An Assessment of the Factors Influencing Foreign Direct Investment Inflows in Kenya's Horticultural Industry

Samuel Njoroge
Head of Finance, Jamii Bora Bank, Kenya

Dr. Timothy Okech
Lecturer of Economics
United States International University (USIU), Kenya
E-mail:

Abstract

The purpose of this study was to assess factors that affect foreign direct investment (FDI) inflow in the Kenya's horticultural industry. These was guided by twofold research questions namely how does the policy framework in place determine the extent of FDI flows into the horticultural industry? what drives the direction of FDI flows across the various sectors of the horticultural industry? By adopting descriptive research design, the target population constituted small, medium and large enterprises in the horticultural industry that were foreign owned. In total primary data was collected from 185 enterprises selected using stratified sampling. The study revealed low investment in horticultural industry by foreign investors. This was attributed to poor infrastructure especially road network and telecommunications. Others were cumbersome regulatory framework whereby potential investors are subjected to bureaucratic and multiple screening and approval system; erratic weather conditions; unfair investment policy requirements for foreign investors; unfavorable labor laws and trade union activities; inadequate policy framework for fair competition; stringent requirement imposed in the EU market. In lieu of this, the study recommended among other issues concerted efforts by government to improve road network in the horticulture growing regions, continuous consultation between the government, trade unions and horticultural farmers for negotiation on labor related laws, provision of necessary information on EU market requirements, reduction in overreliance on rain feed farming as well improved governance structures and implementation of antitrust laws to ensure fair competition.

Keywords: *FDI,* horticultural industry, Kenya

1.1 Background of the Problem

Foreign direct investment (FDI) constitutes long-term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based (Salvatore, 2004). Various motives account for FDI. These include attraction of new sources of demand for their products, penetration of markets where excessive profits are available, full benefit from economies of scale, use of cheap foreign factors of production such as labour and land (Czinkota *et al*., 2005). Others according to Czinkota *et al*. (2005) include international diversification, reaction to trade restrictions and volatility of foreign currency, existence of stable political environment. In a report by Tian (2007), many Sub-Saharan Africa (SSA) countries including Kenya, have considered FDI as an engine of economic growth (see also IFC 1997). Kenya's proximity to Europe acts as a competitive advantage for the horticultural and floricultural industry as well as technological competence that facilitate access to European and US markets include have also accounted for the rise in FDI in the horticultural sector (UNCTAD, 2005, USAID 2008).

The private flower council and other government organs charged with improving standards in line with international requirements continue to amend according to prevailing global best practices further stimulate FDI in the country. The country has fulfilled EU aviation safety regulation and requirements making direct flights possible. This has enhanced timely delivery of horticultural and floricultural produce. The bulk of Kenya's flowers get to key European markets (including UK) through Amsterdam auctions while only a small portion is airlifted directly to UK. According to Tian (2007), FDI contribute towards improvement in management skills, access to technologies; and marketing expertise as well as market links. Rugman (1998) on the other hand noted that FDI encourages the transfer of management skills, intellectual property, and technology. Further, Rugman observed that FDI create jobs while at the same time improve the quality of goods and services produced in the economy. FDI also boost export thereby facilitating inflow of foreign currency which plays a significant role in influencing balance of payment positively. Kenya's total FDI as percentage of GDP rose from 0.86% in 1970 to 1.22% in 2000 however declined to 0.57% in 2003 (GoK, 2007).

Exports of fresh horticultural produce were estimated at 163,000 tons in 2006 and 192,000 tons (KFC, 2007). Fruits exported in 2007 generated Ksh. 1.8 billion, while flowers and vegetables generated Ksh. 42.4 billion and Ksh. 21 billion, respectively (KFC, 2007). According to UNCTAD (2007), the floriculture sector (flowers and ornamentals) have after three decades in business reached maturity with total declared freight on board (FOB) value of Ksh. 43 billion in 2007 out of which Ksh. 67 billion was from horticulture. Additionally, floriculture is estimated to employ over 100,000 people directly, while indirect employees in transport, packaging, inputs are estimated at 1.2 million people who derive a livelihood from the export industry (see also KFC, 2007). Linkages with foreign investors have been most significant between agro processing investors and the large domestic agricultural sector. During the year 2008, flowers accounted for 47% of total exports quantity in the horticultural industry, vegetables for 43% and fruits accounted for 10% of the total exports quantity. The percentage share of total export values in the industry were; 69% for flowers, 27% for vegetables and 4% for fruits (CBK, 2008).

The statistics clearly indicate that if FDI in Kenyan horticulture industry is well harnessed, it could play a key role in the country's economic development. In Kenya Flowers Council (KFC) report of 2007, it was noted that there is great potential for horticultural production in many parts of the country including arid and semi-arid (ASAL) regions which are yet to be exploited. In a report by UNCTAD (2007), many factors account for Kenya's rise in the fresh produce for exports. These according to the report include conductive equatorial climate which allows year-round production, fertile soils, a competitive labor force with good education and technical background. Ngige (2009) contends that Kenya has an advantage in growing flowers because of its position on the equator where days and nights are equal, consistent temperatures between night and day and also the sea level which goes up to the altitude of about 7,000 to 8,000 meters high, which allows Kenyans to grow a wide variety of products. At the same time, Kenya has ample precipitation giving enough water. Ngige (2009) further noted that the floriculture industry has benefited immensely from the knowledge of Dutch investors who have substantially invested in Kenya and through Kenya's association with European investors.

In the process Ngige noted, the country has learnt marketing and leveraged the well-established networks in Europe and elsewhere. Investors from the UK, Israel and India have brought in their diverse knowledge to give Kenya global competitiveness. The growth in this industry has been propelled by the attention that has focused on productivity and efficient use of natural resources, while observing environment safety measures. Being on the equator Ngige (2009) asserted that the carbon footprint is substantially limited thereby provided the industry an edge over similar production in Europe.Given the importance and the role played by FDI in the horticultural sub-sector, the government of Kenya has put in place various policies and strategies to boost the growth and expansion of the sub-sector. These range from establishing Horticultural Development Authority (HCDA) to facilitate the exportation of horticultural products; provision of extension and research services by the Kenya agricultural research institute (KFC, 2009). Others include formulation of policy not only to guide but also regulate the industry, modernizing of ports to facilitate transportation of the product to export markets (KFC, 2009), promotion of horticultural products by Kenya Investment Authority; structural and macroeconomic reforms, introduction of a more liberal trading environment under WTO arrangements (KFC, 2007).

In a world the UNCTAD report of 2007, it was noted that Kenya has strengthened its investment promotion agency (IPA) to attract FDI. There is also, government involvement in the industry through the provision of incentives in the form of reduced duties and other taxes on imported inputs crucial to the sector. These include greenhouses, greenhouse covers, refrigeration equipment for cooling, cold stores, dam construction and lining shade netting (UNCTAD, 2007; FPEAK, 2007). Despite the conducive environment for horticulture industry, and the various policies and strategies that the Kenyan government has put in place, the ranking of countries by UNCTAD in 2007 revealed that FDI performance and potential indices classifies Kenya as an underperformer. The report further pointed out that the country has both low FDI potential and performance (UNCTAD, 2007). Against this background, it was necessary to conduct the study to determine why this is the case, in spite the policy and strategies that the Kenyan Government has put in place not withstanding the conducive environment. The purpose of this study was to assess the factors that influence FDI inflows in horticultural industry in Kenya especially in the ASAL regions. This was guided by two-fold research questions i) how does the policy framework in place determine the extent of FDI flows into the horticultural industry? ii) What drives the direction of FDI flows across the various sectors of the horticultural industry?

Methodology

Survey design was adopted as the suitable design for the study. The design was chosen because it is highly appropriate in collecting information from a large number of respondents and it is fairly easy to administer. The target population constituted small, medium and large enterprises in the horticultural industry operating in Central and Rift Valley regions of the country.

These areas were purposively selected because the bulk of horticultural firms are concentrated in these regions. The total population was 185 enterprises located in the specified regions. The sampling frame was obtained from records available at The Horticultural Crops Development Authority' (HCDA), Fresh produce exporters association of Kenya' (FPEAK) and Kenya flower council' (KFC). To select the sample elements that were included in the sample, a three stage multistage sampling was applied. In terms of data collection, a structured questionnaire that contained both open ended and closed ended questions was used to collect data from the sample. The questionnaire was self administered although follow-up telephone calls were undertaken to enhance response rate. Whereas open ended questions were necessary to obtain additional information, closed ended questions were deemed necessary due to their ease of coding. A pilot study was conducted to ensure the relevance, validity and reliability of the questionnaire elements. This was done with the aim of determining effectiveness of the questionnaire in collecting the intended data, detecting weaknesses in design and instrumentation so as to provide proxy data for selection of a probability sample and for enabling refining of the questionnaire. In terms of data analysis, the study adopted descriptive method was used to analyze the data collected. Data was analyzed to put it into a manageable size, develop summaries and look for patterns for enabling application of statistical techniques. Descriptive statistics particularly distributions were used where data were summarized in frequency tables, percentages and pie charts.

Results

The study reveals that majority (82%) of the investors were aged between 30 - 50 years while the remaining 18% were aged either below or above this age bracket. In terms of level of education, most of the respondents were at least college graduates while a few had acquired university education. Regarding gender, 76% were male investors while the remaining 24% were female investors. With regard to nature of firms, 6% were foreign subsidiaries while 38% and 44% were local companies and joint ventures with foreign companies, respectively. The remaining 12% were foreign branches not affiliated to any local firms. The firms were found to have invested in various sub-sectors in the horticultural industry namely, fruits, vegetables and flowers. Whereas some firms had diversified in all the sub-sectors, others had invested in specific sub-sectors. Specifically, 37% were involved in fruits, floriculture (flowers), 23% were in all the sectors while 18% were in both fruits and vegetables. The remaining 21% were either growing vegetables or fruits. Regarding further contribution towards economic growth, majority of the respondents agreed that FDI has contributed significantly to employment growth in Kenya.

Similarly majority of respondents 80.4% noted that FDI multinationals play a major role in terms of provision of technology, employment and funding. FDI according to 51.8% of all the respondents is responsible for success in other sectors of the economy. Failure to attract more and more direct investment is attributed to lack of enough formal research and development in the industry according to 92.4% of the respondents. The formal research available though little is confined to a few large enterprises as agreed upon by 69.6% of the correspondents. Foreign direct investment has played a key role in introduction of new technological knowledge in the industry according to 66.1% of the target population. Since foreign direct investment is low in the industry more needs to be tapped into the industry as a way of improving economic development. This was supported by 44.6% of the correspondents who agreed; however the majority (53.6%) was not sure. Presence of many weaknesses in data collection underestimates the actual FDI inflows in the horticultural industry as agreed upon by 60.7% with 19.6% strongly agreeing. The fact that use of quality horticultural products has given rise to foreign investment in the horticultural industry was agreeable to 64.3% of the respondents and strongly agreeable to 21.4% with only 12.5% of the respondents thinking it does not.

In matters of policy and its effects on FDI was the question of government involvement in the horticultural industry whereby a 71% of the respondent felt that there is a lot of government involvement in the industry, twenty three percent of the respondents observed otherwise while the 6% were uncertain. On the other hand, 52% of respondents agreed that the government does facilitate trade and investment in the horticulture sub-sector by providing incentives to the various investors in the industry. Forty three percent of the target population indicated that the incentives given by the government is inadequate. In terms of government policy, majority of respondents felt that the government policy of limiting foreign investors and thus reducing FDI is prudent by 51.8% whereas 41.1% felt such policies are not prudent at all; however 57.1% of respondents felt that allowing foreign investors to reign freely in the horticultural industry would not necessarily mean they will take over markets and prevent progress of domestic entrepreneurs. Out of all the correspondents 37.5% thought the foreign investors can take over and hamper growth for locals if allowed. All the respondents agreed that the government policy on multiple approvals to foreign investors does hinder and delay foreign investment. Many of the respondents did not approve of transfer pricing with 83.9% agreeing that transfer pricing slows economic growth. However 26.8% were not sure the effects of transfer pricing on foreign investment.

The Kenya legal system was seen as lacking modern approaches to regulating commercial transactions by a whooping 73.2% whereas 12.5% felt the approaches are modern. On the same note 67.9% of the respondents also faulted the government legal system in its capacity to regulate foreign direct investment, with 16.1% been uncertain of the effects. However foreign investors in Kenya are treated much the same like domestic investors according to 85.7% of the respondents. Among the entire respondents 48.2% saw a problem with the government policy on VAT administration and delays in reimbursements of excess payments. This was also strongly supported by 51.8% of the respondents. The tax regime was seen as posing many limitations on foreign investments through high taxes and complex tax regime by all the respondents. Many of the respondents (83.9%) agreed that the complex approval mechanism in the industry hampers foreign investment; however 7.2% of the respondents felt the system is acceptable. A bigger portion of the respondents (41.1%) felt that policies of profit repatriation by MNC's are sound against 35.4% who felt otherwise. The government policy on delaying of dividends before repatriation to the home countries of MNC's was found sound by 46.5% of all the respondents against 30.4% who faulted it and 23.2% who were uncertain. A majority of 41.1% of the total respondents agreed that unrestricted repatriation of profits to home countries of MNC's hinders economic development against 37.5% who felt repatriation does not hinder economic development.

According to the respondents, various factors impede growth of FDI in the horticulture industry. These include poor infrastructure both at the port and on the land, and excessive bureaucracy in the form of enhanced red tape. According to the respondents, investors assess the investor's environment as fairly risky, with the poor infrastructure, complicated bureaucracy and delays as well as "facilitation" fees. They noted that the railway is dilapidated and the roads are very poorly maintained. Regarding climatic condition on FDI, the key factors that drive FDI across the various sectors of horticultural industry was found to be good equatorial climate and agreed upon by 73.2% with 26.8% strongly agreeing. Kenya fertile soils also do drive increase in horticultural produce as accepted by 98.2% of the entire respondents. Kenyan competitive labor was seen as a key driver of foreign direct investment across all the sectors of the horticultural industry by 78.6% with14.3% disagreeing. Local favorable conditions linked to climate have brought in foreign investment across all the sectors of the industry as agreed upon by 64.3% and 35.7% strongly agreeing. Kenya's proximity to European market encourages investment in the horticultural industry according to 85.8% of the respondents with 12.5% seeing no link between foreign investment in the industry and nearness to European market. Growth of foreign investment in the floriculture sector of the industry was attributed to favorable local conditions like climate as noted by 98.2% of the respondents.

Twenty three percent felt of the respondents felt that nearness to European market contributed to growth in floriculture sector. Regarding involvement of small scale holders in the industry and global integration factors, the growth of fruits and vegetables sectors have attracted foreign investment and grown as a result of involvement of small scale holders according to 66.1% of the respondents and 32.1% of the respondents who strongly agree on their importance as a driver of FDI against 1.8% who felt otherwise. Stability in political environment has impacted positively on FDI in horticulture across all sectors as agreed upon by 98.2% of the respondents with only 1.8% of the respondents uncertain. Kenya's openness to global integration has driven foreign investment inflows across all the sectors of the horticultural industry as per 66.1% of the respondents who agreed and 23.3% who strongly agreed. Among all the respondents only 10.7% were not sure on Kenyan global integration and openness. Kenya's progress in reducing investments restrictions has also contributed to more foreign investment in the whole of the horticultural industry according to 94.7% of the respondents against a small percentage of 5.4 who were uncertain.

Discussion

The implications of the findings above on the factors influencing foreign direct investment inflow in the horticultural industry show that organizations involved in marketing the country as foreign investment destination on horticulture must emphasize major reforms in incentives giving, infrastructure development and generally a conducive environment for doing business. This include but not limited to a better policy framework in terms of licensing and taxation to enable all investors have a level playing ground, with effects tickling down to all the players. This is in line with previous findings (IFC 1997; IFC 1996; Jacobs 2006; Caves 1996; Sol 2007) where it was described that the investment policy limits FDI inflow. This finding is in line with previous findings by UNCTAD (2007) and World Investment Report (2006) which found that the current level of foreign direct investment is not sufficient and much needs to be done to tap more investments. The study further reveals that there exist various restrictions on FDI in the horticulture industry. These include complex approval mechanisms, high taxes and complex incentive regimes, restrictions on share of foreign ownership and restrictions on use of land and expatriate labor. According to the respondents, the approval mechanism in the industry is too complex and subject of red tape.

This according to the respondents limits the levels of FDI inflows. The findings support earlier findings by (UNCTAD 2005; UNCTAD 2007) that in Kenya foreign direct investment is heavily affected by bureaucratic investment procedures. In today's rapidly globalizing world, successful exporting needs not only competitive products, but also marketing expertise and access to international markets. Giving greater access to FDI can provide major benefit in this respect especially in markets where established brand names and large distribution networks are important assets. FDI can also be effective means of providing resources, such as skills, training, technology, capital goods and intermediate inputs needed to exploit Kenya's existing comparative advantages in the horticultural industry. The study further reveals that there is inconsistencies in the policy framework in place thereby limiting foreign direct investment inflows; the policy makers in harmony with regulatory bodies in the industry need to come together to eliminate the inconsistencies, this will enable many willing investors in the industry fear not to commit their funds.

This study found that the policy makers have changed laws regarding foreign investment many a times with an idea of making the framework better; however the speed of making changes is too slow making the out of tandem with the global business climate. The findings therefore, are in harmony with the statements of (UNCTAD 2005; USAID 2008; Okado) where the government continued to debate the minimum capital requirement for an investment certificate. It is described that the global FDI is higher wherever there is conducive and stable political environment where policies are not changed rapidly but at an acceptable speed considering the global business climate and needs of other stakeholders in a given industry. The findings of this research concur with earlier findings (IFC's (1997; Bradford 2007; Rugman 2006; Dunning 1993: Buckley 2007) where it is cited that countries that adopt progressive policies and reduce restrictions will tap higher FDI; in this study the government was faulted for bureaucracy in policy making.

Consistent with prior research on FDI, these findings showed that one major hindrance of attraction of foreign investments is lack of proper policies that protect the investor while at the same time looking at the interests of the government and other players in the industry; making would be investors shift their investment to others areas where in their view the policy environment is better (Dikova 2007; Dunning 1993; UNCTAD 2007, Rugman 2006). In agreement with International Finance Corporation that; so as to create an enabling environment for FDI a large unfinished agenda of policy reforms remain (IFC, 1997) a majority of the responses faulted the policy framework in place especially on issues touching licensing, incentives giving by the government and lack of harmony in taxes. However inconsistent with prior findings (UNCTAD, 2005; IFC, 1997; UNCTAD 2007), the respondents did not feel that if foreigners are allowed to invest without restrictions they would take over and control a key industry like horticulture but rather majority of the respondents felt that improvements in technological advancement would be realized.

In line with the prior studies (UNCTAD, 2006; UNCTAD 2007; Okado; USAID 2008), the conditions under which Kenya investment agency is allowed to issue investment certificates to a foreign investor are restrictive, the responses showed the same results with a majority of the findings showed that a more open policy on licensing and investment should be put in place whereby investors will be lured to invest more without fearing for many restrictions which in many cases arise out of multiple approval requirements by the government leading to increase in cost of doing business. The target approach in Kenya as concerns policy framework should be to improve the chance of attracting the type of investments that can help meet the development objectives of a country whereby horticultural oriented FDI is a leader. In selecting the policy packages for investors, Kenya needs to identify the most effective ones in a specific context, and also ensure that such package conform with the international regulatory framework, notably WTO rules. The country also needs to encourage linkages between the foreign affiliates and local suppliers.

Linkages with foreign affiliates are a key channel for diffusion of skills, knowledge and technology among domestic firms. To sum it up, the degree of success of Kenya in attracting horticultural oriented FDI, and in reaping the development benefits from such investment critically depends on its ability to develop a transparent policy framework that has minimal loopholes, that is straight forward and that has reduced bureaucracy. Among the key factors that were found to contribute towards FDI inflows in the Kenyan horticultural industry included conducive climatic conditions, fertile soils, existence of relatively cheap labor force and proximity to European market. Poor infrastructural development and non-harmonized tax regime, labor laws and practices are however, major impediments in the quest for more foreign direct investment in the industry. These findings support earlier reports (UNCTAD 2007; Caves 1996; Sader 1995) where it was found that high taxes in the country are an impediment towards investment in the horticultural sector and not necessarily local climatic conditions therefore calling for a less complex and straight forward tax regime which would amalgamate several taxes in to one for both ease of payment and affordable amounts. Further, the length approval process of FDI in the industry was found unrealistic and in the process end up discouraging potential investors.

The study found that that many government ministries are involved in the approval process with numerous bureaucratic requirements. This in the process makes investment in the sector expensive and discouraging; this can be countered by making a one stop shop for all the licenses required. The study further found that FDI contributed to managerial skills transfer and other technological knowledge which is in line with the arguments of Rugman (1998; 2006). Rugman claims that FDIs create an environment for increased employment in the host countries. It creates jobs and improves the quality of goods and services produced in the economy. Above all, it gives a boost to the export sector (Rugman, 1998; Rugman 2006; World Bank 1998; USAID 2008). As a consequence, this study found that due to weak operating environment, there was no technological transfers especially through embodied technology apart from managerial skills transfer due to the presence of foreign workers (Dikova, 2007; UNCTAD, 2007; Dunning 1993).

In terms of economic contribution, the study revealed that According to the findings of the study, it proves that economic gains attributed with each sector do play a major role in attracting investment in a certain sector; in this case floriculture showed high levels of foreign investment as compared to vegetables and fruits which is mainly due to the high economic gains derived from the sector vis-à-vis other sectors. Isaiah Frank concurs with the findings too when he states that 'tariff reductions on required imports of raw materials, components or equipment, fiscal incentives e.g. corporate income tax reductions or holidays, provision of necessary infrastructure e.g. roads, electric power and housing (Frank, 1980) will go a long way in increasing foreign investment inflows'. This is same from the findings of this study that the current growth of FDI in the horticultural industry has not in any way arisen from development in infrastructure; implying that if infrastructural development policies were enhanced the said growth would be accelerated.

Poor infrastructure negative effects on FDI has been noted by earlier researchers (Okado; USAID 2008; IFC 1997) thus concurring with the findings of this study. Delays in reimbursements of value added tax causes inconveniences for many investors both local and foreign (Okado; UNCTAD 2007; UNCTAD 2006) by holding funds which could be put used in realizing more production as also confirmed by this study. Finally climatic conditions, policy framework and transfer pricing issues were the main factors influencing FDI inflows in the Kenyan horticultural industry. Expanding horticultural produce is a means to an end i.e. economic development. To achieve this end, promotion of horticultural export oriented FDI should be an integral part of the overall developmental strategy. FDI can help Kenya in its efforts to raise exports in the horticultural industry and by extension the achievement of Vision 2030 economic blue print by providing the missing elements that the country needs to compete in the global market while improving local based skills and capabilities.

Conclusion

In this study, it was revealed that FDI in horticulture has significant economic role in the Kenya's economy. Thus as a bold step towards the realization of economic growth as envisaged in the vision 2030 and Millennium Development Goals (MDGs), the sector need to be supported to realize its full potential. The potentiality of the sector is however affected by various factors that range from bureaucratic procedures which are characterized by red tape. Others include poor infrastructural development which affects movement of the produce from the point of production to the consumption point; lengthy approval procedures which further contributes to cost of production; high taxes on factor inputs; unfriendly labor laws and activities of trade unions among others. Kenya has not been able to effectively attract significant FDI flows, reflecting largely the combined effects of political and macroeconomic instability, weak infrastructure, poor governance, inhospitable regulatory environments, intensification of competition for FDI flows due to globalization, and poor marketing strategies. There is the need to reverse the declining FDI trend in the region.

To reverse the trend, concerted efforts by all stakeholders are necessary. New and more effective approach to investment promotion is inevitable. In the past, investment promotion activities were carried out in an environment in which domestic policies were by and large not conducive to foreign investment and so were not successful. An enabling environment has to be created first before marketing investment opportunities to foreign entrepreneurs could be done effectively. The maintenance of a sustained political and macroeconomic policy environment would get the region closer to attaining this objective. Further, the realization of Africa's FDI potentials will also depend on the ability of its leaders to improve the FDI climate and take advantage of the new global interest in the affairs of the region by implementing sound macroeconomic policies, enforcing the rule of law, reducing risks of policy reversals, and improving the provision of infrastructure. For instance, Transport and communication channels like roads, railway lines and telephone leading to key areas where flowers, fruits and vegetables are grown should be built to acceptable international standards. Security along those road networks that lead to and from the farms should not only be seen to be safe but free of any threat. This will enhance economic growth considering the industry contributes a bigger portion of foreign exchange earnings to the government as well as provision of employment to many households.

Financing of small and medium enterprises in the industry by the government and other donors will also improve production of fruits, vegetables and flowers. Such small scale holders are always limited by capital in terms of labor and technology and any capacity building in making them competitive would be vital. In order to facilitate ease of access to farms and markets, provide instant and accurate information, the policy makers should improve policies touching on infrastructure. Funding for irrigation by the government through the irrigation board would immensely improve production and shift reliance on rain-fed production. Many ASAL areas have virgin land which has never been cultivated for lack of enough rainfall; funding irrigation in these areas either locally or through partnering with development agencies will go a long way in increasing production. Local skills are also an important factor that needs to be developed in order to benefit from expatriate know-how while making working in horticulture oriented industries look good; this will equip many small-scale producers with technical knowhow leading to increased production and economic development. Making the tax regime less complex and shortening the period for VAT refunds as well as simplifying the VAT remission procedures will also make the country attractive for investment. Firming of Kenyan law on property rights and arbitration procedures should be a priority in modernizing the law regime which in most of the cases does hinder foreign investment.

References

Ball, A.D, Minor, S. M., Mcculloch Jr W.H, & Frantz, P.L, (2004) *International business, the challenge of global competition* (9th Ed) McGraw Hill, New York

Bell, E.D, Milder B. & Shelman M. (2007), Vegpro Group; Growing in Harmony, *Harvard Business School Case* 9-508-001

Berger, A.N. & Frame, W. S (2007) Small business credit scoring and Credit availability*, Journal of small business management* 45 (1) pp 5-22.

Bradford, D.W, (2007) Distinguishing economically from legally formal firms: Targeting Business Support to entrepreneurs in South African Townships *Journal of Small Business Management* 45 (1) 94-115

Buckley, P.J., Devinney, T.M. & Louviere, J.J. (2007) Do managers behave the way theory suggests? A choice - theoretic examination of foreign direct investment location decision making*; Journal of International Business Studies* 38(7):1069-1094

Caves, R.E, (1996) *Multinational Enterprise and economic analysis*, Cambridge University press: Cambridge

Central Bank of Kenya (2008) *Kenya monthly economic review*, CBK, Nairobi

Czinkota, M. R. et al (2005). *International Business*, 7th ed., U.S.A.: Thomson South-Western

Collis, J. & Hussey R. (2003) *Business research (2nd Ed),* Palgrave. Macmillan, USA

Coval, R.W., (2002) *The theory and practice of international financial management* Prentice hall, India

Davidson, W.H. (1980), The location of foreign direct investment activity: Characteristics and experience effects*, Journal of international business studies* 11(1): 9-22

Dikova, D., & Wittleloostuijin, A. V. (2007) Foreign direct investment mode choice: Entry and establishment modes in transition economies*. Journal of international business studies* 38(6): 1013-1033

Dunning, J., (1993) *Multinational enterprises and global economy*, Addison-Wesley: New York

Frank, I. (1980) Foreign *Enterprise in developing countries: A supplementary paper of the committee for economic development,* the John Hopkins University press: Baltimore& London

Fresh produce exporters association of Kenya (FPEAK) (2007) http.www.fpeak.com Retrieved March 12, 2008

Horticultural Corporation Development Authority (HCDA), (2008) http.www.hcda.gov. Retrieved on March 12, 2008

IFC, (1996) *Financing private infrastructure* IFC lessons of experience number 4, Washington, D.C.

IFC, (1997) *foreign direct investment* IFC lessons of experience number *5,* Washington, DC

Jacobs S., & Coolidge, J. (2006) *Reducing Administrative Barriers to investment,* Lessons Learnt, Washington, D.C

Meggrey, K, &F.Sader (1996) *Facilitating foreign participation in privatization* FIAS occasional paper 8 Washington D.C

Ministry of planning and national development, (2004) *Kenya Economic survey,* Central bureau of statistics Nairobi

Ministry of planning and national development, (2006) *Kenya Economic review* Central bureau of statistics, Nairobi

Moran, T.H. (2010) *Enhancing the Contribution of Foreign Direct Investment to Development; A New Agenda for the Corporate Social Responsibility Community, International Labor and Civil Society, Aid Donors, and Multilateral Financing Institutions*; Marcus Wallenberg, Georgetown University

Mutti J., (2003) Taxation and Foreign Direct Investment; Peterson Institute of International Economics Washington, DC:

Ngige J (2009) Kenya Flower Council August 5"Roses from Kenya Bloom," Management Talk Q&A, http://www.123jump.com, (last visited on January 27, 2010)

Okado, M. (without year)**,** *Background paper on Kenyan off-season and specialty fresh vegetables and fruits – Lessons of experience from the Kenyan horticultural industry,* United Nations Conference on trade and development

Romer P, (1992) "Two Strategies for Economic Development: Using Ideas and Producing Ideas," *Proceedings of the World Bank Annual Conference on Development Economics*, Washington, DC: World Bank

Rugman, A. M. & Collinson, S. (2006). *International Business*, 4th ed., London: Pearson Education Ltd

Rugman, A. M. & Collinson, S,(1998) *International Business (*4th Ed.) Prentice Hall, New Jersey

Rugman, A.M and Verbeke, A. (2001) subsidiary- specific advantages in multinational enterprises*, strategic management journal* 21(12): 1175-1193

Sader F, (1995) *Privatizing public enterprises and foreign investment in developing countries, 1988- 1993*, FIAS occasional paper5, Washington D.C

Salvatore, D. (2004). *International Economics*, 8th ed., U.S.A.: John Wiley & Sons, Inc.

Singh, J. (2007) Asymmetry of knowledge spillovers between MNCs and host country firms*, Journal of international business studies* 38(5): 764-786

Sol, D., Patricio, T., and Kogan, J. (2007) Regional competitive advantage based on pioneering economic reforms: the case of Chilean FDI. *Journal of international business studies* 38(6):p901-927

Tian, X., (2007). Accounting for sources of FDI technology spillovers: evidence from China*, Journal of international business studies* 38(1): 147-159

UNCTAD (1993) World investment report 1993: *Transaction corporations and integrated international production,* UN: New York and Geneva

UNCTAD (1996) World investment report, Geneva *companies without boarders: transnational corporations in the 1990's* London: International Thompson press

UNCTAD (2001) World investment report 2001: *FDI policies for development, national and international perspectives,* UN: New York and Geneva

UNCTAD (2005) World investment report 1993: UN press Geneva

UNCTAD (2005); *An investment guide to Kenya opportunities and conditions* June 2005**,** UN New York and Geneva

UNCTAD (2006) World investment report 2006: *FDI for developing and transition economies: Implications for development,* UN New York and Geneva

UNCTAD (2007) Investment policy review Kenya 2007: UN: New York

UNCTAD (2006) World investment report 2006: *investment related measures,* UN: New York and Geneva

USAID (2008) Kenya Horticultural Development Program 2008: New York

World Bank Annual Report, (1998) *Global development finance. Legal framework for treatment of foreign investment*, Washington D.C. World bank

World Bank (1998) *Legal framework for the treatment of foreign investment Guidelines,* vol.2, Washington, DC