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POLICY STABILITY OF TAX INCENTIVES AS A STRATEGIC DETERMINANT OF FOREIGN DIRECT INVESTMENT IN THE MANUFACTURING SECTOR, MACHAKOS COUNTY, KENYA

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ABSTRACT

Foreign direct investment (FDI) remains a critical driver of economic growth through capital inflows, industrial expansion, technology transfer, and employment creation. Despite the adoption of various tax incentive programs in Kenya, foreign direct investment inflows into the manufacturing sector have continued to exhibit fluctuations, raising concerns regarding the effectiveness and consistency of fiscal policy frameworks. This study examined the effect of policy stability of tax incentives on foreign direct investment in the manufacturing sector in Machakos County, Kenya. Specifically, the study focused on the influence of the frequency of tax policy changes, continuity of incentive implementation, and investor perceptions of policy credibility on foreign direct investment. The study was anchored on Institutional Theory and Dunning's Eclectic Paradigm. A descriptive research design was adopted, integrating cross-sectional primary data and time-series secondary data. Primary data were collected using structured questionnaires administered to foreign-owned manufacturing firms operating in Machakos County, while secondary data were obtained from relevant government agencies. Data were analyzed using descriptive statistics, Pearson correlation analysis, and regression analysis with the aid of SPSS Version 26. The findings revealed that policy stability of tax incentives had a positive and statistically significant effect on foreign direct investment. Respondents strongly agreed that policy consistency, government commitment to incentive implementation, and credibility of fiscal policies significantly influenced investment decisions. Correlation analysis revealed the strongest positive association between policy stability and foreign direct investment, while regression analysis established policy stability of tax incentives as a significant predictor of foreign direct investment. The study concludes that stable and predictable tax incentive policies enhance investor confidence and contribute significantly to attracting and sustaining foreign investment within the manufacturing sector. The study recommends strengthening policy consistency, minimizing abrupt changes in tax incentive frameworks, and improving communication regarding fiscal policy reforms to enhance investor confidence and promote sustainable foreign direct investment.

Keywords: *Policy Stability of Tax Incentives, Foreign Direct Investment, Manufacturing Sector, Investor Confidence, Capital Inflows, Economic Growth.*

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INTRODUCTION

Foreign Direct Investment (FDI) has become one of the most important sources of economic growth, industrial development, employment creation, and technology transfer across the world. Through capital inflows, multinational enterprises contribute to productivity growth, innovation, skills transfer, and competitiveness within host economies (Danzman & Slaski, 2021). Consequently, governments increasingly employ fiscal and non-fiscal incentives to attract foreign investors and enhance economic performance. Among the various investment promotion strategies, tax incentives remain one of the most widely used policy instruments. Governments utilize tax holidays, reduced corporate tax rates, investment deductions, accelerated depreciation allowances, and customs duty exemptions to improve the attractiveness of investment destinations (Tien Minh, 2020). These incentives are intended to reduce investment costs, improve profitability, and encourage foreign firms to establish and expand operations within host countries.

Globally, countries such as Singapore, Ireland, Malaysia, and China have successfully utilized tax incentive regimes to attract substantial foreign investment inflows. However, evidence suggests that the effectiveness of tax incentives depends not only on their availability but also on the consistency and predictability of their implementation. Frequent policy changes increase uncertainty and discourage long-term investment commitments (Merko & Muço, 2020). Similarly, Abille, Taylor, and Mumuni (2023) observed that tax incentives become more effective when supported by strong governance structures and policy consistency.

Across Africa, governments have increasingly relied on tax incentives to attract foreign investment into priority sectors such as manufacturing, mining, infrastructure, and technology. Appiah-Kubi et al. (2021) found that tax incentives positively influence foreign direct investment inflows across African economies. However, Coulibaly and Camara (2022) argued that policy consistency and institutional quality are often more important than the incentives themselves in shaping investor decisions.

In Kenya, tax incentives constitute a major component of investment promotion policy. The government has implemented Export Processing Zones (EPZs), Special Economic Zones (SEZs), tax holidays, investment deductions, and customs exemptions to stimulate foreign investment. Despite these initiatives, foreign direct investment inflows have remained volatile over the years. According to the World Bank (2023), Kenya's FDI inflows declined from USD 469.9 million in 2019 to USD 393.6 million in 2022 before recovering to USD 728.7 million in 2023. These fluctuations have generated concerns regarding the effectiveness and predictability of tax incentive policies.

Machakos County has emerged as one of Kenya’s major industrial and manufacturing centers. The Athi River industrial corridor hosts numerous foreign-owned manufacturing firms operating within Export Processing Zones and industrial parks. Given its strategic role in Kenya’s industrialization agenda, Machakos County provides an appropriate context for examining how policy stability of tax incentives affects foreign direct investment within the manufacturing sector.

Statement of the Problem

Foreign direct investment plays a major role in promoting economic growth, industrial development, employment creation, and technology transfer in emerging economies such as Kenya. To attract foreign investors, the Government of Kenya has implemented various tax incentive programs, including reduced corporate tax rates, tax holidays, investment deductions, and import duty exemptions. These fiscal incentives are intended to improve the country's competitiveness as an investment destination and stimulate long-term foreign investment. However, while such incentives are formulated at the national level, their effectiveness in influencing investment decisions within specific counties and sectors remains insufficiently understood.

Machakos County, particularly the Athi River industrial zone in Mavoko Sub-County, has emerged as one of Kenya’s leading manufacturing and industrial hubs. The area hosts numerous foreign-owned manufacturing firms operating within Export Processing Zones and other industrial parks. Despite these advantages, Kenya has continued to experience fluctuations in foreign direct investment inflows, raising concerns about the effectiveness and consistency of policies aimed at attracting and retaining foreign investors.

According to the World Bank (2023), FDI inflows into Kenya declined from USD 469.9 million in 2019 to USD 393.6 million in 2022, then rebounded to USD 728.7 million in 2023. This volatility reflects investor concerns associated with policy uncertainty, frequent tax reforms, compliance costs, and administrative inefficiencies. Although tax incentives are designed to stimulate investment, abrupt policy changes, inconsistent implementation of incentives, and uncertainty regarding future fiscal frameworks may undermine investor confidence and discourage long-term investment commitments. Challenges such as high energy costs, expensive permits, and inconsistent application of incentives continue to affect investment decisions, particularly within the manufacturing sector (Odhiambo, 2021; Okoth et al., 2024).

Previous studies provide valuable insights but reveal important gaps. Asongu and Odhiambo (2021) established that stable tax regimes positively influence FDI inflows in Sub-Saharan Africa, but their study was based on cross-country analysis and did not examine localized investment dynamics. Faruq (2023) found that policy stability was a significant determinant of FDI in emerging Asian economies; however, the findings cannot be readily generalized to Kenya's manufacturing sector. Klemm and Van Parys (2020) reported that longer and uninterrupted tax incentives were more effective in attracting foreign investment, but their study did not focus on firm-level perceptions of policy stability. Similarly, Mwangi and Wambua (2023) examined macroeconomic and tax policy stability jointly, making it difficult to isolate the specific effect of tax policy stability on foreign direct investment.

Consequently, there remains limited empirical evidence on how policy stability of tax incentives influences foreign direct investment within Kenya's manufacturing sector, particularly at the county level. Therefore, this study examined the effect of policy stability of tax incentives on foreign direct investment in the manufacturing sector in Machakos County, Kenya.

LITERATURE REVIEW

Theoretical Framework

This study was anchored on Institutional Theory and Dunning's Eclectic Theory. The two theories provided the theoretical foundation for examining how policy stability of tax incentives affects foreign direct investment in the manufacturing sector in Machakos County, Kenya. Institutional Theory served as the lead theory because it directly explains the role of policy consistency, institutional credibility, and regulatory predictability in shaping investor confidence and investment decisions. Dunning's Eclectic Theory complemented the study by explaining how stable tax incentive policies enhance the location attractiveness of an investment destination.

Institutional Theory

Institutional Theory was first introduced by North (1990) and later refined by Scott (1995). The theory emphasizes the importance of formal institutions, including laws, regulations, policies, and administrative procedures, in influencing economic behavior and investment decisions. According to the theory, investors are more likely to commit resources to environments characterized by stable, predictable, and credible institutional frameworks. Stable institutions reduce uncertainty, lower transaction costs, and enhance investor confidence, thereby encouraging long-term investment.

The theory is particularly relevant to this study because policy stability of tax incentives represents an important institutional characteristic that influences foreign investment decisions. Foreign investors often evaluate the consistency and predictability of tax policies before committing substantial capital to a host country. Frequent changes in tax regulations, inconsistent implementation of incentives, and policy uncertainty may increase perceived investment risks and discourage long-term investment commitments.

Conversely, stable tax policies create confidence among investors by allowing firms to undertake long-term financial planning and investment forecasting.

Institutional Theory guided the study in examining how the frequency of tax policy changes, continuity of incentive implementation, and investor perceptions of policy credibility affect foreign direct investment in the manufacturing sector. The theory further provided a framework for understanding how policy consistency and institutional reliability contribute to increased capital inflows and sustained investment growth.

Despite its strengths, Institutional Theory has been criticized for emphasizing the influence of formal institutions while paying limited attention to firm-specific factors that may also influence investment decisions. Nevertheless, the theory remains highly relevant because it provides a strong explanation of how stable policy environments influence investor confidence and foreign direct investment decisions.

Dunning's Eclectic Theory

Dunning's Eclectic Theory, commonly referred to as the OLI Paradigm, was developed by Dunning (1980) to explain the determinants of foreign direct investment. The theory argues that multinational enterprises undertake foreign investment when three conditions are satisfied: Ownership advantages, Location advantages, and Internalization advantages.

Ownership advantages refer to firm-specific assets such as technology, managerial expertise, patents, and brand reputation. Internalization advantages arise when firms find it more efficient to undertake activities internally rather than through external market arrangements. Location advantages relate to characteristics of the host country that make investment attractive.

The theory is relevant to this study because policy stability of tax incentives constitutes an important location-specific advantage that influences foreign investment decisions. Stable and predictable tax policies enhance the attractiveness of an investment destination by reducing uncertainty and improving expected returns on investment. Investors are more likely to establish or expand operations in locations where tax incentive frameworks remain consistent over time and where governments demonstrate commitment to implementing fiscal policies as promised.

Within the context of Machakos County, policy stability enhances the county's attractiveness as a manufacturing destination by creating a predictable business environment for foreign investors. The theory therefore supports the argument that stable tax incentive policies contribute to attracting foreign direct investment through improved location competitiveness and investor confidence.

Although Dunning's Eclectic Theory has been criticized for focusing primarily on economic and firm-level determinants of investment while providing limited explanation of institutional and policy-related factors, it complements Institutional Theory by explaining how policy stability enhances location attractiveness and influences foreign investors' decisions regarding investment destinations.

Empirical Literature Review

Policy stability of tax incentives has increasingly emerged as an important determinant of foreign direct investment, particularly in developing economies seeking to attract and retain multinational enterprises. Investors often prefer environments characterized by predictable fiscal policies because policy stability reduces uncertainty, improves investment planning, and enhances confidence in long-term investment decisions. Stable tax incentive regimes enable firms to forecast future costs and returns with greater accuracy, thereby increasing the attractiveness of investment destinations.

Asongu and Odhiambo (2021) investigated the relationship between the stability of tax incentives and foreign direct investment using panel data covering Sub-Saharan African countries. The study found that countries characterized by stable tax regimes attracted significantly higher levels of foreign direct investment than countries experiencing frequent fiscal policy changes. The findings demonstrated that policy instability acts as a barrier to foreign investment by increasing uncertainty and perceived investment risk.

Despite its contribution, the study was based on cross-country analysis and did not examine localized investment dynamics within specific sectors or counties. The broad regional focus limited the ability to understand how policy stability affects investment decisions at the firm level. The present study addressed this contextual gap by focusing on foreign-owned manufacturing firms operating in Machakos County.

Faruq (2023) examined the determinants of foreign direct investment in emerging Asian economies, focusing on the role of institutional and tax policy stability. The findings revealed that policy stability was a significant determinant of foreign direct investment, with investors demonstrating greater willingness to commit capital in environments characterized by predictable fiscal policies and stable regulatory frameworks.

Although the study provided important insights regarding policy stability and investment attraction, its findings were based on Asian economies whose institutional and economic environments differ considerably from those of Kenya. Furthermore, the study did not focus specifically on manufacturing firms. The present study addressed these contextual and sectoral gaps by examining the effect of policy stability of tax incentives on foreign direct investment among foreign-owned manufacturing firms in Machakos County.

Klemm and Van Parys (2020) conducted an assessment of the effectiveness of tax incentives in attracting foreign direct investment across developing countries. The study established that long-term and uninterrupted tax incentives were more effective in attracting foreign investment than short-term or frequently revised incentives. The findings emphasized the importance of policy consistency and continuity in influencing investor decisions.

However, the study focused primarily on macro-level analysis and overlooked firm-level perspectives regarding policy stability. Consequently, it provided limited understanding of how individual firms perceive and respond to changes in tax incentive policies. The current study addressed this methodological gap by collecting primary data from foreign-owned manufacturing firms and examining how investor perceptions of policy stability affect foreign direct investment decisions.

Lejour and van ’t Riet (2023) examined the role of policy design and transparency in influencing foreign direct investment. The study found that transparent and predictable tax incentive frameworks positively influence investment decisions by reducing uncertainty and improving investor confidence. The authors concluded that policy credibility is a critical determinant of the effectiveness of tax incentive programs.

Similarly, Davies and Voget (2021) observed that policy certainty significantly influences multinational firms’ location decisions. Their findings indicated that stable fiscal environments encourage investors to undertake long-term commitments, while frequent policy changes increase perceived investment risks and discourage investment expansion.

The reviewed literature demonstrates that policy stability of tax incentives positively affects foreign direct investment by reducing uncertainty, enhancing investor confidence, and improving investment predictability. However, most existing studies have focused on cross-country comparisons, macroeconomic environments, or theoretical discussions, with limited attention given to firm-level experiences within Kenya's manufacturing sector. Furthermore, there is inadequate empirical evidence examining the effect of policy stability of tax incentives within devolved industrial economies such as Machakos County. This study therefore sought to fill this contextual, methodological, and geographical gap.

METHODOLOGY

The study adopted a descriptive research design to examine the effect of policy stability of tax incentives on foreign direct investment in the manufacturing sector in Machakos County, Kenya. This design was appropriate because it enabled the investigation of the phenomenon within its natural setting without the manipulation of variables. Descriptive research design is suitable for describing existing conditions, relationships, and practices relevant to the study (Mahat, Neupane, & Shrestha, 2024). Furthermore, the design facilitated the collection and analysis of both primary and secondary data, enabling a comprehensive assessment of how policy stability of tax incentives affects foreign direct investment. The study incorporated cross-sectional data collected from foreign-owned manufacturing firms and secondary data on investment trends, thereby providing a broader understanding of the relationship between tax policy stability and foreign direct investment.

Target Population

The study targeted 168 respondents drawn from foreign-owned manufacturing firms operating in Machakos County, Kenya. The respondents were selected from 56 foreign-owned manufacturing firms registered with regulatory agencies, including the Export Processing Zones Authority (EPZA), Kenya Revenue Authority (KRA), and Kenya Investment Authority (KenInvest). The firms operated in diverse manufacturing subsectors, including garment and textile manufacturing, agro-processing, pharmaceuticals, chemical manufacturing, leather processing, electronics, and industrial parks.

Sample Size

The study adopted a census approach because the target population consisted of only 56 foreign-owned manufacturing firms. Census sampling was considered appropriate since it allowed all eligible firms to participate in the study, thereby enhancing representativeness and minimizing sampling error. Three respondents were purposively selected from each firm, representing top-level, middle-level, and lower-level management positions. Consequently, the study obtained a sample size of 168 respondents.

Data Collection Instruments

Primary data were collected using a structured questionnaire consisting of closed-ended questions measured on a five-point Likert scale. The questionnaire collected information on policy stability of tax incentives, including frequency of policy changes, continuity of incentive implementation, and policy credibility. Secondary data were collected using a data extraction sheet from KRA, KenInvest, CBK, and KNBS.

The validity of the instruments was ensured through expert review and construct validation, while reliability was assessed using Cronbach's Alpha coefficient. Policy Stability of Tax Incentives recorded a Cronbach's Alpha coefficient of 0.867, exceeding the recommended threshold of 0.70 and therefore indicating acceptable reliability (Taber, 2018).

Data Analysis

Quantitative data were coded and analyzed using SPSS Version 26. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize the data. Pearson correlation analysis was conducted to establish the relationship between policy stability of tax incentives and foreign direct investment, while simple linear regression analysis was used to determine the effect of policy stability of tax incentives on foreign direct investment.

The regression model was specified as:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$$

Where:

- **Y** = Foreign Direct Investment
- $\mathbf{X_1}$ = Policy Stability of Tax Incentives
- $\boldsymbol{\beta_0}$ = Constant
- $\boldsymbol{\beta_1}$ = Regression coefficient
- $\boldsymbol{\varepsilon}$ = Error term

RESULTS AND DISCUSSION

Policy Stability of Tax Incentives

The study sought to examine the effect of policy stability of tax incentives on foreign direct investment in the manufacturing sector in Machakos County, Kenya. Policy stability was assessed using indicators relating to the frequency of tax policy changes, consistency of tax legislation, implementation of tax incentives, inter-agency coordination, policy credibility, and policy communication. The findings are presented in Table 1.

Table 1: Descriptive Statistics for Policy Stability of Tax Incentives (N = 160)

Indicator	Mean	Std. Dev
Frequent policy changes disrupt financial forecasting	3.78	1.06
Inconsistent tax legislation affects investment confidence	3.91	1.02
Firms frequently monitor policy changes for compliance	3.94	1.00
Rapid policy amendments increase fiscal risk	3.87	1.03
Incentives are implemented without delays	3.14	1.24
Firms receive incentive benefits as legislated	3.23	1.21
Inter-agency coordination is effective	3.05	1.25
Implementation delays disrupt planning	3.79	1.07
Policy credibility affects local expansion decisions	3.94	1.00
Government track record influences investment reviews	3.84	1.05
Government follow-through builds investor trust	3.76	1.08
Policy communication shapes risk perception	3.90	1.01
Overall Mean	**3.68**	**1.11**

The findings indicate that respondents generally agreed that policy stability of tax incentives plays an important role in shaping foreign direct investment decisions within the manufacturing sector. The overall mean score of 3.68 suggests that respondents perceived policy stability as a significant determinant of investment attractiveness. Among the indicators, policy credibility and policy monitoring recorded the highest mean scores (M = 3.94), indicating that investors place considerable importance on credible and predictable fiscal policies when making expansion and investment decisions. Similarly, respondents agreed that inconsistent tax legislation negatively affects long-term investment confidence (M = 3.91) and that effective policy communication influences perceptions of investment risk (M = 3.90). These findings suggest that investors value transparency, consistency, and predictability in fiscal policy frameworks.

However, lower mean scores were recorded for inter-agency coordination (M = 3.05) and administrative implementation of incentives (M = 3.14), indicating the existence of operational challenges in the implementation of tax incentive programs. Although investors generally perceive tax policies as beneficial, weaknesses in coordination and implementation may reduce the effectiveness of the incentives. The findings support Institutional Theory, which argues that stable and credible institutional frameworks enhance investor confidence by reducing uncertainty and transaction costs (North, 1990; Scott, 1995). The findings further support Asongu and Odhiambo (2021), who established that stable tax regimes positively influence foreign direct investment by reducing policy uncertainty.

Foreign Direct Investment

FDI was measured using capital inflows and economic growth.

Capital Inflows

The study sought to establish the extent to which foreign-owned manufacturing firms had experienced increased foreign capital inflows, growth in foreign investment, and expansion through foreign funding.

Table 2: Descriptive Statistics for Capital Inflows (N = 160)

Indicator	Mean	Std. Dev
Increased foreign capital received in recent years	3.88	1.04
Foreign investment has grown steadily	3.95	1.00
Reliance on foreign capital for expansion	3.76	1.09
FDI inflows have supported company growth	3.98	0.98
New foreign firms are frequently registered	3.84	1.06
Number of foreign business entrants has increased	3.89	1.03
More foreign firms have joined the sector	3.92	1.01
Foreign firm registrations have improved industry diversity	3.98	0.97
Overall Mean	**3.90**	**1.02**

According to the findings, it is evident that there was very strong agreement on the role played by foreign direct investment in the capital flows in the manufacturing industry in Machakos County. This is supported by the fact that the mean rating of 3.90 indicated very strong agreement that foreign investments have been increasing. The highest mean scores were recorded for the statements that foreign direct investment has supported company growth (M = 3.98) and that foreign firm registrations have improved industry diversity (M = 3.98). These findings suggest that foreign investment has enhanced business expansion while simultaneously contributing to increased competition, innovation, and diversification within the manufacturing sector.

Economic Growth

The second dimension of foreign direct investment examined in this study was economic growth.

Table 3: Descriptive Statistics for Economic Growth (N = 160)

Indicator	Mean	Std. Dev
Foreign-owned firms have created more jobs locally	3.92	1.01
Investment growth has increased staff recruitment	3.98	0.98
Hiring levels have risen due to business expansion	3.89	1.03
New roles have been created through operational growth	3.92	1.01
Sector growth has occurred due to foreign investment	3.98	0.98
Growth in foreign-invested firms is evident	3.89	1.03
Sector performance has improved over recent years	3.98	0.98
Foreign firms have increased industry capacity	4.01	0.96
Overall Mean	**3.95**	**1.00**

The findings reveal that respondents strongly agreed that foreign direct investment contributes positively to economic growth within the manufacturing sector in Machakos County. The overall mean score of 3.95 indicates a strong perception that foreign investment promotes employment creation, sectoral expansion, productivity improvement, and industrial development. The highest mean score was recorded for the statement that foreign firms have increased industry capacity (M = 4.01), suggesting that foreign investment has significantly enhanced production capacity and industrial competitiveness within the manufacturing sector.

Correlation Analysis

A Pearson correlation analysis was conducted to determine the relationship between policy stability of tax incentives and foreign direct investment.

Table 4: Correlation between Policy Stability of Tax Incentives and FDI

Variables	Policy Stability	Foreign Direct Investment
Policy Stability of Tax Incentives	1.000	
Foreign Direct Investment	0.734**	1.000

The findings revealed a strong positive and statistically significant relationship between policy stability of tax incentives and foreign direct investment ($r = 0.734$, $p = 0.000$). The results indicate that stable and predictable tax policies are associated with increased foreign direct investment within the manufacturing sector in Machakos County. The findings imply that investors place considerable importance on fiscal policy stability when making long-term investment decisions. A predictable tax environment reduces uncertainty and perceived investment risks, thereby encouraging firms to commit capital and expand their operations.

Multiple Regression Analysis

This section presents the regression results showing how policy stability of tax incentives predicts foreign direct investment in the manufacturing sector in Machakos County. The analysis focuses on the model fit, statistical significance, and the magnitude of the effect of policy stability on foreign direct investment.

Table 5: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.734	0.539	0.536	0.474

The model produced an R^2 value of 0.539, indicating that policy stability of tax incentives explains approximately 53.9% of the variation in foreign direct investment in the manufacturing sector in Machakos County. The adjusted R^2 value of 0.536 confirms that the explanatory power of the model remains strong after accounting for model adjustment. This finding suggests that policy stability is an important determinant of foreign direct investment. The results support the findings of Asongu and Odhiambo (2021), who reported that stable tax regimes significantly enhance foreign direct investment by reducing uncertainty and strengthening investor confidence.

Analysis of Variance

ANOVA was conducted to determine whether the regression model significantly predicts foreign direct investment.

Table 6: ANOVA for Policy Stability of Tax Incentives and Foreign Direct Investment

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	51.284	1	51.284	89.124	0.000
Residual	32.716	158	0.207		
Total	**84.000**	**159**			

The model was statistically significant ($F = 89.124$, $p < .001$), confirming that policy stability of tax incentives reliably predicts foreign direct investment. The findings indicate that policy consistency, continuity of implementation, and credibility of tax incentives significantly affect investment behavior among foreign-owned manufacturing firms.

Regression Coefficients

Table 7: Regression Coefficient for Policy Stability of Tax Incentives

Predictor	B	Std. Error	β	t	Sig.
Constant	0.512	0.241	–	2.124	0.035

Predictor	B	Std. Error	β	t	Sig.
Policy Stability of Tax Incentives	0.372	0.071	0.389	5.239	0.000

The standardized coefficient ($\beta = 0.389$, $p < .001$) indicates that policy stability of tax incentives has a positive and statistically significant effect on foreign direct investment. The findings imply that improvements in policy consistency, predictability, and credibility contribute significantly to increased foreign direct investment. The positive coefficient demonstrates that investors respond favorably to stable fiscal environments that reduce uncertainty and support long-term investment planning.

Regression Equation Model

$$\mathbf{Y = 0.512 + 0.372X_1 + \varepsilon}$$

Where:

- Y = Foreign Direct Investment
- X_1 = Policy Stability of Tax Incentives
- ε = Error Term

Discussion of Findings

The findings reveal that policy stability of tax incentives is a critical determinant of foreign direct investment in the manufacturing sector in Machakos County. Respondents generally agreed that frequent policy changes disrupt financial planning, increase fiscal risk, and reduce investor confidence. Conversely, policy credibility, consistency in implementation, and effective communication of tax policies were found to encourage investment decisions and business expansion.

The strong positive correlation ($r = 0.734$, $p < .001$) and significant regression coefficient ($\beta = 0.389$, $p < .001$) demonstrate that stable tax incentive policies enhance investor confidence and support foreign direct investment. These findings are consistent with Institutional Theory, which argues that predictable and credible institutional frameworks reduce uncertainty and facilitate investment decisions (North, 1990; Scott, 1995). They also support the findings of Asongu and Odhiambo (2021), Faruq (2023), and Davies and Voget (2021), who reported that policy stability significantly affects foreign investment decisions by improving predictability and reducing perceived investment risks.

CONCLUSIONS AND RECOMMENDATIONS

The study shows that the policy stability of tax incentives has a significant and positive effect on FDI within the manufacturing industry in Machakos County. The policy stability will help create an environment where investors can have confidence in their investments and make plans for future investments.

Moreover, the study concludes that FDI plays a vital role in providing financial resources, growing industries, creating employment opportunities, and economic development in the manufacturing industry. Policy stability of tax incentives becomes an influential factor for foreign direct investments and economic development in the manufacturing industry.

Based on the results of research, there are recommendations to improve policy coherence regarding tax incentives, including avoiding frequent changes to the existing system of tax benefits and maintaining consistent, predictable fiscal policies. There is also a need to focus more attention on increasing the efficiency of implementing tax incentives and cooperation between the respective bodies involved in such processes. It is suggested that there be an increased level of transparency and information about changes in tax incentive policies so that potential investors have no doubts and can invest confidently. Government bodies are to create long-term fiscal strategies ensuring the continuity of tax incentives and investments.

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