FOREIGN CAPITAL FLOWS AND ECONOMIC GROWTH IN KENYA.

BY

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS, ECONOMICS AND TOURISM IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR DEGREE OF MASTER OF BUSINESS DMINSTRATION (FINANCE)OF KENYATTA UNIVERSITY.

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DECLARATION

This research endavour is entirely my own endavour and hasn't been dispatched for any recognition at any other institution.

Signature____________________________ **Date**____________________________

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D53/OL/MSA/21305/2022

This research work is dispatched for evaluation with my endorsement as the University supervisor.

Signed.____________________________ **Date** ____________________________

Dr. Vincent Shiundu Mutswenje

Kenyatta University

DEDICATION

I bestow this endavour to my family members

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OPERATIONAL DEFINATION OF TERMS

Economic Growth An augmentation in the total worth of products and services generated in a nation over a certain timeframe. The measurement used the GDP Growth Rate.

Foreign Capital Flows The remittance of funds from one nation to another in exchange for significant equity stakes in domestic businesses or other assets. It was facilitated by foreign direct investment, remittances, foreign portfolio investment, and foreign debt.

Foreign Debt Money obtained by a government, company, or private household from the government or commercial lenders of another nation. It was proxied using foreign debt over total foreign capital flows ratio.

Foreign Direct Investment This alludes to an ownership stake in a foreign entity or venture obtained by an investor, firm, or government from another country. It was proxied using foreign direct investment over total foreign capital flows ratio.

Foreign Portfolio Investment Comprises securities and other financial assets owned by investors in a foreign nation. It was proxied using foreign portfolio investment over total foreign capital flows ratio.

Remittances These are funds and goods sent by persons employed abroad to their relatives in their place of origin. It was proxied using remittances over total foreign capital flows ratio.

ABBREVIATIONS AND ACRONYMS

ADF	Augmented Dickey Fuller
AIC	Akaike Information Criteria
ARDL	Autoregressive Distributed Lag
ECM	Error Correction Model
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GNP	Gross National Product
KNBS	Kenya National Bureau of Statistics
NACOSTI	National Council for Science, Technology, and Innovation
NASI	Nairobi All Share Index
NATO	North Atlantic Treaty Organization
NSE	Nairobi Securities Exchange
OECD	Organization Economic Cooperation Development
OLS	Ordinary Least Squares
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
SSA	Sub-Saharan Association
WHO	World Health Organization
VAR	Vector Autoregressive
VIF	United Nations Environment
WDI	World Development Indicators

ABSTRACT

Economic growth of any nation is key to that economic as it contributes significantly to the development and wellbeing of that economy. These major benefits are dependent on many factors including foreign capital flows that need to be addressed through the management of the country's fiscal policies. Ideally, a country's economic development is anticipated to enhance living standards by providing education, healthcare access, infrastructure, housing, quality food supply, improved roads, and similar amenities. However, this is not always the case. Economic growth of Kenya has recently attracted attention due to widespread erratic volatility in its growth despite huge increase in foreign capital flows. Therefore, the resolve of this research is to ascertain the effect of foreign capital flows on economic expansion in Kenya. In particular, the research explored the effect of foreign direct investment, remittances, foreign portfolio investment and foreign debt on economic expansion of Kenya. The research was underpinned on the Keynesian theory, Wagner's Law and Solow-Swan theory. The correlational explanatory research approach was used in the study. The target audience was Kenya as a country which is also the unit of analysis. Secondary data, was acquired with the aid of documentary guides and data sheets from World Bank, CBK and KNBS. Diagnostic tests (Auto correlation, multicollinearity, heteroscedasticity, normality, co-integration and unit root test) was carried out before data analysis. Multiple linear time series regression model was adopted. Descriptive statistics, including frequencies, mean, and standard deviation, along with inferential statistics such as Pearson correlation and regression analysis, was employed in data analysis and displayed in frequency distribution tables, charts, and graphs. The research suggested that foreign direct investment, remittances, foreign portfolio investment and foreign debt, when analyzed individually, each had a statistically significant bearing on the economic growth in Kenya with p-values of 0.047, 0.028, 0.046 and 0.000 respectively. As a result, these hypotheses were rejected at 5% significance level. The report recommended that Kenya government should seek to improve the investments climate and business environment in the country to attract mode FDI which can be able to have a significant role on economic growth. Having policies that encourage FDI and marketing the country as a desirable investment destination would be a good starting point. Equally, it recommends that the government should devised a foreign policy that places great importance on the diaspora. Additionally, this article advocates for the Kenyan government to implement a holistic strategy to promote foreign investment, acknowledging its crucial role in stimulating economic growth and development. Moreover, the government ought to execute various strategic efforts aimed at optimizing and clarifying the investment process. Ultimately, it recommends that the Kenyan government aims to decrease its budget deficit to GDP ratio to an average of 4 percent prior to 2030. The fiscal policy has inadequately addressed rising debt levels, thereby jeopardizing the Government's pursuit of fiscal debt sustainability. Consequently, the National Assembly ought to enact a fiscal law establishing a maximum threshold for the fiscal deficit to GDP ratio, which the National Treasury must not surpass at any time, aligning with the long-term debt strategy to prevent the public debt to GDP ratio from escalating uncontrollably.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Inclusive and sustainable economic development has been a top priority for policymakers for many years, and the potential of foreign capital flows to drive this growth has been a topic of discourse. The influx of foreign wealth to Africa has become a prominent topic of discourse amongst scholars lately. The global economy have been expressively impacted by the debt crisis from the 1980s to the present, particularly in Africa, Latin America, and select nations in Eastern Europe and Asia (Musibau *et.al*, 2017).

Globally, the worldwide economic downturn of 2008–09 (GFC) rekindled interest in the correlation between EPU and foreign capital inflows, subsequently influencing real sector expansion, currency rates, and asset prices. Investigations on the determinants of various forms of capital flows have achieved an accord: Shocks linked to global improbability propel the fluctuations of capital flows across nations.

Regionally, Musibau contends that the African continent has been significantly impacted by currency fluctuations, deteriorating infrastructure, pervasive corruption, and economic and political instability, amongst other factors that deter foreign investment in many African nations. Nonetheless, the diverse influx of foreign money (loans, foreign direct investment, grants, and portfolio investments) proved advantageous for emerging economies to reconcile the disparity between local savings and domestic investment, hence facilitating development (Chenery et al., 1996, quoted in Wondwesen, 2011).

Numerous African nations saw sluggish development from independence in the 1970s until the 1990s. Easterly et al (1997) characterized Africa as a catastrophe of development. It is crucial to recognize that the development dynamics in Africa have undergone a transformation since the early 1990s. A significant number of the realm's rapidly expanding economies are located in Africa, with most African nations outpacing wealthy nations and achieving growth rates above the global average. The IMF projects that sub-Saharan Africa's GDP would increase by 5.25% in 2011 and 5.75% in 2012, amid a global economic growth rate of around 4% (IMF, 2011). All significant financial inflows to Africa have substantially risen since 1980.

In Kenya, attempts to entice foreign capital inflows commenced with the implementation of swift capital account liberalization from 1991 to 1995. These actions encompassed the relaxation of restrictions on foreign currency transactions and the implementation of FEBCs (Yoshino et al., 2015). Kenya in 2008 launched its "Vision 2030" initiative to expedite the country's evolution into a swiftly growing middle class nation by 2030. The objective is to render the nation internationally competitive and rich, ensuring that every citizen enjoys a good quality of life by 2030 (Ndung'u et al., 2011). The vision was underpinned by three essential pillars: economic, social, and political. The aim of the economic pillar is to have a continuous yearly economic growth rate of 10% over a span of 25 years. This is anticipated to be accomplished by locally produced resources, whereas Kenya continues to receive remittances from its diaspora, increased FDI, FPI, and partnerships with its development collaborators (GoK, 2007).

Kenya's economic development is anticipated to be realized via augmenting savings and investment to exceed 30% of GDP (Ndung'u et al., 2015). Despite these initiatives, capital inflows into Kenya have always been modest. Despite historically high levels, official development aid

(ODA) has lately seen a dip. This prompts two inquiries: How to analyze foreign capital flows, and which type warrants primary focus, considering their varying contributions to economic growth, as the impact of capital flow on economic expansion is reliant upon the nature of the foreign capital and the characteristics of the economy (Adeola & Aziakpono, 2017; Aizenman et al., 2013).

1.1.1 Foreign Capital Flows

Foreign capital flows refer to the transfer of money across nations in return for substantial ownership interests in domestic enterprises or other assets (Chen, 2020). Capital inflows serve as a significant source of funding and investment in the recipient nations, so fostering development, enabling the transfer of managerial and technical expertise, and enhancing the operation of local financial markets (Calderón & Nguyen 2015). The primary elements of international capital flows are remittances, foreign direct investment, foreign aid, external debt, foreign portfolio investment, and government development assistance (Musibau et al., 2019). This research examined foreign direct investment, remittances, foreign portfolio investment, and external debt, since these capital flows are crucial for stimulating economies in developing countries such as Kenya.

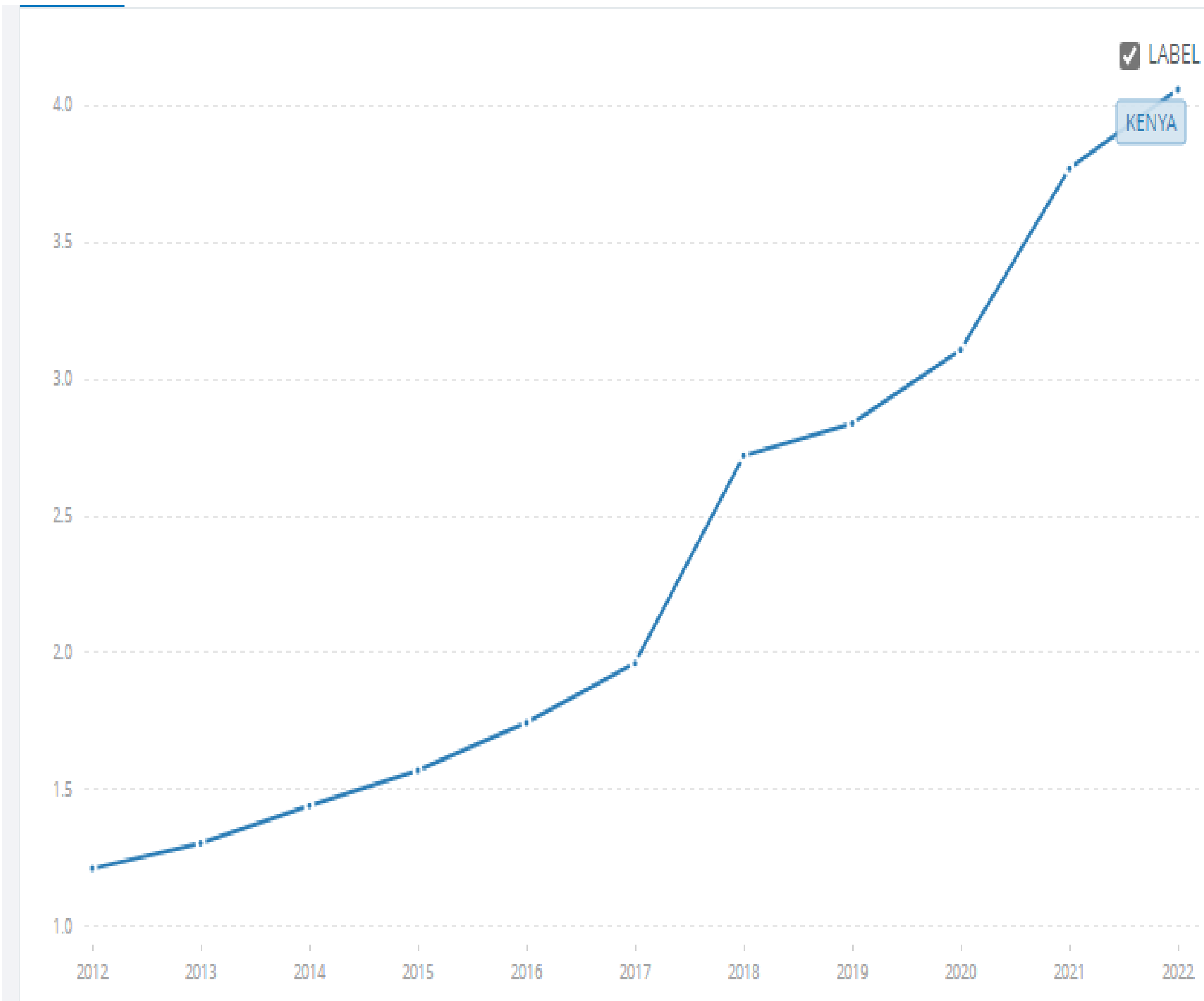
The OECD describes foreign direct investment as an investment aimed at establishing a sustained stake by a domestic entity in a certain nation in an entity in another state's (OECD, 2015). FDI is the predominant element of foreign capital influx accessible to developing countries (Katoka & Kwon, 2018). In 2021, the projected FDI inflow to emerging nations was $616 billion, representing more than 75% of the total global private capital flow (UNCTAD, 2021). FDI manifests in two forms: horizontal and vertical. Horizontal FDI is defined by the replication of manufacturing capacity in the host nation, effectively serving almost every market via its capabilities. Vertical

FDI entails the relocation of manufacturing capabilities from the state of provenance to the destination republic to enhance competence (Munteanu, 2015). Furthermore, FDI is the primary mechanism for the transference of foreign technology across countries, alongside worldwide commerce (Zamani & Tayebi, 2022).

In Kenya FDI has been in huge amount over time. For instance, FDI in US Dollars realized in 2012 was 1.38B, in 2013 it was 1.12B, in 2014 0.8B, in 2015 0.6B, in 2016 0.5B, 2017 1.3B, 2018 0.8B, in 2019 0.5B, in 2020 0.4B, in 2021 0.5B and in 2022 it was 1.6B (World Bank, 2023). This confirms that FDI is a huge capital flow for the country. FDI was measured using foreign direct investment over total foreign capital flows ratio.

Remittances are products and funds sent by persons employed abroad to their relatives in their place of origin (Kulkami, 2014). Remittances provide the second-highest source of external funding for emerging economies, after foreign direct investment (Bhattacharya *et al.*, 2018). In 2021, the anticipated remittance inflow to emerging economies was $589 billion (CBK, 2021). Remittances are regularly designated for familial usage in the sender's home country and are not meant for investment purposes (Heyse et al., 2015). Lucas and Stark (1985) identify altruism, self-interest, wealth buildup, and insurance as some motivations for remittance transfers. Migrants exhibit a selfless care for the well-being of people they leave behind. Remittances and migration are seen as mechanisms for risk-diversification in the context of insurance aims (Lucas & Stark, 1985). In Kenya remittances has been in huge amount over time as exhibited in figure 1.1.

Figure 1.1: Trend of Remittance over time



Source: CBK (2024)

From the historical figure 1.1, it can be confirmed that remittances in the country were increasing from 2012 to 2022 i.e. from 1.21B dollars to 4.06B dollars (CBK, 2023). This confirms that remittances is a huge capital flow for the country. Remittances was measured using remittances over total foreign capital flows ratio.

Foreign portfolio investment (FPI) comprises shares and other financial assets owned by investors in a foreign state. It doesn’t grant immediate ownership of a business's assets to the investor and is very liquid, contingent upon market volatility (Chen, 2021). Portfolio investing entails the acquisition and retention of assets in a passive manner, with the anticipation of generating a return (Chen, 2021). Foreign portfolio investment may include assets such as equities, ADRs, or global depositary receipts of firms situated outside the investor's country. Holdings also include bonds or other financial instruments issued by these corporations or foreign governments, mutual funds, or ETFs that invest in universal assets. For instance, FPI realized in 2012 was 0.5B, in 2013 it was 0.5B, in 2014 5.5B, in 2015 0.05B, in 2016 0.01B, 2017 0.05B, 2018 2.0B, in 2019 1.3B, in 2020 0.4B, in 2021 0.8B and in 2022 it was 1.02B (CBK, 2023). This confirms that FPI is a huge capital flow for the country. FPI was measured using foreign portfolio investment over total foreign capital flows ratio.

Foreign debt is the segment of a nation's debt acquired from external creditors, including financial institutions, governments, or universal financial organizations. Repayment of these loans, including of interest, is often required in the currency in which the loan was originated (Kentown, 2023). The IMF defines it, in 2017, as financial obligations owing by a resident to a nonresident, with residency established by the usual location of creditors and debtors rather than their nationality. For instance, external debt realized in 2012 was 12B, in 2013 it was 14B, in 2014 17B, in 2015 20B, in 2016 21B, 2017 27B, 2018 31B, in 2019 35B, in 2020 38B, in 2021 41B,in 2022 it was 42B and in 2022 it was 61B (CBK, 2023). This confirms that external debt is a huge capital flow for the country. Foreign debt was measured using foreign debt over total foreign capital flows ratio.

1.1.2 Economic Growth in Kenya

Economic growth signifies an enhancement in a nation's economic status and serves as an indicator of developmental success (Abdillah, *et al* 2020). Acemoglu (2012) characterizes economic expansion as the augmentation of economic progress, with the core emphasis on technology diffusion. Economic growth is the procedure by which the economy's productive potential is augmented over time, resulting in higher national production and wealth (Smith, 2003). It depicts economic expansion as a principal quantitative metric determined by the rate of GDP change.

Economic growth is characterized as an augmentation in the productive capacity of an economy (Palmer, 2012). The outcome enables the economy to generate increased quantities of products and services (Palmer, 2012). It can also be defined as an increase in GDP from one duration to another (Weil, 2013). It also increases productivity per head of population over a given time period (Seater & Yenokyan, 2019). Economic growth is characterized as a rise in real GDP, GNP per capita or national output evaluated in constant prices, according to Weil (2013).

Economic development is characterized as an augmentation in the total worth of products and services generated in a nation in a certain timeframe (Wahyunadi, 2019). The level of action increase in economic segments may be assessed by economic growth (Lisandri, Rizani, & Syam, 2017). Economic growth is quantifiable by GDP and GNP (Badan Pusat Statistik, 2020). Lisi and Pugno (2015) assessed economic growth by GDP. Ventelou and Nowell (2015) assessed economic growth using GDP and GNP metrics. Manyeki and Kotosz (2017) quantified economic growth as the percentage change in GDP between two distinct eras. The present research used GDP as a metric for growth, contrasting two distinct eras as shown in table 1.1 below.

GDP quantifies the market worth of all products and services generated over a certain timeframe, including the whole of production. The GDP is regarded as an effective instrument for assessing the configuration, level, and pace of a nation's economy over a precise timeframe (Badan Pusat Statistik, 2020).

Table 1.1: Trend of Kenya's Economic Growth

Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Growth rate	4.57%	3.80%	5.02%	4.97%	4.21%	3.84%	5.65%	5.11%	-0.27%	7.59%	4.85%

Source: World Bank (2024)

The historical data from the World Bank (2023) in table 1.1 demonstrates that Kenya's GDP expansion has been inconsistent from 2012 to 2022. From 2012 to 2013, there were substantial declines in the range of 4.57% to 3.80%. In 2014, the growth rate increased to 5.02% before gradually declining to 4.97% in 2015. In 2016 it further declined to 4.21% and further declined to 3.84% in 2017. In 2018 it improved to 5.65% but declined to 5.11% in 2019 before worsening to -0.27% in 2020. In 2021 it picked up to 7.59% but again dropping down to 4.85% in 2022. This indicates that there is still a long way to realize vision 2030 target about the economic growth of 10% annually. Thus, despite robust macroeconomic management measures, Kenya continues to confront problems stemming from foreign developments and dangers associated with a more open economic environment.

1.1.3 Foreign Capital Flows and Economic Growth

The existing empirical data about the impact of foreign capital flows on economic development indicates that the topic need more examination, since the findings are inconclusive and differ between regions. Klobodu and Adams (2016) studied the varying impacts of capital flows on economic development in Ghana from 1970 to 2014 using ARDL methodology. Breakpoint unit root tests are used to address structural changes and discontinuities in time series data. Subsequently, these break dates are incorporated into the ADRL model as auxiliary variables to simplify the determination of a more resilient cointegrating vector. The results demonstrate that, both in the short and long term, capital flows (such as FDI, assistance, and overseas debt) adversely impact economic development. Nonetheless, remittances demonstrate a positively insignificant elasticity across all regressions.

Bewket (2021) analyzed the influence of capital movement on economic development in Ethiopia, investigating both the short and long run causal relationships amongst the variables, utilizing time series data from 1980 to 2010. The ARDL approach demonstrated that all variables are statistically relevant, suggesting that capital flow affects economic expansion in both short and long-term dynamic equilibrium models. Furthermore, the VAR and Innovative Accounting Techniques methodologies for Granger causality analysis indicated a bidirectional causation between gross capital flow and economic development. Subsequently, the results demonstrate that policymakers must thoroughly understand the characteristics of capital flows, their underlying motivations, and the implications of sudden increases or declines on the economy. Furthermore, it is advisable for the government to persist in implementing trade and foreign exchange procedures that would guarantee the viability of the export industry and promote economic development.

Nguyen and Hung (2021) analyzed the influence of foreign capital flows on Vietnam's economic development from 1989 to 2019 via ARDL methodology. The results demonstrate a long-term link between economic development and foreign capital inflows. Foreign direct investment promotes economic development directly and indirectly, since evidence shows that it has considerable favorable impacts on economic growth in both the short and long run. Foreign direct investment may indirectly influence development via enhancing human capital, as shown by a bi-directional Granger causation link between the two. The results indicate that foreign direct investment and human capital are synergistic in fostering economic growth, and Vietnam should encourage foreign direct investment while simultaneously promoting human capital development. External debt, however, has a little impact on development, and the effect of foreign help is also detrimental. Consequently, Vietnam should not depend on external debt in the long term and should optimize the efficacy of foreign assistance to attain its objectives.

1.2 Statement of the Problem

Economic growth of any nation is key to that economic as it contributes significantly to the development and wellbeing of that economy. These major benefits are dependent on many factors including foreign capital flows that need to be addressed through the management of the country's fiscal policies.

Statistical evidence suggests that Kenya's GDP growth has seen constant fluctuations from 2012 to 2022, with notable dips from 4.57% in 2012 to 3.80% in 2013, followed by an improvement to 5.02% in 2014, and a further fall to 4.97% in 2015. In 2016 it further declined to 4.21% and further declined to 3.84% in 2017. In 2018 it improved to 5.65% but declined to 5.11% in 2019 before worsening to -0.27% in 2020. In 2021 it picked up to 7.59% but again dropping down to 4.85% in 2022. This signifies that despite robust macroeconomic management efforts, Kenya continues to encounter challenges stemming from external developments and risks associated with a more open economic environment, thereby indicating a considerable distance to achieving the Vision 2030 target of 10% annual economic expansion.

The existing empirical data about the influence of foreign capital flows on economic development indicates that the topic warrants more discourse, since the findings are ambiguous and differ between regions. Klobodu and Adams (2016) analyzed the varying impacts of capital flows on economic development in Ghana from 1970 to 2014 applying ARDL methodology. The results demonstrate that, both in the short and long term, capital flows (such as FDI, assistance, and foreign debt) adversely impact economic development. Nevertheless, remittances show a positive but negligible elasticity across all regressions. This study was done in Ghana and incorporated FDI, external debt and aid creating both contextual and conceptual gaps that this research aimed to address.

Bewket (2021) analyzed the influence of capital flow on economic development in Ethiopia, along with the causal relationships among the variables in both the short and long term. The outcomes demonstrated that all variables are statistically noteworthy, demonstrating that capital movement affects economic growth in both short- and long-term dynamic equilibrium models. This study was done in Ethiopia and cannot be generalized in Kenya thus creating a contextual gap that the current research is seeking to address. Nguyen and Hung (2021) analyzed the influence of foreign capital inflows on Vietnam's economic development from 1989 to 2019 using ARDL procedure. The results demonstrate a long-term link between economic development and foreign capital inflows. This study varies from the current study as it was done in a developed nation as opposed to developing nation like Kenya.

Adeola and Aziakpono (2022) analyzed the relative effects of multiple forms of foreign financial flows on Kenya's financial stability. The data clearly indicate a strong long-term causation only from portfolio equity to economic expansion, demonstrating an optimistic and considerable impact on economic growth. This was conducted in Kenya; nonetheless, there exists a conceptual framework and timeframe that the present research aims to address. Tian, Haan, and Zhao (2022) studied the Granger causal connection amongst capital flows and economic growth in China. The findings demonstrate that accumulative portfolio inflows and accumulative other investments inflows adversely affect GDP growth, whilst accumulative portfolio outflows and accumulative other investments outflows confidently influence GDP growth. The study was done in an advanced economy which cannot be generalized in a developing country like Kenya. It is on this backdrop that this research endeavors to examine the effects of foreign capital flows on the economic growth of Kenya.

1.3 Objectives of the Study

This study was guided by general and specific objectives

1.3.1 General Objective

To assess the impact of foreign capital inflows on the economic growth in Kenya

1.3.2 Specific Objectives

i . To establish the effect of foreign direct investment on economic growth in Kenya

ii . To determine the effect of diaspora remittaances on economic growth in Kenya

iii . To establish the effect of foreign portfolio investment on economic growth in Kenya

iv . To establish the effect of foreign debt on economic growth in Kenya

1.4 Research Hypotheses

$\boldsymbol{H_{01}}$ Foreign direct investment has no significance effect on economic growth in Kenya

$\boldsymbol{H_{02}}$ Diaspora remittances has no significance effect on economic growth in Kenya

$\boldsymbol{H_{03}}$ Foreign portfolio investment has no significance effect on economic growth in Kenya

H_{04} Foreign debt has no significance effect on economic growth in Kenya

1.5 Scope of the Study

The research deliberated on Kenya as the unit of analysis. This research focused primarily on economic growth as attributed to by foreign capital flows as content scope. The study adopted explanatory correlational research design where time series regression model was adopted for a period 10 years from 2014 to 2023.

1.6 Significance of the Study

This research is significant to the government, researchers, investors, and other stakeholders. The study's conclusion will assist the government in the implementation of policies, strategies, and measures that promote economic growth by facilitating foreign capital flows. The research findings are necessary for investors' particularly foreign direct investors to assist them in understanding the contribution of their investment to the development of the nation. These would allow them to make make better investment choices. The research will also contribute as a source of knowledge and value addition. Future researchers can use this research to make more advancements and iron out limitations in their future findings. This research can also be a reference source for further studies related to this research area. This study adds value to scholars, academicians, and Finance theory in general.

1.7 Limitation of the Study

The researcher is at risk of getting different reports from many source that pause a threat of authenticity. To address this, the researcher only used data from World Bank report, CBK and KNBS which are credible sources.

1.8 Organization of the Study

Chapter One introduces the research study by covering the background of the research, research problem, research purposes, research hypothesis, the scope of the research, limitations of the research, and significance of the research. The second chapter covers a literature pertaining government expenditures variables and Kenyan economic growth. Chapter three details the research methodology, design, empirical model, operationalization, and measurement of variables. Additionally, there is the sampling design, study population, data collection tools, analysis, and diagnostics tests. Chapter four focused on data analysis, interpretation and discussion. Chapter five focused on summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents the hypothetical framework of the study; this highlights various theories by scholars that underpin the subject of economic growth. Furthermore, the section also covers the empirical review; this section reviews literature about government expenditures and economic growth. The section also has a conceptual framework that uses figures to illustrate the dependent and independent variables.

2.2 Theoretical Review

The research will be underpinned by Keynes's theory, Wagner's law and Solow-swan theory that provide evidence from various scholars & researchers to government expenditures and economic growth in Kenya.

2.2.1 Keynesian Theory

The General Theory, a contemporary form of classical macroeconomics, was initiated by John Maynard Keynes in 1936. It encompasses five components: Initially, Keynes rejects the loan interest rate which are viewed as fictitious and are nonexistent in the market. However, Keynes failed to offer a compelling rationale for this argument. Secondly, Keynes brought about the essential uncertainty inherent in investment. Money demand and expenditure, as well as investment, are significantly affected by expectations regarding an uncertain future. Third, Keynes familiarized a fresh theory that succeeded the loan fund interest rate theory: the concept of liquidity preference. Keynes posits that the interest rate is profoundly affected by the demand for money, which is shaped by vagueness over the forthcoming. The underlying ambiguity has the potential to exacerbate at any moment, culminating in a strengthening of the demand for money and interest rates. Keynes asserts that the marginal product of labor is influenced by the level of production, which in turn determines real compensation. This is his fourth opinion. Firms that possess market influence are capable of increasing their actual compensation. The comparable framework of their products also influences actual wages. Fifth, Keynes said that the pricing system could not attain a state of full employment equilibrium inside an economy. The total income is substantial since it contributes to an economic slowdown. The government's higher spending will result in a rebound in the amount of money that circulates in society. It promotes the notion that society should increase demand by increasing expenditure. This theory concluded that economic development is influenced by government expenditure (Solikin, 2018). This theory is evaluated using economic development variables, specifically Gross Domestic Product (GDP) (Arjomand, Emami, & Salimi, 2016).

2.2.2 Wagner's Law

Adolf Wagner proposed another theory about government expenditure in the 19th century. He contended that the sophistication of a nation's economy influences the magnitude of government, which may be quantified by the level of government expenditure (Sukartini & Saleh, 2012). Wagner's law prioritizes the influence of GDP on government expenditure. Irandoust (2019) asserts that Wagner's rule pertains to the long-term correlation between per capita income and governmental administration, suggesting that in examining causation, several hypotheses may influence economic policy decisions. The neutrality theory posits that there is no correlation between government expenditure and GDP. The Wagnerian theory posits a direct causal link between GDP and government expenditure, as well as between public spending and GDP. The final hypothesis posits a robust bidirectional correlation between GDP and government expenditure. Numerous prior studies have juxtaposed Wagner's Law with Keynes's Theory due to their conflicting perspectives (Solikin, 2018). Our emphasis does not include testing Wagner's Law, since prior research has shown that it often pertains to developed nations, indicating that more economic development correlates with increased government expenditure. This theory is relevant to the research since it substantiates the independent variable.

2.2.3 Free Cash Flow Theory

Free Cash Flow Theory was postulated Jensen in 1986, emphasizing the notion that surplus capital persists after funding profitable enterprises. This indicates that the financial success of firms is influenced by net revenue generated by capital expenditures. Schoubben (2008) asserts that high free cash flow can be derived from net financial gains plus borrowings, less capital expenditures and any alterations in non-cash flows, as well as depreciation and amortization. Free cash flows allow for the assessment of a firm's financial performance by indicating the cash generated after expenses are deducted.

This theory posits that conflicts of interest between managers and stockholders are fundamentally rooted in human nature. The theory posits that organizations with substantial free cash flows may engage in activities that diminish the firm's worth. Jensen (1986) contended that managers frequently exhibit reluctance to distribute free cash flows to investors, as such disbursement may result in a decline in the firm's value. Distributing dividends is not the primary personal objective of managers; they manage the firm's resources while preserving their wealth. Enhanced agency problems arise from free cash flow exacerbating the mismatch in advantages between managers and stakeholders (Jensen, 1986). Most of these managers initiate acquisitions and other investment projects that may not be advantageous to the firm.

The theory posits that corporations with substantial free cash flows experience greater abnormal profits following the announcement of a share repurchase program compared to enterprises lacking free cash flows. The free cash flow hypothesis advocates for increasing dividends and allocating surplus free cash flow to mitigate agency costs. Consequently, markets react positively to this information. Consequently, managers are obligated to select judicious investments. This concept has faced criticism as managers do not consistently prioritize enhancing the firm's growth to increase shareholder wealth (Darek, 2012).

This hypothesis is subject to numerous constraints. This approach favors short-term investments and dissuades long-term, successful ones. Moreover, over dependence on credit subjects companies to elevated interest rates and heightens the risks associated with their undertakings. The free cash flow hypothesis is significant to this research as it illustrates the influence of free cash flow on a firm's financial performance. Consequently, it endorses the research's utilization of foreign capital flows as the independent variable.

Wangari and Muriithi (2019) studied the correlation between capital financing flows and the financial performance of Kenyan insurance firms, rigorously analyzing the free cash flow theory to elucidate the connection. This research revealed that insurance firms employing effective capital structure management strategies attained improved profitability and financial stability; however, it also indicated that frequently investing free cash flow instead of enhancing shareholder value may lead to inefficient expenditures and diminished profitability.

2.3 Empirical Review

2. 3. 1 Foreign Direct Investment and Economic Growth

Cheong (2018) assessed the impact of FDI on the economic development of nine West African nations from 1995 to 2015, through a panel data methodology. The findings indicate that FDI is considered significant and has a favorable influence on economic growth in West African countries. Furthermore, foreign direct investment requires governmental assistance and guidance to enhance productive activities and mitigate its adverse impact on the GDP of West African nations. Whereas this research was performed in among nine countries in West Africa and adopted a panel approach, the current study was done in Kenya and adopted a time series approach.

Mahembe and Odhiambo (2014) researched FDI and economic growth: a theoretical framework. The reviewed literature in this research indicates that foreign direct investment (FDI) significantly contributes to the economic development of the host nation. FDI influences economic growth via two primary mechanisms: (i) FDI may promote the integration of innovative technologies in production via technical outflows; and (ii) FDI may facilitate knowledge transfers, including both workforce training and skill development. Whereas this study was performed in Kenya, the focus was a review of theoretical literature creating a methodological gap that the current research is came to fill by going to the field and collecting data for analysis.

Saqi, et al (2013) researched the correlation between FDI and the economic growth of Pakistan. The data used for this research spanned from 1981 to 2010. The research includes FDI and four additional variables: Debt, Trade, Inflation, and Domestic Investment, to assess their influence on the nation's GDP. The approach to evaluate the influence of these factors on Pakistan's economy has been restricted to the least squares technique. The co-integration of the variables has been confirmed using the Augmented Dickey-Fuller Test and is shown to persist in the long term. It was discovered that foreign investment adversely impacts Pakistan's economic performance, but local investment has positively contributed to its economy. Furthermore, the nation's debt, trade, and inflation have been demonstrated to adversely affect its GDP. Whereas this study was done in Pakistan a developed nation, its finding cannot be generalized in Kenyan setting, thus creating a contextual gap that the current research is came to fill.

2.3.2 Remittance and Economic Growth

Osoro, Simiyu, and Omagwa (2020) aimed to determine the impact of diaspora remittances on the growth of the stock market at the NSE, Kenya. The research included the years 2008 to 2018, using quarterly time series data evaluated by correlation analysis and the ADL Model. The research results indicate a substantial beneficial impact of foreign remittances on short-term stock market development, as demonstrated by the adverse and significant coefficient of the ECT. Similarly, diaspora remittances had a substantial beneficial influence on the long-term growth of the stock market. Based on the aforementioned outcomes, the research recommends that the Kenyan government create a department of trade ties in all foreign embassies to inform expatriates about investment possibilities at the NSE and the importance of reinvesting in their country of origin. Whereas this study was done in Kenya, the focus was the stock market creating a conceptual gap the current study is came to fill by looking the entire growth of the economy.

The World Bank (2016) used panel data to evaluate the impact of remittances on economic expansion in 67 countries between 1991 and 2005. The control variables of the study, which were all transformed into natural logarithms, included the following: initial GDP per capita, the ratio of private domestic credit to GDP, high school enrollment rate, ICRG political instability index, inflation rate, the actual exchange rate overestimation, the ratios of actual exports and imports to GDP, government intake, and time period dummies. The endogeneity of remittances was addressed by an SGMM estimation approach utilizing external variables and time-varying instruments. Estimates indicate that GDP growth rises by 0.27% as the remittance to GDP ratio escalates from 0.7% to 2.3%. When the investment-to-GDP ratio is considered with other control variables, the calculated coefficient for remittances to GDP diminishes in importance. The research indicated that a primary role of remittances is to enhance domestic investment. There existed a conceptual gap from this study that the current study is came to fill.

Sebil and Badejo (2015) investigated the connections between remittances and Nigerian economic expansion. A method to error correction modeling served as the study's foundation. The study's time frame ranged from 1981 to 2011. The study's conclusions showed that repatriation from foreign countries had a favorable impact on output level in Nigeria. Remittances did, however, have a strong adverse link with productivity in the short term. The results supported the notion that there exists a robust linkage between trade and economic expansion suggesting that the more an economy is open, the more stimuli it has on real gross domestic output now and future dates. This research was done in Nigeria, whereas the present research was done in Kenya, hence creating a contextual gap.

Njoroge (2014) sought to evaluate the influence of overseas remittances on stock market performance, through data from the NSE. The performance of the stock market was assessed using The NSE All-Share Price Index (NASI). Inflation, interest rates, and currency rates served as control variables. Monthly time series data spanning seven years from February 2008 to May 2015 was acquired from the NSE and the CBK to fulfill the research goals. The research included descriptive analysis and multiple regression analysis. The research results demonstrated that Diaspora remittances had a substantial and considerable favorable influence on stock market performance. Whereas this study was done in Kenya, the focus was the stock market creating a conceptual gap the current study is came to fill by looking the entire growth of the economy.

Raza and Jawaid (2014) examined the impact of remittances on stock market expansion across 18 Asian nations. The research included the years 2000 to 2010, during which time series data was examined via ARDL cointegration and Toda and Yamamoto causality tests. The outcomes demonstrated that remittances significantly influenced stock market development. The Toda Yamamoto causality test revealed a bidirectional causal link. This research is undertaken outside the context of rising African stock markets. Whereas this study was done among Asian countries which cannot be generalized in a developing country like Kenya, thus a contextual gap that the current research is came to fill.

2.3.3 Foreign Portfolio Investment and Economic Growth

Cliff (2020) aimed to examine international capital inflows and market growth at the NSE, Kenya. The explicit goals were to examine the effects of overseas equity, overseas debt, overseas direct investment, and overseas diaspora remittances throughout the period from 2008 to 2018. Cliff (2020) utilized the ADL Model and MLS regression for data analysis. The findings indicated that overseas equities portfolios at the NSE had a significant short-term impact on market development. Nevertheless, the researcher could not ascertain the element that led to little increase in the market regarding foreign stock portfolio inflows. Furthermore, the researcher failed to differentiate between foreign stock portfolio inflows and outflows in the computation of net overseas equity portfolio flows. Whereas this study was done in Kenya, the focus was the stock market creating a conceptual gap the current study is coming to fill by looking the entire growth of the economy. Gachanja and Kosimbei (2018) investigated the dynamic connection between market returns in Kenya's NSE and foreign net equity portfolios by analyzing data from both long-term and short-term research. The study's results suggested a satisfactory link between foreign equities portfolios and market returns, both in the long term and short term. Whereas this study was done in Kenya, the focus was the stock market creating a conceptual gap the current study is came to fill by looking the entire growth of the economy.

Harelimana (2017) studied the impact of stock portfolios on the profitability of the Rwandan Social Security Board. The research gathered data from primary and secondary sources. Of the 124 participants, 84 were surveyed applying the Slovin approach to respond to structured surveys and interviews. The result drawn indicates a significant association between equity portfolio investments and the financial health of the RSSB'S assets. This research was undertaken in Rwanda, focusing on a public sector entity creating both conceptual and contextual gaps that the current research is came to fill by looking the entire growth of the Kenyan economy.

Nyang'oro (2013) examined the link between portfolio flows and market performance in Kenya. The MFP model, an advancement of the arbitrage pricing model, was used in the research. The research employed predictive causality techniques and monthly time series data from April 1996 to the end of 2011. The research results demonstrated a positive link between overseas stock inflows and market performance. Whereas this study was done in Kenya, the focus was the stock market creating a conceptual gap the current study is came to fill by looking the entire growth of the economy.

2.3.4 Foreign Debt and Economic Growth

Manasseh et al. (2022) investigated the influence of foreign debt on economic development. The research applied yearly time series data, concentrating on thirty chosen Sub-Saharan African (SSA) nations from 1997 to 2020. The DSG Method of Moments estimate approach was used while accounting for traditional sources of economic development. The research empirical results indicate that foreign debt and its volatility adversely and significantly affect economic development in SSA. This research recommends that the SSA government endeavor to reduce excessive foreign debt to improve the region's capacity to invest in its financial future and to mitigate the possibility of repaying loans with insufficient income. Governments must guarantee that all borrowed funds are adequately monitored and used for their intended objectives to stimulate economic development. Whereas this study was done among thirty selected Sub-Saharan African countries and employed a Dynamic System Generalized Method of Moments estimation technique, its finding cannot be generalized in Kenyan context, thus creating both contextual and methodological gaps that the current study is came to fill.

Zhang, Dawood, and Al-Asfour (2020) researched the causal link between foreign debt and economic development in emerging nations. The model comprises 18 chosen Asian developing and transitioning countries from 1995 to 2019. They used dynamic heterogeneous panel data methodologies, including PMG, robust CS-ARDL, and paired panel causality testing. The findings of PMG and CS-ARDL indicate a causal relationship between foreign debt and economic growth in both the short and long term. The paired Granger causality test revealed a bidirectional causal link between total external debt, public external debt, private external debt, and economic expansion, with economic growth also influencing external debt. The findings indicated the presence of causation in both the short-and-long run between foreign debt and economic development, as well as bi-directional causality from external debt to economic progression and vice versa. Both the dynamic models and robust estimators yielded identical conclusions about the influence of primary factors on economic development in Asian emerging and transition countries. The study's conclusions indicate the need of ensuring debt management, investing in productive sectors, enhancing local savings, reducing external reliance, and prioritizing global commerce. Whereas this study was done among 18 selected Asian developing and transition economies and applied a dynamic heterogeneous panel data methods, its finding cannot be generalized in Kenyan context, thus creating both contextual and methodological gaps that the current study is came to fill.

Ferreira (2016) studied the causal association between economic growth and three types of debt—public, overseas, and private—in a sample of 28 EU countries, utilizing two balanced panel datasets from 2001 to 2012 and 2007 to 2012 to account for the onset of the worldwide economic downturn of 2007 to 2008. The author applied panel Granger causation estimates and identified statistically significant bidirectional causation between debt and economic growth, demonstrating that economic expansion reduces governmental debt. Whereas this study was done among 28 sample countries of European Union and a panel approach, its finding cannot be generalized in Kenyan context, thus creating both contextual and methodological gaps that the current study is came to fill.

2.4 Summary of Empirical Review

Many studies have been carried out this area of government expenditure and economic growth and there have been mixed findings, some revealing significant association others revealing insignificant relationship. Some have positive correlation others have negative correlation. Therefore this section try to summarize the studies and identifying the research gaps found from these previous studies that the current study filled.

Table 2.1 Summery of Empirical Review and Research Gaps

Researcher	Purpose	Findings	Research Gaps	Focus of the current study
Manasseh *et al.* (2022)	The impact of external debt on economic expansion.	Empirical evidence from the research suggests that overseas debt and its volatility adversely and significantly affect economic development in SSA.	Creating both contextual and methodological gaps	The current studycame to fill both contextual and methodological gaps.
Osoro, Simiyu and Omagwa (2020)	Aimed to ascertain the effect of diaspora remittances on the growth of the stock market at the NSE, Kenya	The results reveal a substantial beneficial impact of diaspora remittances on short-term stock market expansion, as shown by the adverse and substantial coefficient of the ECT.	This study was done in Kenya, the focus was the stock market creating a conceptual gap	The current study came to fill by looking the entire growth of the economy.
Cliff (2020)	Studied international capital inflows and market growth at the NSE, Kenya	The findings indicated that foreign equities portfolios at the NSE had a substantial short-term impact on market growth.	This study was done in Kenya, the focus was the stock market creating a conceptual gap	The current study came to fill by looking the entire growth of the economy.
Zhang, Dawood, Al-Asfour (2020)	Examines the causal link between foreign debt and economic development in emerging economies.	The outcomes suggested the presence of causation between foreign debt and economic development in both the short run and long run.	This survey was conducted across 18 selected Asian emerging and transition economies and applied a dynamic heterogeneous	Both contextual and methodological gaps that the current research came to fill

			panel data methods.	
Gachanja and Kosimbei (2018)	Researched the dynamic connection between market returns in Kenya's NSE and foreign net equity portfolios	The results demonstrated a favorable correlation between foreign equities portfolios and market returns, in both the long and short term.	This research was done in Kenya, the focus was the stock market creating a conceptual gap	The current study came to fill by looking the entire growth of the economy.
Cheong (2018)	Appraised the effect of FDI on economic expansion of nine West Africa nations	The findings indicate that FDI has a statistically significant beneficial effect on economic development in West African countries.	This study was done amongst nine countries in West Africa and adopted a panel approach creating both methodological and contextual gaps.	The current study was done in Kenya and adopt a time series approach.
The World Bank (2016)	Evaluated the impact of remittances on economic growth in 67 states	Estimates indicate that GDP growth rises by 0.27% as the remittance to GDP ratio escalates from 0.7% to 2.3%.	There existed a conceptual gap	This research addressed this gap.
Mahembe and Odhiambo (2014)	Researched foreign direct investment and economic expansion:	This research demonstrates that FDI is a significant contribution to the economic development of the host nation.	This study was done in Kenya and centered on review of theoretical literature creating a methodological gap.	This research addressed this gap by going to the field and collecting data for analysis via times series.

Source: Researcher (2024)

2.5 Conceptual Framework

The conceptual framework depict the link between foreign capital flows and economic growth, which serve as the independent and dependent variables, respectively. Foreign direct investments, remittance, foreign portfolio investment and foreign debt were the explanatory variables whereas the economic growth was the output variable being measured using GDP growth rate.

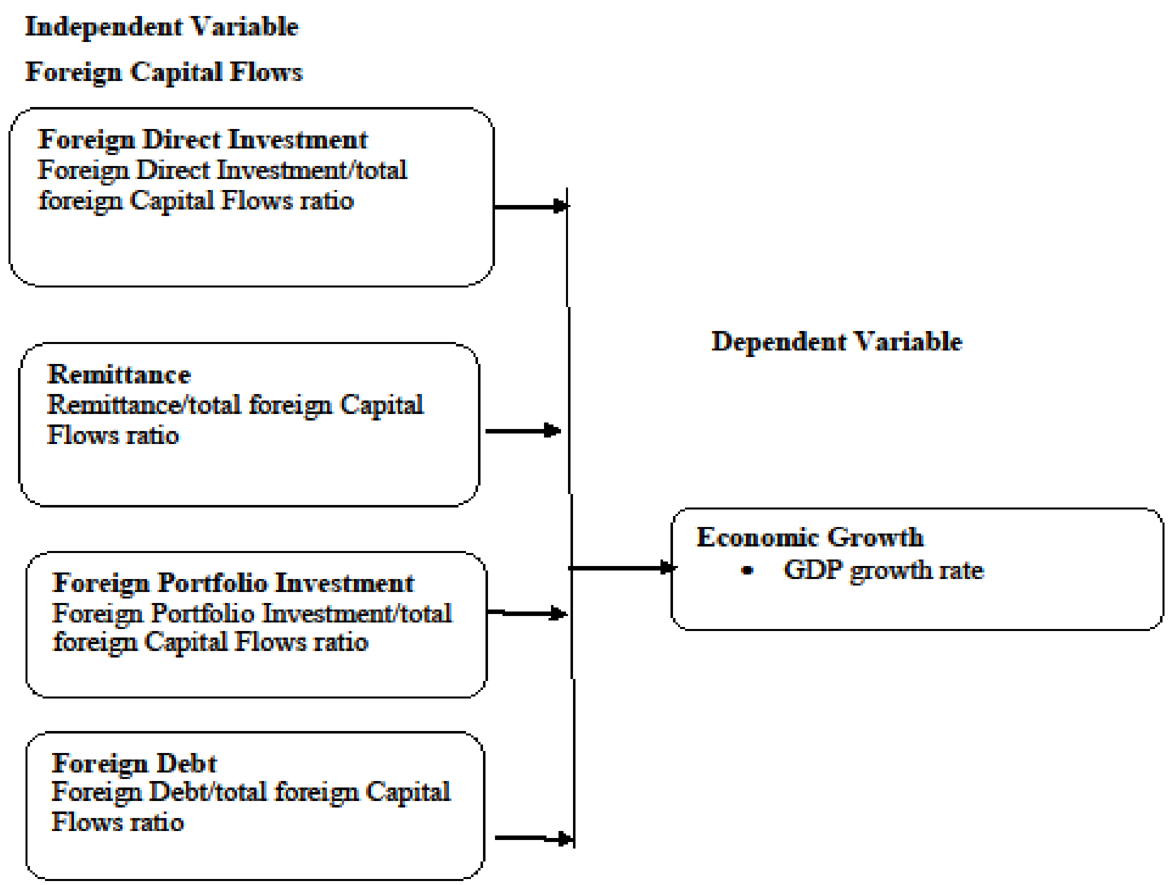


Fig. 2.1 Conceptual framework

Source: Researcher (2024)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section looks at the following areas; the research design, the target audience, instruments for data gathering and data collection procedure, operationalization and measurement of the research variables. In addition, the section discussed the data analysis and presentation, which included the empirical model specification and diagnostic test, and finally, the ethical factors.

3.2 Research Design

The explanatory correlational research design to be utilized for this research. Garcés-Mascareñas (2012) characterizes correlation design as a non-experimental quantitative methodology whereby the researcher use correlational statistics to assess and delineate the extent of link between variables or score sets. Thus, the design enabled the research to explain the links and interdependency between foreign capital flows and economic growth.

3.3 Target Population

Saunders, et al (2016) aver that population alludes to the whole set of items about which the research intends to draw inferences. In this research the researcher concentrated on the Kenyan economy as an entity.

3.4 Data Collection Instruments

The research employed public secondary data from the World Bank, Central Bank, National Treasury, and KNBS. Secondary data is a vital source of information in any study as they provide a source of facts that is easily available, more accurate, and verifiable. These sources are permanent, and the researcher can counter-check them anytime. The secondary data was collected using the data extraction form. This form collected information on annual foreign direct investments, diaspora remittance, foreign portfolio investment, foreign debt and GDP growth rate. The data, which was longitudinal, was obtained for a period of 10 years that is from 2014 to 2023.

3.5 Data Collection Process

Before collecting data, Kenyatta University approved and authorized the researcher to collect data necessary for the study. Further, authorization was sought from the NACOSTI. Once permission is granted, Secondary data was extracted from annual reports from World Bank, CBK and KNBS from the year 2014 to 2023.

3.6 Operationalization and Measurement of Study Variables

This segment covers operational terms of the study variables used and their types, operationalization, measurements and the scale of measurement.

3.1 Operationalization and measurement of variables

Variable	Type	Operationalization	Measurement	Measurement Scale
Foreign Direct Investment	Independent	It reflects an ownership stake in a foreign entity or venture obtained by an investor, firm, or government from a different nation	Foreign Direct Investment/total foreign Capital Flows ratio	Ratio
Remittance	Independent	Refers to the act of people who have left their home countries and settled in other parts of the world sending money or resources back to their families, friends, or communities in their home countries.	Remittance/total foreign Capital Flows ratio	Ratio
Foreign Portfolio Investment	Independent	Entails possessing financial assets from a nation external to the investor's domicile.	Foreign Portfolio Investment/total foreign Capital Flows ratio	Ratio

Foreign Debt	Independent	Resources acquired by a government, firm, or individual from foreign governmental or private lenders.	Foreign Debt/total foreign Capital Flows ratio	Ratio
Economic Growth	Dependent	A growth in the total value of products and services generated in a country during a certain timeframe	GDP Growth Rate	Ratio

Source: Researcher (2024)

3.7 Data Analysis and Presentation

After collecting the data, the researcher cleaned and coded that data before carrying out the analysis. Analysis was done with the help of STATA software version 14 where descriptive statistics and inferential statistics was analyzed. Descriptive statistics focused on means and standard deviations of study variables whereas inferential statistics centered on correlational analysis as well as regression analysis. The analyzed data was displayed in forms of graphs, tables and charts. The multiple linear time series regression model was developed based on the research by Olabisi and Funlayo (2012). The model was as follows

$$\boldsymbol{Y_t} = \lambda_{\mathbf{0}} + \lambda_{\mathbf{1}}\boldsymbol{X}_{1t-1} + \lambda_{\mathbf{2}}\boldsymbol{X}_{2t-1} + \lambda_{\mathbf{3}}\boldsymbol{X}_{3t-1} + \lambda_{\mathbf{4}}\boldsymbol{X}_{4t-1} + \boldsymbol{\varepsilon}$$

Whereby Y= Economic Growth

$\boldsymbol{X_1}$= Foreign Direct Investment

$\boldsymbol{X_2}$= Remittance

$\boldsymbol{X_3}$= Foreign Portfolio Investment

$\boldsymbol{X_4}$= Foreign Debt

λ_1, λ_2, λ_3 and λ_4 =Coefficient of the components of Foreign Capital Flows

$\boldsymbol{\varepsilon}$ is the error term.

$\lambda_{\mathbf{0}}$ = Intercept of the regression line

t=time period (2014-2023)

3.8 Diagnostic Tests

3.8.1 Multicollinearity test

Multicollinearity implies the existence of significant correlation among independent variables in a multivariate regression model. This test is used to detect and quantify the degree of multicollinearity in a dataset. It also assesses whether the independent variables in a regression model are linked to a degree that could cause issues with the interpretation of the model. This study will adopt the VIF command to identify the multicollinearity test in the regression model. According to the rule of thumb, a variable whose VIF values >10 will call for more investigations (Kothari, 2017).

3.8.2 Normality Test

The normality test compares this set of results against a set of results that are normally distributed and have a constant mean and standard deviation (Shiva, 2012). The assumption of "sample distribution is normal" is the null hypothesis. The distribution is not normal if the test is significant. The researcher will employ the Jarque-Bera test to check normality where p values smaller than 0.05 suggests that the data set is abnormally distributed, and Probabilities higher than 0.05 suggest the set is normally distributed.

3.8.3 Heteroscedasticity Test

According to Jameson (2014), Heteroscedasticity refers to any data that does not have homoscedastic characteristics. Its data that has unequal variability across the set of second independent variables it predicts. In regression, the error term denotes how far a point deviates from the regression line, and the idea is that the error term should be constant or simply homoscedastic (Frost, 2021). These research will use the Breusch-Pagan model as proposed by Breusch and Pagan (1979) who recommended this test for heteroscedasticity. The equation form is $\chi^2 = n \cdot R^2 \cdot k$, in this case, n is the sample size in a potential linear regression, R^2 is the coefficient of determination, and k is the number of predictor variables. Instead of the sample size, the degrees of freedom are determined by independent variables. This test's interpretation is a significant result indicates existence of heteroscedasticity (Clark, 2018).

3.8.4 Autocorrelation Test

It's where the similarity between observations is a function of time lags between them (Misund, 2018). The Durbin-Watson test is a widely used method for autocorrelation (Jeong & Chung, 2021). This study will adopt the Durbin-Watson test to investigate autocorrelation. The Durbin-Watson statistic always falls between the numbers 0 and 4. Metrics of the value of 2 shows no autocorrelation detected in the data set. Metrics of more than 0 but less than 2 confirm Positive autocorrelation and finally, metrics greater than 2 but less than 4 reveal the presence of negative autocorrelation (Kenton, 2018).

3.8.5 Stationarity Test

Refers to a test of verification of whether the data studied is stationary or not (Schaffer, 2020). In time series analysis, it is crucial to first examine the data producing process to prevent erroneous judgments. This is probable to happen when we assess an apparently robust connection that does not exist. To avert this, we utilize the Breakpoint unit root test, the ADF test, the PP test, and the KPSS test. The research will employ the Augmented Dickey-Fuller test, established by Dickey and Fuller (1978), and the Philips-Perron test, proposed by Philips and Perron (1988), to ascertain the stationarity of the variables included in the research.

3.8.6 Lag Selection

Before running the cointegration test, the applicable latency for the model will be determined. The ARDL approach the AIC will be utilized to determine the ideal lag duration and pick the most suitable model. Lütkepohl (2006) asserts that the optimal lag order for each regressor, as ascertained by the Akaike Information Criterion (AIC), outperforms other options.

3.9 Ethical Considerations

Ethics are the standards or norms for conduct that discriminate between what is wrong and what is right. They assist in determining the difference between unacceptable and acceptable behaviors (Kothari, 2017). To ensure adherence to the ethical norms of the research, authorization will be obtained from the relevant authorities. A letter of introduction ought to be obtained from the University. Permits will be obtained from the NACOSTI.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This section includes objective testing, VAR time series regression analysis, descriptive statistics, and outcomes of diagnostic tests. It details how the relationships between the variables are interconnected.

4.2 Descriptive Statistics

This emphasizes the most significant elements of the utilized data. The descriptive statistics results analysis are displayed in Table 4.1.

Table 4.1 Descriptive Statistics

Variable	60	Mean	Std. Dev	Min	Max
Foreign Direct Investment	10	.0242	.0143434	.009	.056
Remittance	10	.0642	.0084827	.051	.081
Foreign Portfolio Investment	10	.0348	.0597007	0	.199
Foreign Debt	10	.8769	.0584626	.722	.924
GDP Rate	10	4.477	1.989244	-.27	7.59

Source: Study Data (2024)

The GDP rate mean is 4.477, the std. dev. is 1.989244, and the range of values is -0.27-7.59, as per the results. This suggests that the GDP growth rate demonstrates both uniformity and equilibrium throughout the study period, with an annual average growth of 4.5%. The Foreign Direct Investment had an average of 0.0242 and a std. dev. of 0.0143434. The minimum recorded was 0.009, whereas the maximum was 0.056. This implies an approximate 2.4% of total foreign capital flows that was rising over time. The remittance exhibited a somewhat variable average of

0.0642 and a std. dev. of 0.0084827, with a minimum of 0.051 and a maximum of 0.081. This implies an average contribution of 6% of the total capital flows.

Foreign Portfolio Investment demonstrated an average of 0.0348 and a std. dev. of 0.0597007, with a low of 0 and a high of 0.199. This implies steadily increasing portion of FPI over the total foreign capital flows at 3.5%.The Foreign Debt had a score of 0.8769 and a std. dev. of 0.0584626. This bottommost value was 0.722, whereas the uppermost figure was 0.924. This implies the highest contribute of foreign capital flows with an approximate 88%% of total foreign capital flows that was rising over time.

4.3 Correlation Analysis

The correlation matrix among the variables is portrayed in Table 4.2.

Table 4.2 Correlation Analysis

	Foreign Direct Investment	Remittance	Foreign Portfolio Investment	Foreign Debt	GDP Rate
Foreign Direct Investment	1.0000				
	10				
Remittance	0.6420	1.0000			
	0.0006				
	10	10			
Foreign Portfolio Investment	0.5790	0.0190	1.0000		
	0.0006	0.8856			
	10	10	10		
Foreign Debt	0.4920	-0.4830	0.3599	1.0000	
	0.0421	0.0001	0.0047		
	10	10	10	10	
GDP Rate	0.7190	0.5312	-0.2499	-0.8731	1.0000

	0.0148	0.0000	0.0541	0.0000	
	10	10	10	10	10

Source (Study data, 2025)

The Pearson correlation coefficient reflecting a link between foreign direct investment and economic growth in Kenya was robust, favorable, and statistically significant at 0.0148 ($p<0.05$). These outcomes contradicts those by Saqi, et al (2013) who found that, the nation's debt, trade, and inflation have been demonstrated to adversely affect its GDP.

The correlation between remittances and economic growth was moderate and beneficial, illustrated by a Pearson coefficient of 0.5312 and a significance level of 0.0000 ($p<0.05$). This results is compatible with Raza and Jawaid (2014)'s outcomes who demonstrated that remittances significantly influenced stock market development. It agrees with the finding by Njoroge (2014) who demonstrated that Diaspora remittances had a substantial and considerable favorable influence on stock market performance.

The Pearson correlation coefficient between foreign portfolio investment and economic growth was -0.2499, with a weak negative insignificance level of 0.0541 ($p>0.05$). This finding contradicts those by Nyang'oro (2013) who demonstrated a positive link between overseas stock inflows and market performance.

The link between foreign debt and economic development was robust and inversely correlated, evidenced by a Pearson coefficient of 0.8731 and a significance level of 0.0000 ($p<0.05$). This outcome aligns with the analysis of Manasseh et al. (2022), which suggest that foreign debt and its volatility adversely and considerably impact economic development in SSA.

4.4 Diagnostic Test Results

Regression was conducted prior to the diagnostic test. The experiments included the tests for multicollinearity, normalcy, heteroscedasticity, autocorrelation, optimal lag selection, and stationarity.

4.4.1 Multicollinearity test

It was executed by instituting the VIF, where VIFs below 10 was considered to have no multicollinearity. Any other result meant there is substantially linear relationship involving more than one explanatory factor. Table 4.3 displays the results

Table 4.3 Multicollnearity Test

Variable	VIF	1/VIF
Foreign Portfolio Investment	11550.84	0.000087
Foreign Debt	11290.41	0.000089
Foreign Direct Investment	717.88	0.001393
Remittance	220.96	0.004526
Mean VIF	5945.02	

Source: Study Data (2024)

The output above provides evidence that all the VIFs were less than 10, confirming that there was no problem of multicollinearity.

4.4.2 Normality Test

The alternative hypothesis says that the data are uniformly distributed, in contrast to the null hypothesis, which claims otherwise (Green, 2008). If the p value is 0.05, the data are not normal, and if the p value is >0.05, the data are normal. The Shapiro-Wilk test was used in this inquiry. Table 4.4 exhibits the results of the normality tests;

Table 4.4 Normality Test

Variable	Obs	W	V	z	Prob>z
Foreign Direct Investment	10	0.89710	1.586	0.829	0.20354
Remittance	10	0.96099	0.601	-0.831	0.79712
Foreign Portfolio Investment	10	0.59559	6.232	3.896	0.05132
Foreign Debt	10	0.69702	4.669	3.152	0.08101
GDP Rate	10	0.84769	2.347	1.603	0.05452

Source: Study Data (2025)

The results demonstrate that the statistics set was normally spread since the table above shows that p values >0.05.

4.4.3 Test for Heteroscedasticity

Through a diverse array of explanatory variables, it attempts to ascertain whether the volatility of the variables was not equal. This was done using the Breush-Pagan/Cook-Weisberg test.

Table 4.5 Test for Heteroscedasticity.

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of gdprate
chi2(1) = 1.01
Prob > chi2 = 0.3138

Source: Study Data (2025)

The alternative proposition asserts heteroscedasticity, while the null hypothesis asserts homoscedasticity through a variety of explanatory variables. When the p value is 0.05 or below, heteroscedasticity is present; when it is greater than 0.05, homoscedasticity is present. The research failed to reject the null hypothesis and come to the conclusion that homoscedasticity existed.

4.4.4 Autocorrelation Test

The autocorrelation test sought to identify the correlations between error items over time. The test was conducted utilizing Durbin-Watson method, wherein an absence of serial correlation is shown by a DW value not notably distinct from 2. A zero-autocorrelation hypothesis was tested, requiring that the predicted value exceeds the lesser critical value. (DL), as displayed in table 4.6.

Table 4.6 Durbin Watson Test

Durbin-Watson	d-statistic(	[illegible]	10)	=	2.397931

Source: Study Data (2025)

From table 4.6 above, Durbin Watson Value (DW) is 0.8718559 which exceeds 5% critical value ie p-value>0.05. Thus, the lags of the data utilized in this investigation did not present a difficulty with serial correlation.

4.4.5 Lag Selection Results

The proper latency for the model was chosen before running the cointegration test. To choose the ideal lag, the researcher used the Hannan-Quinn Criteria, the Schwarz Information Criteria, and the Akaike Information Criteria (AIC). According to table 4.7, the vector autoregressive lag selection is as stated.

Table 4.7 Lag Order Results

Selection-order criteria
Sample: 2018 - 2023 Number of obs = 6

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-13.7651				8.06047	4.92171	4.78278	4.887
1	-12.9878	1.5546	1	0.212	8.88661	4.99594	4.71807	4.92653
2	-9.97287	6.0299*	1	0.014	4.87942*	4.32429*	3.90749	4.22017*
3	-9.87147	.20281	1	0.652	7.86207	4.62382	4.06809	4.485
4	-8.61495	2.513	1	0.113	11.3779	4.53832	3.84365*	4.36478

Source: Study Data (2025)

All information criteria (FPE, AIC, HQIC and SBIC) determined that lag 2 was the best suitable lag for the model based on the data in table 4.7. Because every criteria chooses lag two, the study accepts it.

4.4.6 Stationarity Test

As displayed in table 4.8, the unit root test of the Phillips-Perron test was performed with the null hypothesis of 'data was not stable and there was unit root'.

Table 4.8 Phillips-Perron test

```
Phillips-Perron test for unit root                Number of obs   =         9
                                                  Newey-West lags =         1

                          ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic          Value             Value             Value
------------------------------------------------------------------------------
 Z(rho)          -12.344          -22.500           -17.900           -15.600
 Z(t)             -4.366           -4.380            -3.600            -3.240
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0025
```

Source: Study Data (2025)

The hypothesis of presence of unit root is rejected and it is resolved that the data was static, making it a good fit for regression models for the reason that the estimated test statistic is lower than the critical value (-3.876<-3.491) and the variation was statistically relevant (p=0.0131<0.05) at a 95% confidence range). In this case cointegration is not applicable.

4.5 Time Series Regression Analysis

The time series data was identified as steady, classified as I(0), without requiring differencing, as illustrated in Table 4.8. Consequently, in these cases, the data may be analyzed utilizing either the OLS or VAR model (Shrestha & Bhatta, 2018). Moreover, as all variables were stationary at I(0), cointegration is not required for this. The results of this investigation, utilizing a VAR time series regression grounded in an empirical model, are displayed in Table 4.9.

Table 4.9 Regression Coefficients

VAR						
Sample: 2016 - 2023					No. of obs = 8	
Log likelihood = -12.21081					AIC = 4.802702	
FPE = 18.59468					HQIC = 4.333876	
Det (Sigma_ml) = 1.239645					SBIC = 4.872214	
Equation	Parms	RMSE	R-sq	chi2	P>chi2	
GDP Rate	7	3.14915	0.7155	20.11965	0.0026	
GDP Rate	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	
GDP Rate						
L1.	-1.151856	.3939074	-2.92	0.003	-1.923901	-.3798119
L2.	-.9351969	.5423554	-1.72	0.085	-1.998194	.1278001
FDI	224.9037	1423.857	0.16	0.047	-2565.805	3015.613
Remittance	118.6727	1313.203	0.09	0.028	-2455.159	2692.504
FPI	236.5998	1384.477	0.17	0.046	-2476.925	2950.125
FD	236.5998	1393.164	0.15	0.000	-2520.301	2940.803
_cons	-191.4783	1389.895	-0.14	0.090	-2915.622	2532.666

Source: Researcher (2025)

The equation obtained was:

$$\mathbf{GDPRate_t = -191.4783 + 224.9037FDI_t + 118.6727R_t + 236.5998FPI_t + 236.5998FD_t}$$

The outcomes suggest that the explanatory variables in the model accounted for 71.55% of the variability in economic growth, as demonstrated by the R Square value of 0.7155 reflecting the simultaneous effects of the independent variables. Thus, 28.45% of the economic growth outcome was unexplained by the model's variables, suggesting the influence of external influences not considered in the study. The p-value of 0.0026, which is less than 0.05, suggests that this finding is statistically significant. When the predictive factors were disregarded, economic growth dropped by 191.4783. The decline is not significant, as demonstrated by the p-value of 0.090.

The findings advocate that a unit growth in foreign direct investment would equate to a 224.9037 boost in economic growth. A p-value of 0.047, <0.05, signifies both favorability and statistical significance. Consequently, the first null hypothesis was rejected. This results in congruent with those by Cheong (2018) who assessed the impact of Foreign Direct Investment on the economic development of nine West African countries from 1995 to 2015, through a panel data methodology and found that Foreign Direct Investment is considered significant and has a favorable influence on economic growth in West African countries. It also agree with the findings by Saqi, et al (2013) who studied the correlation between FDI and the economic growth of Pakistan from 1981 to 2010 and discovered that foreign investment adversely impacts Pakistan's economic performance, but local investment has positively contributed to its economy.

Equally, the statistics suggest that a singular increase in remittance resulted in a 118.6727 improvement in economic growth. A p value of 0.028, being less than 0.05, exhibited both favorability and statistical significance. Consequently, the second null hypothesis was rejected. This results in congruent with those by Osoro, Simiyu, and Omagwa (2020) who intended to ascertain the bearing of diaspora remittances on the growth of the stock market at the NSE, Kenya from 2008 to 2018, using quarterly time series data evaluated by correlation analysis and the ADL Model and found a substantial beneficial impact of foreign remittances on short-term stock market development, as shown by the negative and significant coefficient of the ECT. It also with the findings by Sebil and Badejo (2015) who investigated the connections between remittances and Nigerian economic expansion. A method to error correction modeling served as the study's foundation. The study's time frame ranged from 1981 to 2011. The study's conclusions showed that repatriation from foreign countries had a favorable impact on output level in Nigeria. Remittances did, however, have a strong adverse link with productivity in the short term.

Additionally, the statistics suggests the unit rise in foreign portfolio investment would equate to a 236.5998 improvement in economic growth. A p-value of 0.046, being less than 0.05, exhibited both favorability and statistical significance. Hence, null hypothesis three was rejected. This finding are in line the findings by Cliff (2020) who aimed to examine international capital inflows and market growth at the NSE, Kenya. The explicit goals were to examine the effects of overseas equity, overseas debt, overseas direct investment, and overseas diaspora remittances throughout the period from 2008 to 2018. Cliff (2020) utilized the ADL Model and MLS regression for data analysis. The findings indicated that overseas equities portfolios at the NSE had a significant short-term impact on market development. It also agree with the finding by Gachanja and Kosimbei (2018) who investigated the dynamic connection between market returns in Kenya's NSE and foreign net equity portfolios by analyzing data from both long-term and short-term research and found a satisfactory link between foreign equities portfolios and market returns, both in the long term and short term. Equally it agrees with findings by Harelimana (2017) who studied the impact of stock portfolios on the profitability of the Rwandan Social Security Board. The research gathered data from primary and secondary sources. Of the 124 participants, 84 were surveyed applying the Slovin approach to respond to structured surveys and interviews. The result drawn indicates a significant link between equity portfolio investments and the financial health of the RSSB'S assets.

Finally, the findings suggest that a unit rise in foreign debt could culminate in a 236.5998 improvement in economic growth. A p value of $0.000 < 0.05$ demonstrates that the result is both advantageous and statistically significant. So, null hypothesis four was rejected. This finding are in line the findings by Manasseh et al. (2022) who investigated the influence of foreign debt on economic development. The research applied yearly time series data, concentrating on 30 Sub-Saharan African nations from 1997 to 2020. The DSG Method of Moments estimate approach was used. The research empirical results indicate that foreign debt and its volatility adversely and significantly affect economic development in SSA. The findings also agree with those by Zhang, Dawood, and Al-Asfour (2020) who researched the contributory connection amongst foreign debt and economic development in emerging nations. The model comprises 18 chosen Asian developing and transitioning countries from 1995 to 2019. They used dynamic heterogeneous panel data methodologies. The findings indicate a causal link between foreign debt and economic growth in both the short and long term.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section offers a summarized discoveries, a recap of the research, and recommendations founded on the outcomes. The discoveries which aimed to institute the influence of foreign capital flowson economic growth in Kenya, addressed the research study's particular goals.

5.2 Summary

This section gives a summary of the study's findings. Determining how foreign capital flows impacted the economic growth in Kenya was the main objective. The foreign capitals flows was especially evaluated in relation to foreign direct investment, remittances, foreign portfolio investment and foreign debt. Descriptive statistics, the Pearson product moment correlation coefficient, and Vector Autoregression time series analysis were also utilized to evaluate the data. The key findings are listed below.

5.2.1 Foreign Direct Investment and Economic Growth

The main purpose was to ascertain the link between Foreign Direct Investment and economic growth. The results demonstrate a robust correlation between Foreign Direct Investment and economic growth. A statistically significant link exists between Foreign Direct Investment and economic growth, as seen by the link data (r=0.7190, p-value=0.0148). The regression analysis validated the first hypothesis by signifying a considerable and beneficial connection amongst Foreign Direct Investment and economic growth (p-value=0.047).

5.2.2 Remittances and Economic Growth

The second goal was to examine the correlation between remittances and economic growth. The results demonstrate a moderate correlation amongst remittances and economic growth. A statistically significant correlation exists amongstremittances and economic growth, which is confirmed by the statistics (r=0.5312, p-value=0.0000). The regression analysis validated the second hypothesis by signifying a favorable and substantial link between remittances and economic growth (p-value=0.028).

5.2.3Foreign Portfolio Investment and Economic Growth

The third objective evaluated the impact of foreign portfolio investment on economic growth. The results suggest a tenuous correlation between foreign portfolio investment and economic growth. Correlation research demonstrated a weak adverse link (r=-0.2499, p-value=0.0541) between foreign portfolio investment and economic growth, which was statistically insignificant. The third hypothesis was refuted by regression analysis, which revealed a favorable and statistically significant association amongst foreign portfolio investment and economic growth (p-value=0.046).

5.2.4 Foreign Debt and Economic Growth

The ultimate objective examined the impact of foreign debt on economic growth in Kenya. The results suggest a significant inverse relationship between foreign debt and economic development. A statistically significant link exists between foreign debt and economic growth, as seen by the data (r=-0.8751, p-value=0.000). The VAR regression analysis validated the fourth hypothesis by signifying a significant and positive association amongst foreign debt and economic growth (p-value=0.000).

5.3 Conclusion

The research's results indicate that foreign direct investment substantially influenced Kenya's economic growth. This research indicates that foreign direct investment will influence economic growth; therefore, addressing the foreign direct investment component will enhance economic growth in Kenya. The significance of foreign direct investment lies in its significant role in driving economic growth in host countries. Foreign investors bring capital, expertise and access to global markets, which can stimulate domestic industries and create jobs. This injection of capital and expertise often leads to higher productivity and increased GDP.

The research's results demonstrate that remittances significantly impact economic growth in Kenya. Consequently, remittances significantly influence economic growth; therefore, reducing the volume of remittances will enhance economic development. Remittances allow recipient households to boost spending on essential goods and services, invest in healthcare and education, and amass both liquid (cash) and fixed (property) assets, hence enhancing access to financial services and investment prospects. Remittance flows can substantially improve the living standards of recipient households by stabilizing consumption and enabling investments in their home economy. Remittances can enhance economic stability, bolster creditworthiness, and draw investments to foster economic growth and diminish poverty rates in recipient countries.

The research's results demonstrate that foreign portfolio investment significantly impacts economic growth in Kenya. Consequently, foreign portfolio investment significantly influences economic growth; therefore, enhancing the degree of foreign portfolio investment will foster economic growth. Foreign portfolio investment facilitates cross-border capital movement, enhances market liquidity, and fosters economic growth by allocating funds to various sectors.

Finally, the research's outcomes demonstrate that foreign debt significantly influences economic growth in Kenya. The foreign debt significantly influences economic growth; therefore, addressing it will enhance economic growth. Foreign debt is a fundamental element of a nation's financial framework and profoundly impacts its economic choices. Monitoring a nation's foreign debt level is crucial in macroeconomics. It serves as a crucial measure of economic strength, stability, and potential for future development.

5.4 Recommendations

The research also found that foreign direct investment significantly improves economic growth in Kenya. Consequently, this research proposes that Kenya government should seek to improve the investments climate and business environment in the country to attract mode FDI which can be able to have a significant role on economic growth. Having policies that encourage FDI and marketing the country as a desirable investment destination would be a good starting point.

The research suggested that remittances have a negative influence on the economic growth. The research recommends that the government should devised a foreign policy that places great importance on the diaspora. This integral aspect of the policy seeks to harness the varied talents, wisdom, proficiencies, and assets of Kenyans residing overseas, enabling their seamless integration into the country's development plans.

The study found that foreign portfolio investment has a considerable bearing on economic growth in Kenya. This article advises the Kenyan government to implement a comprehensive strategy to promote foreign portfolio investment, acknowledging its crucial role in stimulating economic growth and development. The government should execute various strategic initiatives aimed at optimizing and simplifying the investment process. The Kenya Investment Authority (KenInvest) shall serve as the principal organization tasked with promoting and facilitating foreign direct investment (FDI) and foreign portfolio investment (FPI). KenInvest serves as a comprehensive resource for prospective investors, delivering essential information, assistance, and tools to adeptly navigate the investment environment.

The study found that foreign debt significantly improves economic growth in Kenya. This research suggests that the Kenyan government should aim to lower its budget deficit to GDP ratio to an average of 4 percent prior to 2030. The fiscal policy has inadequately responded to rising debt levels, thereby jeopardizing the Government's pursuit of fiscal debt sustainability. Consequently, the National Assembly ought to enact a fiscal law establishing a maximum threshold for the fiscal deficit to GDP ratio that the National Treasury cannot surpass at any time, aligning with the long-term debt strategy to prevent the public debt to GDP ratio from escalating uncontrollably.

5.6 Suggestions for Further Studies

The research assessed the impact of foreign capital flows on Kenya's economic growth. Nonetheless, about 71.55% of the variation in economic development can be ascribed to foreign capital flows, resulting approximately 28.45% unexplained. Consequently, further inquiry is required to ascertain the additional variables affecting economic growth.

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APPENDICES

APPENDIX I: Introduction Letter

Nuru Abdurahman Muhdhar,

Greetings

RE: RESEARCH PROJECT DATA COLLECTION

I am a MBA (Finance) student at Kenyatta University. As per the course work assessment, I am supposed, as an academic requirement, to write and submit a research project. My research is on the "Foreign Capital Flows and Economic Growth in Kenya".

I humbly seek your permission to collect data. I promise you that the submitted data will be employed only for educational purposes and will be handled with utmost secrecy.

Thank you in advance. Yours sincerely,

Nuru Abdurahman Muhdhar,

RESEARCHER

APPENDIX II: DATA EXTRACTION FORM

Years	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Foreign Portfolio Investments										
Foreign Direct Investment										
Foreign Debt										
Remittances										
Total Foreign Capital Inflows										
GDP Growth Rate										

APPENDIX III: LETTER OF AUTHORIZATION

(4)

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D53/OL/MSA/21305/2022 **DATE:** 24th January, 2025

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR NURU ABDURAHMAN MUHDHAR - REG. NO. D53/OL/MSA/21305/2022

I write to introduce **Nuru Abdurahman Muhdhar** who is a Postgraduate Student of this University. The student is registered for M.B.A degree programme in the **Department of Accounting & Finance.**

Nuru intends to conduct research for a M.B.A Project Proposal entitled, **"Foreign Capital Flows and Economic Growth in Kenya."**

Any assistance given will be highly appreciated.

Yours faithfully,

PROF. ELIUD NJAGI
EXECUTIVE DEAN, GRADUATE SCHOOL

AM/mo

Transforming Higher Education… Enhancing Lives
Kenyatta University is ISO 9001:2015 Certified

Page **1** of **1**

APPENDIX IV: RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **678573**

Date of Issue: **20/March/2025**

RESEARCH LICENSE

This is to Certify that Miss.. nuru Abdurahman Muhdhar of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: FOREIGN CAPITAL FLOWS AND ECONOMIC GROWTH IN KENYA. for the period ending : 20/March/2026.

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