decide to establish production facilities or invest abroad rather than export its product or license overseas entrepreneurs to produce instead (South Centre,1997). ? Various theories have been put forward to explain the determinants or motivations that would drive investors and Multinational corporations to undertake FDI. Some of the major ones of which we will discuss in detail include Market Imperfections (Internalization) Theory, Ownership Advantages Theory and the Dunning Eclectic Theory which encompasses the Location Advantage Theory.

To begin with Market Imperfections theory provides a major explanation of why firms prefer FDI to either exporting or licensing. Market imperfections are factors that inhibit markets from working perfectly. This theory is favoured by economists as

regards horizontal FDI in that market imperfections arise in two circumstances, firstly when there are impediments to the free flow of products between nations and secondly when there are impediments to the sale of know how (Licensing is a mechanism for selling know how) and as concerns vertical FDI the first explanation revolves around the idea that there are impediments on the sale of know how through the market mechanism, secondly it is based on the idea that investments in specialized assets expose the investing firm to hazards that are reduced only through vertical FDI (Hill & Jain, 2006).

Internalization theory heavily relies on the concept of transaction costs which are the costs of entering into a transaction i.e. those connected to negotiating, monitoring and enforcing a contract. It suggests that FDI is more likely to occur i.e. international production will be internalized within the firm when costs of negotiating, monitoring and enforcing a contract with a second firm are high. Conversely it holds that when transaction costs are low, firms are more likely to contract with outsiders and internationalize by licensing their brand names or franchising their business operations as per Griffin & Postay (2010) and according to Daniels et al.(2013) internalization theory encompasses control through self-handling of operations. It comes from transaction cost theory which holds that companies should seek the lower cost between conducting operations internally and contracting another party to do so for them.

Secondly as regards the Ownership advantages theory and according to the South Centre (1997) such advantages are thought to arise from economies of scale with respect to intangible assets such as skilled management capacity or organizational know how. Also the ownership advantage theory suggests that a firm owning a

valuable asset that creates a competitive advantage domestically can use that advantage to penetrate foreign markets through FDI. Assets could be a superior technology, well-known brand name or economies of scale (Griffin & Postay, 2010).

Thirdly the Dunning Eclectic Theory championed by John Dunning, which argues that in addition to the various factors already discussed, location specific advantages are also of considerable importance in explaining both the rationale and direction of FDI. By location specific advantages he means advantages that arise from utilizing resource endowments or assets that are tied to a particular foreign location and that a firm finds valuable to combine with its own unique assets (such as technological, marketing or management capabilities) and with respect to the internalization theory through combining location specific assets or resource endowments with a firm's own unique capabilities often requires FDI i.e. a firm to establish production facilities where foreign assets or resource endowments are located (Hill, 2009).

According to Vernon (1966) locational advantages arise in part from the fact that there is a production cycle involving several stages with new technology first being produced and used in the home country and once standardized shifted abroad because either nearness to the final market or lower factor costs make this advantageous. The Theory further asserts that the likelihood of a firm investing abroad depends essentially on firm specific factors, location specific factors that make it advantageous to invest in a particular country and 'internalisation' advantages which cause the internal transfer of labour, capital and technical knowledge within the firm to be more cost effective than using outsiders such as licensees, import agents, distributors and so on. Arguably firms invest in other countries to cut use of (expensive) suppliers and distributors, hence all stages in the supply process are brought under a common

ownership so that the full benefits of research and design can be obtained (by avoiding use of licensees) and working capital better utilised (Bennett, 1999).

2.3 Inadequacy of Foreign Direct Investment

Irrespective of what has been pushed forward about FDI in terms of its overwhelming benefits, it has some shortcomings which need to be addressed in order to obtain a comprehensive picture about FDI and take a sober approach to its operations. Among the acknowledged costs are the possible negative effects on the balance of payment (BOP) due, for example, to an increase in the import of inputs by subsidiaries and to the payments of dividends and royalties abroad more ever to the extent that Multinationals exercise considerable market power, not only do the direct costs of non-competitive pricing have to be considered but it is also necessary to take into account the overall inefficiency in the allocation of the resources to which pricing behaviour leads, also the adverse effects on the BOP are twofold, first set against the initial capital inflow that comes with FDI must be subsequent outflow of earnings from the foreign subsidiary to its parent company such outflows show up as capital outflow on BOP accounts, some governments have responded to such outflows and have restricted the amount of earnings that can be repatriated to a foreign subsidiary home country,

The second concern arises when a foreign subsidiary imports a substantial number of its input from abroad which results in a debit on the current account of the host country's BOP. FDI projects in net export generating activities and in which the foreign investors repatriate low dividends and reinvest most of the profits within the host country would be more favourable from this point of view. In view of the

absolute size of many Multinationals the question of their impact on the competitive environment becomes critical. FDI may have wider technological benefits through its spill over effects; it could also discourage the development of technical know-how by and in local firms and institutions to the detriment of the growth of domestic producers and the national economy. If it fails to generate adequate linkages with the local economy, FDI will have fewer beneficial spill-over effects and may on balance be harmful, case in point is transfer pricing which among other things diminishes the tax revenues going to the host government, the cache names attached to the output of subsidiaries and the associated advertising may give rise to economically and socially disturbing consumption patterns. There may be social costs in form of unemployment when FDI which is relatively capital intensive causes the more labour intensive local firms to close down and there is a net loss of jobs.

Host governments sometimes worry that subsidiaries of foreign Multinational Enterprises may have greater economic power than indigenous competitors. If it is part of a larger international organisation, foreign Multinational Enterprises may be able to draw on funds generated elsewhere to subsidize its costs in the host market which could drive indigenous companies out of business and allow firms to monopolize the market and once monopolized foreign Multinational Enterprises could raise prices above those that could prevail in a competitive market with harmful effects on the economic welfare of the host nation and is a concern for less developing countries with few large firms of their own, government regulations should ensure that foreign entities do not monopolise a country's markets (Hill, 2009, South Centre, 2007).

2.4 Foreign Direct Investment and Socio Economic Development

According to Reuber (1973) the empirical question is concerned with total net economic benefits in terms of real income and employment that home and host countries derive from foreign investment and how changes in policies are likely to affect these benefits. The Politico-Social question consist of two parts, therefore is there a positive or negative relationship between the economic benefits arising from foreign investment and the host countries' social and political interests and if there is a negative relationship, how much economic benefit are the countries prepared to trade off to achieve more fully their political and social goals. Foreign investment is seen as a threat to the independent development of its social and cultural life and the question is asked are the benefits sufficient to warrant the costs-political, social and economic? What arrangements might be made to increase the benefits of a given arrangements relative to their costs?

According to Agosin et al (2007) while Transnational Companies (TNCs) are interested in a limited number of private economic goals, nation states have a broader range of both economic objectives (GNP growth, full employment, improvements in income distribution, environmental protection) and non-economic objectives (sovereignty in decision-making, political and cultural identity). Also whereas TNCs are interested in maximizing global profits or sales, states are interested in maximizing the welfare of their citizens and in view of this divergence, some host countries may be worse off as a result of TNCs. They may lose control over strategic economic sectors, indigenous enterprises may be displaced in certain activities, jobs may be lost and the local environment may suffer.

The contribution of FDI to the economic development of a host country depends not only on its volume but also on its quality. The type of investment, the sector of destination, the kind of assets brought by the TNCs and the role played by the affiliates within the global network of the TNCs are important determinants. At the same time the characteristics of host countries affect not only the amount of FDI that is attracted, but its contribution to growth, competitiveness and human and social development. Many analysts have regarded TNCs as one of the main vehicles for allowing developing countries to begin to close the gap with world leaders in technology or at least to be able to keep up in a more open and competitive economic environment. In many sectors, especially the most dynamic and knowledge intensive ones, TNCs are often at the cutting edge in terms of process and organizational technologies.

Hence the key questions are the manner and extent to which developing countries may benefit from TNCs in order to foster their social and economic development and enhance their competitiveness and even if most technological inputs can be imported, developing countries have to foster what has been termed a “social” or “absorptive” capability according to Abramovitz (1986), Dahlman et al (1987) and Albuquerque (1997). In other words, developing countries must create a basic endogenous capability to assimilate and take advantage of foreign technology inputs. Although TNCs employ only 2 to 3 per cent of the world’s workforce (providing approximately seventy-three million jobs, twelve million of which are located in developing countries), they are particularly important employers in certain sectors and countries. TNCs may also generate jobs linkages by stimulating the development of backward and forward linkages within host countries. It has been estimated, in the case of a

number of developing countries that at least one or two generated indirectly for each worker employed by an affiliate of a TNC (UNCTAD, 1994).

There is considerable literature which argues that the characteristics of FDI inflows into the Asian developing countries from other developing countries mostly Japan as more conducive to national development. The basic thesis is that East and South East Asian countries have been following a 'flying geese pattern of development' in which FDI plays a central role. As Japan and subsequently other Asian newly industrialized countries (NICs) become more industrialized and their real wages rise they shift their more labour intensive and less sophisticated production to less developed neighbours where real wages are much lower. FDI is thus connected with a dynamic division of labour in a growing economy and as per South Centre (2007) the experience of successful countries in East Asia where FDI has played a significant role shows that countries have by and large used such investments in a purposeful way as part of the governments national and technological development policies, they have been selective in the use of FDI and meanwhile the current inclination of many countries to accept any and all FDI gives cause for concern in that such an approach may harbour for their future development prospects, not all FDI is conducive for development; some kinds may do more harm than good. The present era of liberalization and globalization with its freer financial flows and increasingly sophisticated financial markets carries opportunities and also significant hazards for developing countries and a global investment regime which took away a developing country's ability to select among FDI projects and to regulate inflows for macroeconomic reasons would hinder development and prejudice economic stability.

As per Agosin et al (2007) there are more influential determinants of FDI attractions- namely, host market size and rate of growth, physical and communications infrastructure, and the quality of human resources – than fiscal or financial incentives. These other determinants of FDI are especially important when governments are trying to attract high-quality FDI, from which substantial externalities can be obtained in terms of employment, human resource upgrading, value-added exports, technology and enhancement of environmental performance. To accomplish this task, profound institutional transformations are needed in most developing countries and especially in Low Income Developing countries (LIDCs). In this sense, it has been suggested that developing countries should move from incentive-based to rules-based competition, without impairing their domestic labour or environmental standards according to (Oman, 1998). This suggestion also makes sense considering that rules-based competition may not only benefit TNCs, but also enhance the country's structural competitiveness and significantly contribute to human development objectives.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the overall methodology used in the study in order to achieve the objectives of the data. They include the research design the researcher adopted, the chapter also discusses the data collection methods that were used and methods of data collection.

3.2 Research Design

According to Cooper and Emory (1995) that research design constitutes the blueprint for the collection, measurement and analysis of data. It is the plan and structure of investigation so conceived as to obtain answers to research questions. This study was conducted through a case study as they involve in-depth, contextual analyses of similar situations in other organizations where the nature and definition of the problem happen to be the same as experienced in the current situation as per Sekaran (2005). This was helpful as the researcher made inferences on the influence of Foreign Direct Investment (FDI) on socio economic development. The data collected assisted the researcher as he sought to draw conclusions relevant to the research topic.

3.3 Data Collection

Primary and secondary data were used for the study. The primary data was collected through a structured interview guide comprising of open ended questions to avoid subjectivity. The interviews were conducted through face to face method so as to pursue in-depth information about the topic. Secondary sources that were used were the organisations publications such as the annual report and periodicals, the researcher also made use of the organisations website.

3.4 Data Analysis

Content analysis was undertaken based on the qualitative nature of the data collected through the interview guide as it involved observation and detailed description of objects and errors which when occurred during the study were easily identified and corrected. The data collected was edited to check for completeness and consistency then checked for omissions and errors and arranged in a systematic manner to meet the purpose of the research objective.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. A total of four respondents were interviewed; two from Kenya Community Development Fund (KCDF) based in *Nairobi County, Kenya* and two from Omega Child Centre (OCS) from *Kitui County, Kenya*, this was done as Omega Child Centre is a partner organisation of KCDF and implements its policies therefore by interviewing senior managers of OCS I was able to obtain an in-depth insight into how the foreign funds were being used on the ground as KCDF acts as a bridge between the foreign fund providers and the beneficiaries. Those interviewed from KCDF were two senior programme officers while those interviewed from OCS were the Executive Director and the Chairperson of the organisation. The chapter analyses the influence FDI has on socio economic development and is divided into three major parts which are Demographic Information, determinants of Foreign Direct Investments and role of Foreign Direct Investments in Socio Economic Development.

4.2 Demographic Information

It was concluded from the findings that the respondents had sufficient experience working in the education sector as from the findings two respondents had indicated having worked between 8 and 10 years while the other two respondents had indicated having worked for between 18 and 21 years and were senior members of the organisation they worked in which made them appropriate to objectively answer the

questions that were presented to them as they had the necessary knowledge on the topic under study and were well versed with educational matters.

4.3 Determinants of Foreign Direct Investment

Foreign companies it was noted were attracted by a number of factors that made them invest in a particular country and this factors went a long way in determining the amount and scale of foreign investments that the firm would commit. The factors identified were able to distinguish one country from another and increase their attractiveness and competitive advantage among foreign firms and thus enabling them gain from FDI.

4.3.1 Country Perception

The respondents noted that how a country is portrayed by the media and other similar foreign companies operating in the host country will play a great role in attracting FDI into the country. If a country is portrayed in the mass media as been politically unstable experiencing civil unrest, having poor infrastructure, poor human rights records, lengthy business procedures and bureaucracy it will affect FDI coming into the country as the companies willing to invest will not be assured of security and a sufficient economic return. In addition if similar companies operating in the host country present a bad picture of the business environment based on their own negative experiences it may discourage in a large part other foreign companies setting up and in the long run even lead to an exit of the one's currently operating there.

4.3.2 Educated Human Resource

The study established that a skilled and educated workforce played an important role in attracting FDI into a country. An educated workforce is important because a company will have a ready human resource pool who will be having the requisite skills to enable the organisation continue smoothly with its operations thus eliminating the need of investing large amounts in trainings. In addition the workforce are innovative and knowledgeable in terms of local dynamics whereby they can be able to advice the firm on what products, services and policies can work under the local operating environment. They will also be able to execute the firm's policies and be able to fit in the local management structure due to the exposure and knowledge gained in the classroom.

4.3.3 Governance Issues

The findings established that issues such as transparency and accountability are important determinants in attracting FDI. This is because they will be assured that all their operations will be open and their dealings especially with government will be above board. In an atmosphere where corruption is rampant foreign companies wanting to set up will have to bribe their way around, whether it is obtaining licenses for operation or trying to procure a tender and will eat into their earnings substantially reducing them. Therefore governments need to have sufficient mechanisms and bodies in place that will ensure that those involved in corruption and other unethical practices are identified and prosecuted in order to act as deterrents and increase business confidence of the investors.

4.3.4 Availability of Opportunities

The respondents noted that where there are adequate opportunities to invest such as a population with middle to high income levels and availability of raw materials will attract foreign companies to invest in a county. Where the citizens have adequate income levels the foreign firms will have a ready market for their goods and services as the population has the purchasing power to enable the firm make considerable returns and lastly countries where valuable raw materials are located will be a very high attraction especially in the resource hungry world we live in, therefore those countries that possess raw materials that are important in driving the world economy will be important destinations for FDI.

4.3.5 Conducive Investment Climate

The study established that when the government provided an atmosphere that enabled businesses to operate successfully in, it was able to attract considerable amounts of FDI into the country. It could do that by honouring contractual obligations which it enters to with foreign firms such that irrespective of the political regime that is in place the contracts are honoured and are not backtracked upon, the government also should not have forceful takeovers of the projects they implement but should encourage mutual respect and understanding. Also the government should put in place adequate infrastructure such as a good transport system which would include good roads, developed railway system, good ports, good water and sewerage system and an elaborate energy system such as widespread and reliable electric supply. Also providing tax incentives such as tax refunds and reliefs for companies that want to invest in socio economic activities and one way this can be achieved is by the foreign

corporations being encouraged to provide part of their profits to established foundations to channel them to developmental activities in order to reduce their tax burdens.

4.3.6 Proper Documentation

The respondents were able to observe that a country or local organisations that keep proper records of successful projects undertaken will be able to attract foreign funds as they will be able to show their capacity to support and implement a foreign firm projects and demonstrate the impact they are having on the local communities in which they operate. The foreign firms want to know that they are getting value for money and this can be assured by seeing other projects that have been successfully undertaken and implemented through putting proper documentation and records.

4.4 Role of Foreign Direct Investment in Socio Economic Development

The study established that when FDI is used holistically it plays an important role in a country's socio economic sphere and when used well can ensure sustainability in the country socio economic developmental progress. It is able to bring about far reaching development that benefits not only the firm itself but the general population and the home country's economy and is able to result in a win-win scenario.

4.4.1 Providing Basic Needs

The respondents noted that if part of FDI is channelled in meeting basic needs such as healthcare, education and food security it would greatly improve community living standards and general economic and social welfare. This is because a healthy and

educated population will be productive and will be a great benefit to the foreign firm and home country especially in the long run. If a foreign firm only concentrates on its own economic wellbeing in terms of repatriation of profits and transfer pricing and ignores the local community challenges it will be unable to operate in the long run as the community will object to their presence which they will view as unbeneficial.

Therefore by investing in communities basic needs results in a win-win situation especially when they invest in education, it ensures not only the communities wellbeing but also the overall country development because education has trickle down effects that enables communities to come up with local solutions and be self-reliant, they can also enable the firm come up with innovative products, services and process which will enable the firm upscale its operations and reach. The firms are able to build a foundation through investing in these basic needs that would enable the citizens create and obtain better opportunities through building on their capacity.

4.4.2 Introduction of Income Generating Activities

The study established that FDI can be used in the initiation of income generating activities to ensure sustainability. This income generating activities would ensure community economic empowerment, food security and job creation especially for the youth who are able to stay away from socially negative behaviours. Through using some of the foreign funds in setting up income generating activities for the community in areas that they have a competitive advantage they are able to improve their livelihoods tremendously and the community ends up even offering support services to the foreign firms for instance transporting firm goods or construction of new firm facilities. This will also create a cordial relationship between the firm and

the community as the firm will be seen as a caring and responsible firm and the community will ensure that the firm's business is successful. Such income generating activities will place the community strategically as they will be able to develop their region through attracting customers and developing their own infrastructure through good returns and in turn attracting other foreign firms and building their own successful indigenous firms.

4.4.3 Long Term Development

The findings established that foreign funds can be used to ensure communities long term development through enhancing commitment and tracking progress through appropriate monitoring and evaluation tools. This can be applied especially in education whereby the link to higher educational levels can be observed and recorded and eventually can be tracked in terms of career placement and entrepreneurship. Another way of ensuring long term development is through introduction of endowment funds whereby some of the returns from the foreign firms and from the communities income generating activities are put into an endowment fund that will ensure adequate returns through resource mobilisation and ensure sustainability.

Also long term development can be achieved through community participation and ownership in projects initiated as they are made to understand the importance of the projects in improving their social and economic welfare and achieving self-reliance and in addition by linking with the experience and expertise brought along with the foreign firm staff in terms of best practice from other countries in which they operate and are able to pass it on through trainings and mentorship programmes will ensure continuity of the projects and businesses in the long term and lastly by virtue of

investing in education the foreign firms are able to ensure through instilling of academic knowledge and attaining of life skills the communities will be able to achieve long term development as coming generations will be empowered to come up with innovative and local solutions to local challenges through what they learnt at school.

4.5 Discussion

The study found that there was a gap in terms of focus and funding of socio economic development and that the government priority or lack of it is in areas such as military spending and focus on recurrent expenditure that do not bring long development to the country only draining away our limited resources. These findings confirmed researchers expectations, further the need for involving FDI in improving socio economic development was identified as been paramount in bridging government funding inadequacies been that as it is we live in a developing country that operates on a deficit budget. FDI that is selective and that is of high quality was seen to be beneficial to the country's overall development in so far as it is invested in priority sectors such as education and health.

Equally findings on this study support past studies and existing theory on the influence FDI has on socio economic development in a country. Ishumi (2008) noted that education is an investment in human capital and that it accounts for increased earnings and material wellbeing in society thereby increasing its socioeconomic health, he notes that in the medium term a measurable increment in social and economic progress can be attributed to an enhanced tempo and level of formal education. He states the need for investment and funding in education to eliminate

inadequacies and improve quality and relevance. He suggests that governments should increase current levels of financing of primary education to meet required material and pedagogical standards of basic education and that is imperative that the education that they receive at this basic level receives all the physical, material, intellectual and professional support possible to ensure permanent functionality of future citizens.

Also according to Agosinet. al (2007)they state that while TNCs are interested in a limited number of private economic goals, nation states have a broader range of economic goals and that whereas TNCs are interested in maximizing global profits or sales, states are interested in maximizing the welfare of its citizens. They also state that the contribution of FDI to the economic development of a host country depends not only on its volume but also on its quality. The type of investment, the sector of destination, the kind of assets brought by the TNC and the role played by the affiliates within the global network of the TNC are important determinants and at the same time the characteristics of the host country affect not only the amount of FDI that is attracted but its contribution to growth, competitiveness and human social development. This studies support the researcher's expectations on this research area.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides summary, conclusions and recommendations for further research from findings of the study. Study limitations are also discussed in this chapter. The researcher's objective was to determine the influence of Foreign Direct Investment on Socio-Economic Development of Kenya Community Development Foundation in Kenya.

5.2 Summary

The study was able to establish that FDI plays an instrumental role in the development process of a country and that there are several factors that contribute to the attracting of FDI into a country which places a country in a strategic position to be able to achieve its development through use of foreign funds that are channelled into a country. Nonetheless it is paramount to pursue a holistic approach concerning the use of FDI, because ordinarily FDI only focuses on the economic sphere which is not sustainable for a country development process as it is normally self-seeking especially for the foreign firms as they end up repatriating a huge portion of profits and involving themselves in transfer pricing and thus leaving the home country development needs with a huge gap. Therefore a socio economic framework policy needs to be pursued with regards to the composition and scope of FDI in a wholesome manner that will result in a win-win situation. Socio economic areas that need to be focused on are education, healthcare and food security that will ensure that the country's population will be educated and healthy and thus focusing their energies

and know-how to enabling the country pursue its development agenda and when this happens the foreign firm also stands to gain as they will be able to make productive use of an educated workforce and will be able to create an increased customer base for their products and services through economic empowerment.

KCDF is playing an important part in this process by acting as a vital intermediary between the providers of the foreign funds and the ultimate beneficiaries and thus contributing to improving communities' socio economic conditions and they go one step ahead by ensuring that the communities take charge of their developmental process because they believe that communities inherently have unlimited resources tapped from corporate entities who are willing to support developmental cases in a sustainable way in a given locality. KCDF are able to ensure sustainability through capacity building and use of endowment funds that enable communities invest funds from foreign firms and their own income generating activities into high market rate of interest while keeping the core endowment principal intact and thus ensuring sustainability and scalability. Therefore it has been noted that FDI can be used in a beneficial way in improving the socio economic sphere of a country development process and in effect achieving substantive growth both for the host country and the investing firm.

5.3 Conclusion

The study came to the conclusion that FDI is very beneficial to a country's developmental agenda but it needs to be regulated and steered to key sectors that will assist the country achieve wholesome growth such as the education, health and agricultural sectors. Therefore governments need to attract high quality FDI and not

be to liberalized in their acceptance of FDI inflows into the country and in effect stagnating growth because of lack of prioritization of investment in key sectors such as infrastructure and allowing the foreign funds be used in areas that lead to the country being dependant on foreign firms and in effect not building country capacity to take charge of its developmental agenda and be self-sufficient, therefore there is need for the host country to channel FDI into productive areas that will put the country into the path of real and lasting growth.

One key area that high quality FDI can be channelled to is education as it is the basis for any meaningful change as it leads to economic empowerment that can lead to self-expression and ambition and the population will be able to come with local solutions to challenges bedevilling them and take charge of their own development process. This will have a trickle down effects into other sectors such as innovative healthcare solutions, enhanced food security measures and even reduce high unemployment through entrepreneurship. Once is this achieved the country can wean itself out of FDI and come up with its own MNC's capable of investing elsewhere on the globe and enhancing its competitive position in the global economy as it moves towards an export economy and in effect improving on its Human Development Index (HDI) standings, ensuring all round growth to its economy and benefit to its citizens.

5.4 Recommendations

A number of recommendations arose from this study given the importance FDI has on socio economic development and the role KCDF is playing in facilitating the achievement of that objective.

Firstly it was a recommendation of the study that the government should make use of local intermediaries such as KCDF to channel part of foreign firm's funds to socio economic areas as they focus on their core business and in effect will be able to benefit from tax exemption and relief from complying with this directive thus reducing their tax burden and improving communities' social and economic welfare. And in line with taxes collected from foreign firms the government should channel them to productive areas of the economy such as infrastructure development and into socio economic areas such as education and healthcare and not chiefly into recurrent expenditure. Therefore the government should come up with a rank system that will result in prioritisation of its development agenda to ensure that the country achieves self-sufficiency.

Secondly the government should come up with a clear policy paper on corporate social responsibility activities that will guide foreign companies on which sectors they can channel their funds to, this will avoid companies which misdirect funding as part of a public relations showcases but leave out real socio economic areas. By coming up with such a paper it will ensure that areas such as education and healthcare that are vital to a country's long term development get the required consistent investment.

Lastly it is a recommendation of this study that local communities and organisations should build their capacity in terms of promoting education and building beneficial partnerships with foreign firms that will enable sustainable and long term growth. One practical way this can be achieved is by putting up endowment funds with organisations such as KCDF that will ensure that the communities have a constant source of funds and ensure high returns, in addition they should set up income generating activities as per the communities strength that will result in economic

empowerment and will bring about a contagion effect as the national economy will gain from the establishment of small and medium enterprises which are the engines of growth for any economy.

5.5 Limitations of the Study

Though the study was largely successful it was not without its limitations. One challenge that the researcher encountered was the unavailability of senior personnel due to their busy schedules which lead to lapsing of time as the researcher waited for them to be available but the valuable information they provided more than compensated for the waiting period. The other challenge the researcher encountered was the cost factor involved in carrying out my research which included cost of printing, cost of purchasing stationery and transport costs as the researcher had to move around collecting the data.

5.6 Suggestions for Further Research

This being an important area of research critical to the development of the country, the researcher would like to see further research on the influence foreign direct investments has on other facets of the socio economic development such as healthcare and food security and the impact of national economic growth and development. Another area for further research is how communities that are recipient of foreign direct investments are able to take charge of their own developmental process and achieve self-sufficiency.

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Kenya Community Development Foundation is a site that presents the full text of many essential works in the literature of Kenya Community Development Foundation
<http://www.kcdf.or.ke>

APPENDIX 1: INTERVIEW GUIDE

INSTRUCTIONS

All information will be treated in the strictest confidence and will be used for research purposes only. Thank you.

PART A: GENERAL INFORMATION

- 1) Name (Optional).....
- 2) Designation/Position.....
- 3) How long have you worked in the education sector.....

PART B:

DETERMINANTS OF FOREIGN DIRECT INVESTMENT

- 4) Do you believe foreign firms have a role to play in socio-economic development? If yes what sectors should they be involved in?.....
.....
.....
- 5) What factors in your opinion help in attracting foreign funds into a country?.....
.....
.....
- 6) Kindly highlight the roles a highly educated workforce play in attracting foreign funds?.....

.....
.....
7) In your view under what framework can the government and foreign firms work together in education provision? And in your opinion how can the government encourage foreign firms participation in the education sector?.....

.....
.....
8) What factors does the organisation consider when distributing foreign funds?.....

.....
.....
9) What factors in your view have led to increased education penetration in the communities you operate in?.....

FOREIGN DIRECT INVESTMENT IN SOCIO ECONOMIC DEVELOPMENT

10) In what ways do you think the organisation through the provision of foreign funds has contributed to increased living standards and improved social welfare in the areas it operates in?.....

-
-
- 11) In your view kindly name some productive areas in the communities the organisation provides funds for education that family incomes are able to be diverted to
-
-
- 12) How do long term financial funds help improve communities developmental progress?.....
-
-
- 13) By attending the schools that the organisation assists to fund what socially negative behaviours are the enrolled children able to avoid?.....
-
-
- 14) In what other areas in your view has the organisation been able to contribute indirectly in terms of employment creation?.....
-
-

15) What kind of expertise do foreign firms bring to education provision along with foreign funds?.....

.....
.....

16) In what ways do the partnerships with foreign firms enable communities to be self-reliant and improve socio-economic conditions?.....

.....
.....

17) How does investment in education contribute to sustainable development and overall community development?.....

.....
.....

THANK YOU FOR TAKING THE TIME TO ASSIST.