FOREIGN DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT IN UGANDA

A SURVEY OF MINISTRY OF FINANCE, UGANDA INVESTMENT AUTHORITY AND BANK OF UGANDA

NAKANDI GORRET

2013-M162-20009

UGANDA MARYTYRS UNIVERSITY

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DEDICATION

I dedicate this work to Julian Claver and Justus Harry, your love and presence keeps me strong. Both of these men have given me a deep appreciation and love for the beauty and detail of this subject.

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I acknowledge the great effort support extended to me by all who have stood with me in through my journey of life and learning. Thank you for your support, assistance, generosity and positive regard.

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LIST OF ABBREVIATIONS

AFDB	Africa Development Bank
ADB	African Development Bank
AGR	Annual Growth Rate
CIDA	Canadian International Development Agency
CREFA	Convention on the Recognition of Foreign Arbitral Award
CSR	Corporate Social Responsibility
EAC	East African Community
EC	European Commission
ECOWAS	Economic Community of West African States
EPZ	Export processing zones
ERA	Electricity Regulatory Authority
EY	Ernst & Young
FDIR	Framework for Direct Investment Relationship
FDIR	Framework for Direct Investment Relationships
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICIEC	Islamic Corporation for the Insurance of Investment and Exports Credit
ICISID	International Center for Settlement of Investment Disputes
IJRBM	International Journal of Research in Business Management
IMF	International Monetary Fund
IPR	Intellectual Property Rights
M&A	Mergers and Acquisition

MNC	Multinational Company
MNEs	Multinational Enterprises
OECD	Organization for Economic Corporation
OLI	Ownership, Location and Internationalization advantage
OPIC	Overseas Investment Corporation
PPDA	Public Procurement and Disposal of Assets
PPP	Public Private Partnership
SAB	South African Brewery (SABMiller)
SSA	Sub Saharan Africa
UBOS	Uganda Bureau of Statistics
UIA	Uganda Investment Authority
UNIDO	United Nations Industrial Development Organization
UK	United Kingdom
UNCTAD	United Nations Council for Trade and Development
US	United States
USA	United States of America
USD/ US $	US Dollar
WIDER	World Institute for Development Economics Research
WIPO	World Intellectual Property Organization
WP	Working Paper
WTO	World Trade Organization

ABSTRACT

The attraction and flow of FDI has become a key component of development policies in many countries and governments offer various incentives in that respect. The study was done to set down on FDI and economic development. Ministry of Finance, Bank of Uganda and Uganda Investment Authority were surveyed. The objectives of the study were to delineate the level of Foreign Direct Investment flow into Uganda, mark out its contribution to Uganda's economic development then demarcate the relationship between them.

The research took a mixed design both qualitative and quantitative approaches were used. Both primary and secondary data were used in the survey. Primary data was gathered with the help of a survey questionnaire filled by a sample of size of 70 respondents were chosen purposively Secondary data was collected from earlier studies, publications, news papers, working papers and journals. The results were analysed statistically using Statistical Package for Social Scientists (SPSS) software after which presentations of the findings were made and conclusions were made.

In conclusion, findings indicated that there is a correlation between FDI and technology transfer, environment and employment though the benefit is not merely implied.

Therefore the host country needs to streamline its policies, improve on the labour skills and technology absorption capacity to be able to profit from FDIs since they have a tendency of taking advantage of host country weaknesses in their attempt to cut costs and maximize gains. Also the monitoring should be added to the effort of attracting FDIs in Uganda

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This chapter covers a detailed explanation of the back ground of the study; the statement of the problem; statement of the objectives of the study both general and specific, the research questions, the significance and justification of the study; bringing out the motivation for this undertaking and the defining the key terms of the study; conceptual framework, definition of key terms and scope of the study.

This study involves three variables, the dependent; economic development, the independent; Foreign Direct Investment and the intervening; macro and micro economic policies in the host country.

The study is based on different theories that explain the flows of FDI such as the internationalization theory explaining that internationalisation changes FDI flows, Dunning's Electric paradigm theory explaining stages of economic growth and how FDI flow changes at each stage, Vernon's product life cycle explaining the different product stages and the changes in FDI flows among other theories.

The study focuses on the flow of FDI, its contribution to economic development and the relationship between FDI and development.

1.1 Background of the Study

The theme of Foreign Direct Investment is ancient that Adam Smith (2005) talked about it in his earlier version of inquiry into the nature and cause of the wealth of nations as a struggle for nations to increase their reserves though the theme only became more important in the international economy after World War II (Vintila, 2010). As a result, governments in developing countries are increasingly looking for best-practice policies towards FDI attraction given the renewed confidence in their associated positives benefits, that even countries which were restrictive in the 60s, 70s and 80s opened up towards FDI in the 90s **a**nd beyond through liberalizing FDI regimes (Safarian, 1999) thus increasing the FDI inflow.

Among the different forms of capital flow, scholars and policy makers talk about Foreign Direct Investment as the commonest and this takes the position because of the several benefits and its importance in the world economy vis a vis other forms of capital flow (Nunnenkamp, 2002).

In the global world FDI and cross-border production of MNCs are expanding more than trade and investment liberalization and the later has become a common decision by many countries over the past two decades to abandon long-standing restrictions of foreign investment and this has contributed substantially to the speed of prosperity. Many countries have big hopes about FDIs and all big enterprises happen to follow the drift (David, 2008) thus justifying the big worth attached to FDI confirming them as very imperative for a country's growth given its impacta of dissemination of technology transfer strategies (Lindita, 2006), of addition to private capital flows and market development (UNTAD, 2003), its role in increase in the GDP (Lipsey, 1994), employment creation and increase social benefit flow through competitiveness of the host economy (Torfinn *et* al. (2007). Of these benefits Klein *et* al (2001) adds poverty reduction and

upgrading of human capital and they tend to be less volatile, and to offer not just capital but also access to modern technology and know-how (Spatz, 2004).

Globally, FDI inflow has been growing and the increase in the total stock of FDI between 1990 and 2006 led to an increase in the Global GDP from 8%. In Uganda, the increase in the value of FDI inflow from 1,700.1 to 13330.3 and 1,452.0 led to the increase in GDP from 1,452 to 1,711.7 and 1410.8 (US $) between the years 2011, 2012 and 2013 (Private sector investment survey, 2014). In fact today developing countries account for almost one third of the global stock of inward foreign direct investment (FDI), compared to slightly more than one fifth in 1990 (OECD, 2008).

Global foreign direct investment (FDI) inflows in the financial year 2014-2015 fell by 16 per cent in 2014 to US$1.23 trillion; down from $1.47 trillion in 2013 (UIA, 2015). In 2015, global FDI flows increased by 25% to USD 1.7 trillion, reaching their highest level since the global financial crisis began in 2007 (OECD,2016).

FDI inflow in SSA has traditionally gone to resource based sectors and the total FDI inflow in Africa has been low due to small market size, poor infrastructure, political uncertainty, corruption and restrictive policies towards foreign investment (Klein, 2001).

According to the Ernst &Young's attractiveness survey Africa (2015), there was a big percentage change in the level of FDI attractiveness in the whole World between 2013 and 2014 by 3.1%; Asia rose by 17%, North America rose by 14%, Africa dropped by 8.4%, Western Europe dropped by 14.8%, Latin America and Caribbean dropped by 17.5%, Middle East dropped by 17.7% and the Rest of Europe dropped by 21.3%. FDI projects in Africa fell by 8.4%, but remained well above pre-2008 levels, capital investment into the continent surged to US$128b, up 136%. And FDI created 188,400 new African jobs, a 68% increase. Africa's share of global capital investment

and job creation hit an all-time high in 2014. According to the same study, intra-African foreign investment was again the second-largest source of FDI, though its share of projects eased from 24.5% in 2013 to 19.2% in 2014. South African companies ranked as the continent's second-biggest investor group, launching 53 projects in 2014, up from 65 the previous year. Though they provided 7.2% of projects during the year, they invested only 4% of the continent's FDI capital inflow and provided relatively few jobs. In this report investors from Nigeria and Kenya are two other African FDI dynamos though they are less active in launching projects. Moroccans, on the other hand, became more prominent investors, initiating 13 intra-African investments last year the highest in over a decade. Moroccan companies are looking toward South Afirca as the country becomes a platform for exporting to African countries. Moroccan champions, including Saham Insurance Company, Attijariwafa Bank, Group BCP and Marco Telecom are meantime expanding in Africa, rather than slow-growth Europe. Of the overall investments (projects) in Africa, TMT covers 19.6%, Finance and services 18.1%, CPR 14.1%, RHC 8.0%, Business services 7.5%, Transport and logistics 6.33%, Automotive 4.1%, Coal, oil and natural gas 3.5%, DIP 5.3% and chemicals 3.3%.

It is now the trend that national investment policies are being changed in many economies so as to create favorable environment for foreign investors. In 2014, the Uganda Investment Authority (UIA) announced they would introduce an online "dedicated one-stop center" that will allow investors to: apply and receive the investment license online, choose an investment area of interest, pay all the assessed fees, supply details of business registration to Uganda Registration Services Bureau (URSB), apply for tax identification number (TIN) and apply for land online which is now functional. Many developing countries encourage FDI, Sindre (2011) shows has also followed the trend of creating favorable environment for investors as they are commonly called.

Chidozie (2004) gives methods used in the attraction of investors such as; disseminating information about a product, product line, brand, company or even a country through media such like Television, radio, news papers, internet and mobile phones, in which advertisers pay to place adverts. Charles gives an example that Uganda Investment Authority under takes promotion of investment through trade fairs (like Uganda Manufacturers' Association annual trade fair), missions abroad and investment conferences on top of the availed opportunities for investment in especially in agribusiness, fisheries, forestry, manufacturing, mining infrastructure, financial services, tourism, printing and publishing, education, information and communication technology (ICT) and the newly found oil.

In East Africa, between 2013 and 2014, Uganda is second in total FDI attraction by 25% (1,096 to 1,147) after Tanzania 47% (2,131 to 2,142) followed by Kenya 22%, Tanzania %, Burundi 1% and Rwanda 6% (UIA, 2015).

Uganda's percentage of FDI recorded from 1970 according to the global economy averaged to 2% with a minimum of -0.8% and a maximum of 6.48 in 2006 and routinely the volume of new investments received in the country ranges between 2.3% and 5.6% annually. The growth rate in 2008 and 2009 was stable at 20.4%, then it fell to 11.9% in 2010, rose 17.3% in 2011, dropped to 10.3% in 2012; then to 4.6% in 2013 and rose to 16.3% in 2014 (SEATINI, 2015).

The US guide (2014) explains that the government of Uganda has put much emphasis on strengthening the country's road, rail, water, energy, and communications infrastructure, banking and financial services, telecommunications, and petroleum exploration. Removal of non-tariff restrictions including quantitative restrictions have been removed maintaining just a few for moral, health, security and environmental reasons Import certificates, here licenses are issued by the

Minister of Tourism, Trade and Industry, are required for these goods on a "negative list," including used tires and certain types of batteries.

In addition, Uganda has made different arrangements so as to open up trade and attract FDI, for example signing Bilateral Investment Treaties (BITs), avoiding Double Taxation Treaties (DTT), giving incentive packages which are clearly listed in the investment code like VAT refund on building materials for industrial or commercial building for investors who register as investment traders, creating high infrastructure is provided to the Export processing zones (EPZ) like Kampala Industrial Business Park in Namanve and Luzira parks. Uganda has become party to many conventions like the Multilateral Investment Guarantee Agency (MIGA) which provide guarantee against non-commercial risks, International Center for Settlement of Investment Disputes (ICISID) for conflict resolution, Overseas Investment Corporation (OPIC) of US, the Convention on the Recognition of Foreign Arbitral Award (CREFA) and the Islamic Corporation for the Insurance of Investment and Exports Credit (ICIEC).

Privatization is another measure and in total Uganda leads in East Africa in the attraction of FDI Seatini report (2011) presents that privatization is one measures used in Uganda. In East Africa, UIA (2015) shows that the amount of FDI attracted depend on the country. In Uganda for example, there has been a variation in the volume, between 2000 and 2007 for example there was a total of 600 FDI projects and between 2013 and 2014 the value of FDI attracted increased from 1,096 to 1,147 in US $.

1.2 Statement of the Problem

Many studies have indicated that that FDIs have reversal effects especially in economies where there are no effective institutions and policies for example to Klein (1998), FDIs raise the exchange

rate, Lipsey (2004), says that FDIs worsen income inequality, Stiglitz (1998) believe that they undermine domestic competitors and thus undermine efficiency. However, there are no empirical studies in cite especially in developing countries and specifically in Sub Saharan Africa that have established the effect of FDIs on economic development. The available studies are either on developed economies or focus on other areas. Vintila (2010) however, in defining the FDI mechanism say that various international organizations and foreign advisors recommend developing countries to rely primarily on foreign direct investment (FDI) as a source of external finance for various reasons but majorly the FDI stimulation of economic growth and development more than other types of capital inflows. This makes it therefore very important to study and establish the level of Foreign Direct Investment in Uganda, establish the contribution of this FDI flow to Uganda's economic development and also draw a relationship between FDI and economic development.

1.3. Objectives of the Study

1.3.1 General Objective

This study aimed at giving an establish the level of Foreign Direct Investment flow into Uganda's economy, find out the FDI contribution to Uganda's Economic Development Uganda and show the relationship between FDI and economic development.

1.3.2 Specific Objectives:

i. To examine the level of FDI flow into Uganda's economy.
ii. To assess the contribution of FDI to economic development of Uganda.
iii. To establish the relationship between FDI and economic development.

1.4.1 Research Questions

i. What is the level of Foreign Direct Investment in the economy of Uganda?

ii. Assess the contribution of Foreign Direct Investment to Uganda's economic Development.

iii. What is the relationship between Foreign Direct Investment and economic development?

1.5 Justification of the Study

The study was done as a partial fulfillment of the requirement for the award of the Degree of Masters in International Trade Policy and Law of Uganda Martyrs University Nkozi.

As a scholarly research, the other justification is the desire to expand the horizons of human knowledge, to enhance methodologies and to increase the incisiveness of analysis. As student of international business, this study was done to establish the overall contribution of FDIs to the Ugandan economy in the different parameters

1.4.2 Significance of the study

The study was done to extend frontiers of knowledge. This was thus to contribute to stock of the existing knowledge so that man's understanding of his soundings is enhanced (in to increase on the known and reduce on the unknown).

The findings of this research are intended to benefit policy formulators in Uganda Investment Authority, Ministry of Finance and Bank of Uganda to assess the level of benefit of FDIs' to the country.

The findings were also to help economists to evaluate the margin of civility of FDIs to the economy so as to establish the nature of policies to be made and whether to continue attracting

foreign investors through incentives or not and what guidelines are needed in place to shape the situation.

The findings may also benefit the ministry of gender, labour and economic development to establish the contributions of FDIs to job creation so as to come up with more money-spinning rules governing foreign investors for the benefit of the economy.

Policy makers in the Ministry of Finance will also benefit from this survey by establishing the relationship between FDI and economic development so as to establish the level of necessity of the nature of incentives made in their attraction.

1.7 Definition of Key Terms

The transfer of techniques and technology according to the study refers to the knowledge and machinery that comes with the presence of FDI.

Labour has been used in the study to mean human resource physical and intellectual. Employment creation is used to mean job creation plus the quality of these jobs.

A corporate environmental practice is used mean and the obligation to work towards maximizing benefits while protecting the environment and also minimizing the negative effects of business operation. Environmental practices mean the FDI practices that ensure sustainable usage of resources.

Equity in the study means the capital from personal saving, plus share capital while debts id used for other foams of capital which have an attached interest to the financer.

The term reinvested earnings as used in the study refers to the percentage of FDIs' un- distributed profits that these companies reinvests in Uganda. Equity is used to mean non debt forms of foreign financing as debt intra- company loans is used for interest tagged finances. Portfolio investment though not common in Uganda will still to stock and security transfer.

Economic development according to this study means technology transfer, improvement in employment generation and labour benefits as well as corporate environmental practices.

Policies according to the study mean the regulations, rules, and guide lines for business operation.

1.8 Content Scope

The survey is limited to establishing the inflow of FDIs into Uganda. This is terms refers to the value and volume of FDI.

Of the contribution of FDI on Uganda's economic development specification is made to transfer of techniques and technology. Employment creation or labour specifically looks at the benefits to labour in terms of competitiveness of the pay and other employee benefits and relation with environment is related to the management of industrial wastes, durability of the packaging used, economic usage of natural resourced and saving of energy.

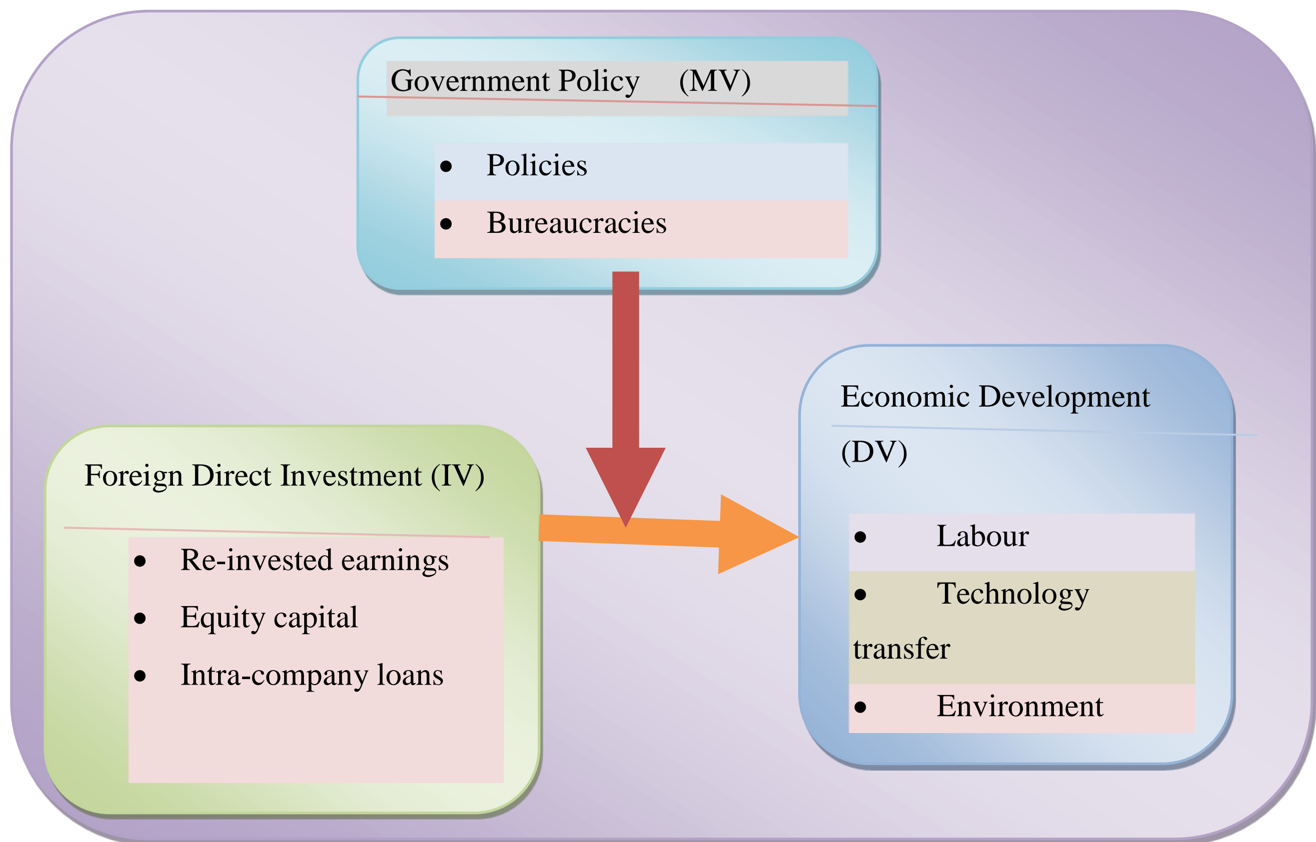
Among the factors responsible for causing development, only FDI is considered and attention is drawn to the impact. Attention is drawn to Uganda's economy given that Uganda is the leading FDI attracter in East Africa (World Investment Report, 2015).

Foreign Direct Investment in this study is limited to Ministry of Finance and Bank of Uganda and Uganda Investment Authority.

Of the measures of Foreign Direct Investment, such as equity capital, reinvested earning and direct capital, only Portfolio investment will be left out.

About the factors limiting the reinvestment of earnings of foreign firm center will be put on institutional and policy issues.

1.9 Conceptual framework



Source: Adopted from Phillip Kotler (2003), Jucan *et* al (2010 and Fredrick *et* al (2012)

This conceptual frame work shows that there is a relationship between FDI and technology transfer, labour/employment quality and environment. In this relationship, FDI in form of equity capital, loans and reinvested earnings is the independent variable while development in terms of technology transfer, labour quality and environment form the dependent variables. This means to check the change in FDI causing a change in development in Uganda. The framework, the moderating variables of the study is policies in the host country. Phillip Kotler (2003) uses it to explain relationships in his study of marketing management, Fredrick *et* al (2012) Jucan *et* al (2010) uses the model to explain the Corporate Social Responsibility relationship of foreign investments with the host country.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter will cover a theoretical framework and a review of the literature according to the objectives of the study.

2.1 Theoretical Underpinnings

There are different theories related to Foreign Direct Investment explaining FDI inflow and outflow. Some of the theories are a corollary to trade theories under a perfect market set up, while other theories have been developed from the imperfect market conditions (Dinkar *et* al, 2014)

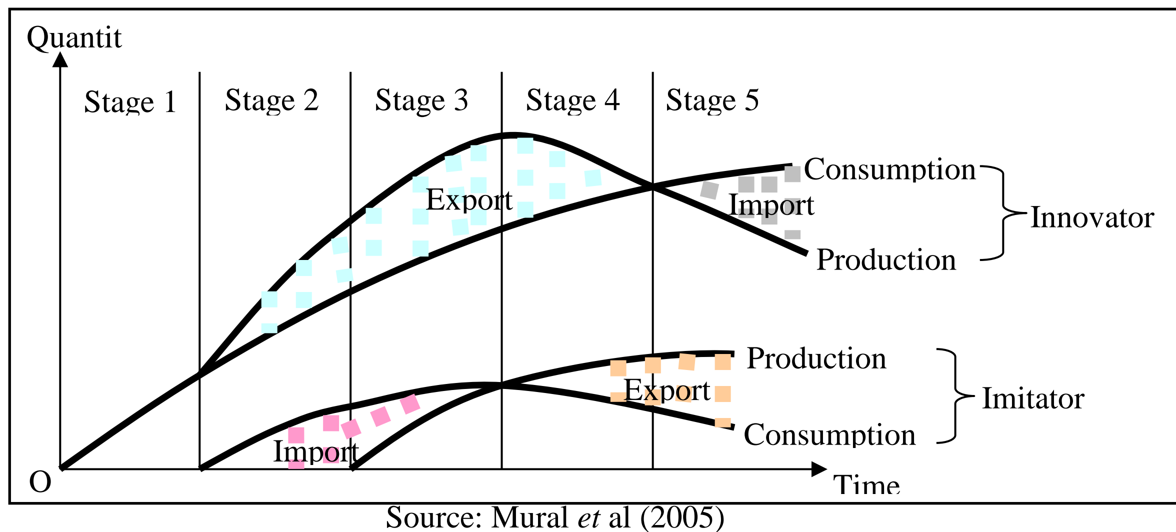
Tomas Dudas (n. d) gives a summary of these theories; he begins by categorizing them into; capital market theories which explain FDI flows as guided by the interest rate and the dynamic macroeconomic FDI theories which explain FDI as a result of long term TNC strategies in which the timing of investment depends on the changes in the macroeconomic environment.

Tomas further categorizes macroeconomic theories into three depending on the basis of establishing an FDI; category one of those that explain Foreign Direct Investment flows as dependent on exchange rate and that undertaking an FDI is aimed at reducing the exchange rate risk; category two of Gravity approach where theories are based on geographical location in which the closer the two countries the higher the level of FDI flows. The third category of macroeconomic theories is based on institutional analysis and here the decision is based on the institutional framework of the FDI flows like political stability.

2.1.1 The Product Life Cycle

Raymond Vernon (1996, 2004) presents the product life cycle theory. This Tomas categorizes as a development theory of FDI. This theory analyses the relationship between the product life cycle and FDI flows.

Figure 1: The Product Life Cycle



Source: Mural *et* al (2005)

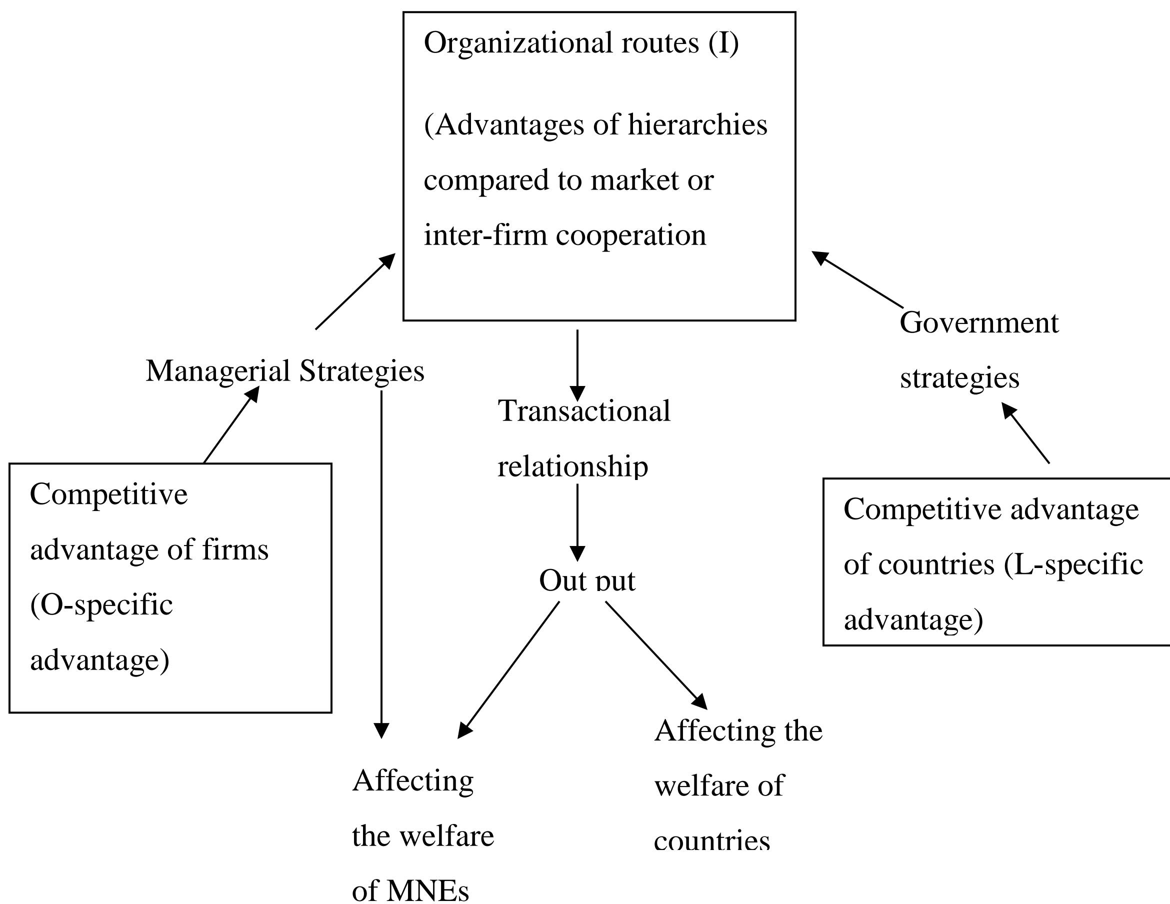
Vernon explains that a product first gains standard before entering the international market at maturity. According to Tomas (n. d) FDI flows can be seen mostly at maturity and decline levels of the product life cycle.

Tomas also explains the Japanese FDI theories which are engineered by mainly Terumoto Ozawa. These explain the relationship between FDI, competitiveness and economic development based on ideas of Michael Porter (1998) who identified three main phases of development when he analysed the waves of FDI inflow and outflow from a country. In the first phase of economic growth, a country is under developed and it is targeted by foreign companies which want to take advantage of the low labour costs and FDI outflows at this stage are almost none. At phase two, new FDI is

drawn by growing internal markets and by the growing standards of living, FDI at this phase are motivated by the rising labour costs. At the third stage of economic development, the competitiveness of the country is based on innovation, incoming and outgoing FDI are motivated by both market and technical factors.

2.1.2 John Dunning's Electric Paradigm Theory (2008)

Figure 2: The Electric Paradigm



Source: Dunning (2008)

Dunning explains FDI flows from five stages; Tomas (n. d) explains that at this stage. Dunning explains that firms go international due to firm specific capita; O-advantages for ownership advantage such as ownership of human capital, patent, technology, brand and reputation; L-locational advantage such as closeness to consumers, saving transport, obtain cheaper inputs and need to jump trade barriers. I- internationalisation advantage, in case subcontracting posses bigger risks thus the need to transfer specific capital such as technology and patent outside the firm as a way of protecting against brand and reputational damage.

According to Tomas (n. d), at stage one which comprises of low incoming FDI but here the foreign companies are beginning to discover the advantages of the country, none of FDI outflows are realized at this stage given that the country lacks specific advantage owned by the domestic firms; at stage two, FDI inflow continues to grow due to the due to advantage of the country especially the low labour costs, rising standard of living all of which draw more foreign companies but FDI outflow remain still low. At stage three FDI inflows keep growing though now in a different nature due to the rising wage, FDI outflow begins to take off as domestic companies gain stronger and develop their competitive advantage. Stage four is characterized by strong FDI outflow seeking low wage economies and at the last stage, investment decisions are based on the strategy of TNCs, and the country experiences a balance between FDI inflow and outflow. Dunning believes that competitive advantage of a firm, the organizational framework on top of the attractiveness of the FDI host country are very decisive for internationalization, and Smith explains that it is all about cost-cutting, unless a product has gone through its life cycle, it may not go international because its standard will still be local.

To Tomas, Dunning's explanation of internationalisation causes another explanation of FDI in terms of their reason for going international such as; resource seeking FDI for those that are after

securing natural resources; market seeking FDI for those interested in looking for and exploiting markets; efficient seeking FDIs which prefer achieving an efficient allocation of international economic activities of the firm like international specialization and global sourcing.

2.1.3 Absolute and comparative theories

The classical theory of internationalisation by Ricardo and Smith in line with internationalisation as presented by Morgan (1997) is not far distant from Dunning's. They explain that countries will develop their resources to the production of goods and services in which it has an advantage, the factor proportions theory by Hecksher and Ohlin which states that a country will specialize in production of goods and services that utilize their most abundant resources in production of goods and services that utilize their most abundant resources; in this ca-7se FDI outflows will be higher when firms gain advantage and specialize in the production where they have either absolute or comparative advantage

Internationalisation theories

2.1.4 Hymer

In Vintila (2010), Hymer explains internationalization using his concept of firm-advantage and emphasizes that FDI take place only if the benefits of exporting firm-specific advantage outweigh the relative cost of investing abroad. Tomas (n. d) explain this theory that FDI flows in terms of access to raw materials, economies of scale, intangible assets like name, patents, superior management and reduced transaction cost when replacing an arm's length transaction in the market by an internal firm transaction and in oligopolistic markets, FDIs follow the action of the market leaders using the mutual threat-game theory.

In relation to the above theories, different others come in to explain further why firms go international.

2.1.5 The Transaction Cost Approach by Buckley and Casson (1976).

The internationalization theory also known as the internationalisation model assumes that firms choose to enter the foreign markets as a way of cutting down the cost (Audur, 2008). This theory of international trade academically was firstly discussed by Adam Smith (2005) as he explained the nature and source of the wealth of nations. Smith explained classical trade theory and showed that trade is profitable for both sides trading. The win-win character depicted by Smith however contradicts the views that prevailed at the time of nations enriching themselves at the expense of others not until his theory of Mercantilism which explains that the wealth of nations is measured with precious metals, gold and silver, and with productive capacity countries have. Therefore each nation desires the highest amount of gold and perceives export as beneficial but imports (except imports of raw materials) as harmful. Therefore trade is a win-lose game. While exporters gain, importers lose. Hence the win-win perception of Smith's absolute advantage is of great importance.

Murat et al (2005) explain that under the internationalization theory firms establish FDIs simply because of two reasons. First is the importance of technology transfer though it may come across with some difficulties, knowledge can't be packed and sold and Intellectual Property Rights may be difficult to secure. Therefore the establishment of a new enterprise in a foreign country is more profitable than the sale of technology to another country. Secondly vertical integration may bring dispute between the two companies on top of the coordination problems caused by demand and supply imbalances between the two companies. Thus it is better to establish an MNE.

Morgan et al (1997) observes that this internationalization theory is geared by the Scandinavian researchers collectively referred to as Uppsala school. They suggest that the process in internationalization is founded on an evolutionary sequential building of foreign commitment over time. Johnson and Wiedersheim for example identified four internationalization processes, they distinguished firms with; no regular exports, export activities via independent representatives or agents, the establishment of an overseas subsidiary or overseas production or manufacturing unit as the gauge of which one is an FDI. In the same group of researchers, Johnson and Vahlne formulated a dynamic model in which a firm proceeds with internationalisation path in form of logical steps based on its gradual acquisition and use of intelligence from foreign markets and operations which determine successively, greater levels of commitment to the host country. To these researchers, internationalisation is based on learning through development of exceptional knowledge about foreign market which is gained so as to reduce their psychic distance. Thus firms are able to enter the overseas markets which seemed distant thereby committing greater levels of resources to internationalization.

2.2 Foreign Direct Investment

2.2.1 Foreign Direct Investment; Definition

Foreign direct investment (FDI) according to Neil (2004) occurs when a corporation headquartered in one nation (home country) invests in a corporation located in another nation (host country), either by purchasing an existing enterprise or by providing capital to start a new one. Sindre (2010) defines the same as the investment that is made by a company in a foreign country different from the financier's home country (Frenstra, 2003). OECD (2008) defines direct investment as a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise)

that is resident in an economy other than that of the direct investor, direct enterprise as an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly 10 % or more of its voting power if it is incorporated or the equivalent for an un-incorporated enterprise, FDI as a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. And UNCTAD (2001) defines an MNC as an actively managed substantial foreign direct investment made by firms that have a long-term commitment to operating internationally.

2.2.2 Types of Foreign Direct Investment

From the global context, Chan and Baruch (1992) expound the explanation of entry modes by categorizing each of the entry decision in isolation; global concentration, global synergies and global strategic motivations exercised by the firm. Global strategic motivation involves setting up ventures for other reasons other than profit for example; setting up out spot for future expansion, developing global sourcing site, to attacking global or actual or potential global competitors. Global synergy is aimed at reducing or even removing competition and global concentration is for firms operating in markets with a limited number of players who keep challenging each other in many different national markets around the globe. Non profit funders come in to firms or enterprises to grow and be sustainable since they have little equity capital available to build the enterprise of fund its growth thus closing the capital gap (Clara, 2008).

The World Investment Report (2001) indicates that the flow of FDI comprises are of two forms; capital provided (either directly or through other enterprises) by a foreign direct investor to an FDI enterprise and capital received from an FDI enterprise by a foreign direct investor and there are

different components by which FDI can be measured; equity capital, reinvested earnings, intra company loans and portfolio investment.

The World Economic Survey report (2003-2004) expounds on to the traditional measures of FDI which included only equity capital, and looks at FDI in terms of equity capital to include (equity in branches, share capital in subsidiaries and capital contribution), reinvested earnings (to include retained earnings of subsidiaries and affiliates) and intra company loans to include (inter-corporate debt transactions between associated entities)

Aswath (n. d) explains that there are mainly two ways through which business can raise initial capital; equity or debt. Creativity counts, entrepreneurs have to be as creative in their searches for capital as they are in developing their business ideas. This is because Aswath (n. d) observes that the money is there; the key is knowing where to look, this decision of choice of capital needs to be made well beca4use the source will influence the company for a life time.

According to the Michigan economic development corporation (2009), equity capital is defined as financing made available for investment in promising firms with firms with a greater risk of loss than what is normally accepted to traditional lending institutions. Aswath (n. d) explains that equity capital represents personal investment of owner’s funds in business, this capital has no interest pay back though the risk remains losing the owner’s money in case the business fails so it is partly this risk that makes owners to give up some ownership with the company to other investors. Sources of equity capital include; personal savings, friends and family, Angels, partners, corporations, venture companies and publics stock sale. Personal savings is the commonest of all given that funders and lenders expect the entrepreneur to put some of her own capital before they invest theirs; after this the help of business owner’s friends and family (though the relationship here

should strictly be business with written contracts); then to Angels who back emerging businesses; corporate venture capital which are interested in competent management, competitive edge, growth of the industry, viable exit strategies, intangibles and end up going public. This brings the ability to raise large amounts of capital, improve corporate image, improve access to future financing, attract and retain key employers, using stock for acquisitions and listing on the stock exchange. However, this going public may lead to loss of control, loss of privacy, filling expenses, timing, pressure for short term performance and delusion of founder's ownership.

Debt capital is capital paid with interest, fields as liabilities to the company's balance sheet, are difficult to secure, compared to equity capital, can be expensive especially for small companies because of the risk or return trade off. These loans normally come from commercial banks, as short term, intermediate or long term loans as installation loans and contracts. These loans can also got from assets-based as discounting accounts received or inventory financing. Other sources include; trade credit, equipment suppliers, commercial finance companies, savings and loan associations, stock brokerage houses, insurance companies, credit unions, private placements, Small Business Companies (SBICs) and Small Business Lending Companies (SBLCs). Loans can also be got as Federally sponsored programs like the Economic Development Companies (EDA), Department of Housing and Urban Development (HUD), Us Business Innovation Research (SBIR), Small Business Technology Transfer Programs and Small Business Administration. Creamer *et* al (1960) as quoted by Clara (2008) cautions against long term liabilities including Bonds, mortgages and long term bank credit.

According to De Nederlandsche Bank report of 2004, direct investment earnings represent income from normal operations of the enterprise and also do not include any or un-realized holdings (capital) gains or losses from valuation changes like; changes in inventory write offs, losses (of

losses, bad debts and intangibles), abnormal provisions for losses on long term contracts and exchange rate related gains or losses. According to UNIDO (2007), in most cases, the educational profile of MSE managers and entrepreneurs in Uganda are not impressive; they lack capital due to limited savings and access to credit facilities; unfavorable legal and regulatory frameworks and shortage of labour with relevant.

Portfolio investment according to the World Bank analysis of development indicators (2014), are defined in terms of investments which do not entail management or control over the company. For international transactions, equity investments whose owners have less than 10% of a company's loans are thus called portfolio investments or portfolio flows and are recorded in the financial account in the company's balance sheet. According to the IMF Balance of Payment and international investment position manual (2014), these portfolio investments arise through the transfer of ownership of securities from one country to another and it covers a range of securities from stocks, bonds, as well as other types of investment vehicles.

According to the same manual, a d9verse portfolio helps to spread the risk of possible loss because of below expectation performance of one or few of them.

According to Clara, (2009), businesses with the following investment characteristics are attractive candidates to equity financing; firms with growth potential or opportunities capable of exploiting a clearly defined market niche, or has a clear advantage over competitors; firms with large margins of profit; firms with competent experienced and capable management; highly sophisticated businesses requiring thorough business plans with realistic expectations and solid financial projections.

Sarianna (2006) identifies six factors which determine the attractiveness of the host country resultantly determining the amount of earnings re-invested; macro-economic factors which affecting opportunities of investing in the host country, the level of profitability of foreign investments, the exchange rate, the different types of corporate governance, the tax treatment of repatriated foreign income (intra-firm dividends) and the use of dividend policy as a means of management control.

2.2.3 Foreign Direct Investment entry mode

A critical issue for firms considering conducting business overseas is the choice of market entry mode. Henry and Chung (2001) discuss the two most widely known options; exporting and foreign direct investment.

The General Agreement on Trade in Services (GATS) which is the WTO Agreement in defining investment abroad and trade in services in four modes through which services can be traded: **Mode 1 – Cross-border supply**: the supply of a service "from the territory of one Member into the territory of any other Member". The service crosses the border but both the provider and the consumer stay home. **Mode 2 – Consumption abroad**: the supply of a service "in the territory of one Member to the service consumer of any other Member". The consumer physically travels to another country to obtain the service. **Mode 3 – Commercial presence**: the supply of a service "by a service supplier of one Member, through commercial presence in the territory of any other Member" (i.e. investment through the establishment of a branch, agency, or wholly-owned subsidiary). **Mode 4 – Presence of natural persons**: the supply of a service "by a service supplier

of one Member, through presence of natural persons of a Member in the territory of any other Member". Private persons temporarily enter another country to provide services.

Mahoney et al, (1998) explains an incremental approach of entering the foreign market; firms adopting this approach initially establish themselves in a foreign market through exporting and after gaining knowledge and experience in the host country, they may then expand their operations in that country through ownership of production or distribution facilities. Agwaral and Ramaswami (1992) call it a low resource commitment and a low risk entry mode though it is associated with a low profit return and provides little control to the firm.

Most of the earlier FDI flows to Uganda were related to purchasing of state enterprises as observed in the report prepared by Strengthening Africa in World Trade (2015)

The US guide (2014) portrays that the commonest methods used in the put on the market of goods and services by the foreign investors are; using an agent or distributor, establishing an office, franchising, direct Marketing, joint ventures/licensing, selling to the Government, distribution and Sales Channels, selling Factors/Techniques, electronic Commerce, trade Promotion and Advertising, pricing, sales Service/Customer Support, protecting Your Intellectual Property, due Diligence, local Professional Services, web Resources. Several major American firms operate in Uganda, including Citibank, AIG, Caterpillar, NCR, Sheraton Hotels,

FedEx, Ernst & Young, Deloitte, Price Waterhouse Coopers, General Motors, Coca-Cola, Pepsi-Cola, Halliburton, American Tower Corporation, and Hertz.

Prominent Ugandan investors appear interested in U.S. franchises, and three KFC outlets recently opened in Kampala -- the first major U.S. food franchise in the country. Several South African and Kenyan grocery stores and fast food chains operate. Larger gasoline retailers such as Shell and

Total usually have convenience stores at their filling stations. There are no restrictions on joint ventures with local investors. However foreign investors need to be cautious and apply good business judgment when dealing with local investors.

In the choice to go international Charles and Hill (1990) believe that the mode of entry into a foreign market has a major impact on the success of a firm's international operation therefore Klaus and Meyer (2001) caution that all MNCs entering the foreign market should ensure that their strategy is adaptive to the host country environment and these strategies depend on the strategic relationship the firm envisages between operations in different countries, an MNC will need to choose between non-equity contractual modes (licensing), or equity based cooperative venture or a wholly owned subsidiary, and in determining the entry mode MNCs need to look at domestic strategies that will; favor the control, prevent high control entry mode in case of the need for global strategic coordination, choose high control mode for high risk countries, choose modes that need low resource commitment. Equity mode of FDI capital is often associated with new investments such as green fields or mergers and acquisition (OECD, 2016).

A green field is an investment which involves the establishment of a new production unit for example Coca cola and KFC in Uganda while mergers and acquisition refers to the purchase (or share) of an already existing foreign company for example SABMiller acquired Rwenzori beverage company; vertical FDI involves geographical decentralization of the firm's production chain where foreign affiliates in low wage countries typically produce labour-intensive intermediates that are shipped back to high wage countries often to the parent company itself while horizontal FDI produce same product in multiple plants (like coca cola Namanve and Mbarara) and services local markets through affiliates rather than through exports from the home country MNE (The case of some products from SAB Miller Uganda-Nile Breweries) (Kjetil *et* al, 2002)

2.2.4 FDI Flow into Sub Saharan Africa

Table 1: Forecasted level of FDI flow in Africa

	2008	2009	2010	2011	2012	2013	2014	2015
Capital flow	43.4	47	61.1	64.2	65	68.3	76.2	86.1
Private capital inflow (Net	38.4	37.1	47.8	52.7	54.5	58.8	68.9	81
Equity inflow (Net	33.4	43.2	42.7	44.1	47.4	53.7	61.3	69
Net FDI inflow	39.1	32.5	26.7	35.7	37.7	42.4	48.7	55.6
Net portfolio equity inflow	-5.7	10.7	16	8.4	9.7	11.3	12.6	13.4
Private creditors.Net	5	-6.2	5.1	8.6	7.1	5.1	7.6	12
Bonds	-1.6	2	1.4	6	7	5	5	7
Banks	2.3	0.5	0.5	3.1	0.9	1.2	1.8	2.9
Short term debt inflow	4.4	-9.5	2.8	-0.5	-0.9	-1.2	0.6	1.2
Other private	-0.1	0.8	0.5	-0.1	0.1	0.1	0.2	0.9
Official inflows (Net	5	9.9	13.3	11.4	10.5	9.5	7.3	5.2
World Bank	1.9	3.1	4	3.2	3.3			
IMF	0.7	2.2	1.2	1.4	1.3			
Other official	2.4	4.6	8.2	6.8	5.9			

Secondary Source; Global Economic Prospects, 2013

There is a growing positive trend in the inflow of Foreign Direct Investments to Africa showed in terms of Capital flow. The commonest form of FDI capital flow to Africa is private capital

which is under equity mode and in the recent years there has been a slow down in the estimated level of FDI flow from IMF and World Bank. Portfolio investments are low that in 2008 Bonds were even in negatives, and comparing Banks and private creditors, much of the loans were from the former.

2.2.5 Foreign Direct Investment flow into East Africa

Within East Africa, SEATINI report (2015) indicates a trend that Uganda is not doing so well in the reception of FDIs; Kenya is ahead over the years after Tanzania then followed by Uganda.

Table 2: Annual distribution of FDI Flow in East African Community in US$ million, 2007-2014

Country	2005-7	2011	2012	2013	2014
Uganda	600	894	1,205	1,096	1,147
Kenya	267	335	259	505	505
Tanzania	640	1,229	1,800	2,131	2,142
Rwanda	40	119	255	258	268
Burundi	-	3	1	7	32
Total	1,552	2,580	3,520	3,997	4,578

Source; World Investment Report 2015-overview

2.2.4 Factors determining the level of FDI flow to a country

Globally it depends on the nature of FDIs, vertical or horizontal; two broad sets of factors are given; policy factors such as explained by Stiglitz and Klein above including openness to market, product-market regulations, labour market arrangements, and infrastructure, free trade and non

policy factors affecting FDI such as gravity, effects of gravity (like market size and distance), proportions (like relative factor endowment) and stage of development of the country (OECD, 2003). In some cases, the attractiveness of the sector matters for example in Uganda the manufacturing sector is the most attractive and it accounted for 43 of the total 141 projects attracted in the financial year 2014/15 (UIA, 2016). FDI inflow in 2012 were driven investment in attractive sectors in countries like Uganda, Democratic Republic of the Congo, Muritania and Mozambique.

It sometimes depends on the reason for the firm's internationalisation; for efficient-seeking investors, it is all about the cost of labour, skills of the labour force, the quality and efficiency of infrastructure, in seeking profits, investors will prefer countries that welcome foreign investment and that is why developing countries receive more foreign aid and are more successful in attracting FDI (Khondoker and Kaliappa 2010, 2013) while strategic assets-seeking investors will locate in places where they can take advantage of what is readily available in terms of research and development and other benefits.

To Njoku *et* al, 2011 in some cases the factors attracting FDIs are not only economic but also political, for example according to the global investor report (2012), 80% of FDI inflows to Uganda were attracted by economic and political stability, 65.1% followed domestic regional markets, 57.3% by affordable labour, also joint venture projects mentioned the same factors as being crucial in their decision of geographical location where 71.1% highly agreed about the factors as attractors. However, for some businesses the factors may be different, here is much clarity on key location determinants for Global Value Chain tasks and activities include to include suitability of characteristics of available, language proficiency, science and technology competences, access to market or next stage in value chain, availability and quality of transport

and logistics infrastructure (for goods exports) and presence and capabilities of locally based firms (World Investment Report, 2013)

There are other non economic issues that can alter the attraction of FDIs, for example, in the recent years according to the globe and mail news paper (26th February 2014) Uganda's attractiveness of FDI has been affected by the signing of the anti-homosexuality bill; for example President Barak Obama denounced the legislation as odious and the US cut off aid to Uganda, also The Netherlands suspended US $ 10.5 million subsidy to Uganda government. As a result of this, the number of FDI projects in also dropped from 124 in the financial year 2013/14 to 77 in the financial year 2014/15 (Gabriel, 2015). UIA (2016) adds that it resulted into a decline in the number of licensed projects in the country from 461 to 372 between the financial years 2014/15 and 2013/14 though it recovered staring July 2015 and it was majorly witnessed in the manufacturing sector.

Africa's attractiveness is of FDIs is blocked by; corruption, weak security, unstable political environment, lack of highly skilled labour, inconsistence and lack of transparency in the regulatory authority (EY's survey, 2015) and for this Thompson and MO Ibrahim (2014) suggest the need to build an Afro-realism which he describes as adopting an honest outlook on the continent, celebrating its achievements but also making an informed assessment of the challenges that lie ahead.

The 2014 US guide on doing business in Uganda outlines barriers to attraction as; corruption, poor infrastructure, lack of affordable financing, low level of human capacity, inefficient government services, complicated land laws, and frequent land disputes. According to Lack of Transparency International (TI), Uganda ranked 140th out of 177 countries ten places down from 2012 when it was 130th out of 176 countries. In assessing the ease of doing business in Uganda, World Banka

(2014) ranked Uganda as 132nd out of 185 countries and 91st freest economy out of 178. Here more barriers are cited such as sale of counterfeit products from China and India, high interest rate, political uncertainty especially the lasting reputational damage caused by the Idi Amin regime in Uganda in which investors were forced to leave the country is a setback to foreign companies and to Sindre (2011) it led to un predictable losses that in turn largely affected employment among Ugandan population.

Narayanamurthy (2010) explains that a country with the following conditions will easily attract FDIs more than others; stable macroeconomic condition with high and sustained growth rates measured in terms of GDP, larger market sized countries should receive more inflows than that of smaller countries having lesser market size, high labour cost would result in higher cost of production and is expected to limit the FDI inflows; therefore, we expect the negative and significant relationship between labour cost and FDI, well established and quality infrastructure is an important determinant of FDI flows, Trade openness is considered to be a key determinant of FDI, strength of a currency, In a transition economy, improvements in the investment climate help to attract higher FDI inflows. Bruce *et* al (2005) supports this that countries with strong institutions will attract FDIs more because; first, poor legal protection of assets increases the chance of expropriation of a firm's assets making investment less likely. Poor quality of institutions necessary for well-functioning markets (and/or corruption) increases the cost of doing business and, thus, diminishing FDI activity. And finally the extent that poor institutions lead to poor infrastructure (i.e., public goods), expected profitability falls as does FDI inflow into a market.

James and Jiangyan (2010) argue FDI attraction in terms of clustering effect that normally FDIs are attracted to countries where other FDIs exist either due to linkage among projects or due to heading as a larger existing FDI stock is regarded as a signal of a benign business climate for

foreign investors. FDI may also benefit from the presence of external economies of scale, where new investors mimic past investment decisions by other investors in choosing where to invest. FDI may also benefit from the presence of external scale economies, where new investors mimic past investment decisions by other investors in choosing where to invest.

The Ugandan government therefore, has undertaken investment promotion through; national image building, investment generation (identifying potential investors and entering them in dialogue to convince them to commit to an investment project), investor servicing (through helping committed investors in analyzing business opportunities, obtaining permits and approvals for establishing business in the host country and maintaining business operations) and policy advocacy (through initiatives that aim at improving the quality of investment climate and listening to views of the private sector) (World Bank Report, 2013).

2.2.5 Foreign Direct Investment and Policies of the Host Country

Macroeconomic policies together with the micro regulatory policies affect FDI flows directly and they are a “Stop-go” type so they remain a serious impediment to the institutions in Uganda. (Obwona, 1998), he acknowledges that Uganda Investment Authority (UIA) is for example charged with initiating and supporting measures which shall enhance the investment climate in Uganda both of nationals and foreign investors; promoting investment; granting approval for the commencement of new businesses, assisting investors by providing support services and recommending to government national policies and programs designed to promote investment in Uganda.

The World Bank report on policies and FDIs (1995) indicated that developing countries which improved their economic policies such as; the fiscal policy, monetary policy and exchange rate

policies) and experienced an increase in the volume of investments and both local and foreign investors.

Nunnenkamp (2002), observes that the overall framework for FDIs comprises of heterogeneous elements like economic and political stability as well as regulations governing the entry and operation of TNCs.

Klein (2001) points out that one aspect that might obstruct more fruits of growth from FDI to poor countries is poor government led programs in relation to safety nets that would explicitly redistribute assets and income. According to him, to achieve positive outcomes for poverty reduction, foreign investor operate needs to be in right or else exploitation practices may begin.

Klein (1998) just as Dunning (2000) in explaining the location and flow of FDIs note that FDIs prefer to locate in low wage, low taxes developing countries in Uganda with weak environmental social standards like other developing countries in SSA, and these usually lower their standard in incentives in fear of losing jobs. In such an environment such as in poorest developing countries, which does not have the negotiating skills or bargaining power to resist pressure exerted on them, FDIs have frequently abused their power (Stiglitz, 1998).

Much as FDIs are believed to generate growth and raise standards of living, safety nets are necessary to redistribute income towards the poor (Klein, 1998). However, in countries where there are no clear labour policies governing foreign investors, Lipsey (2004) worries that FDI pay their workers wages which are bigger than those of the domestic firms, there may be a wage spillover especially in a sense that people employed with local firms may also end up asking for increment and in this case income inequality is created.

Klein (1998) thus recommends prudent management of wind fall gains from natural resources such as extraction of oil, gas and mining which may cause prosperity in that field and raise foreign exchange rates and make the activities profitable; adjust environmental and social standards to global level since FDIs may take advantage of the developing country; build local capacities such as create incentives to upgrade productivity throughout the country and make domestic actors respond to the skills; create a fair play ground for all similar to National Treatment under WTO such as free entry and exit, customer choice; license technology to allow the host country to acquire innovations and experts to transmit knowledge and lastly encourage openness of foreign investment so as to fight poverty; regulations governing investors need to be reasonable and not much burdening; creation of incentives to upgrade productivity within the economy both for domestic investors and FDI; adjust environmental and social standards to suit global standards such as technology licensing; improve corporate governance, protect the poor from bad investment decisions and financial volatility by ensuring practices of fairness where all make normal profits on capital.

Stiglitz (1998) holds that the policies a country adopts mean a lot to the variability of its growth rate and these policies will determine income distribution. Together with Greenwarld (1986) Stiglitz believes that the government has an upper hand when it comes to this to an extent that there are policies that the government can take and at least make some people better off and not make others worse off, even absence of complete information the second fundamental theorem of welfare economics which states that inequality in wealth will generally require the owner of assets "the principal" to delegate the use of assets to another agent, may not hold since there will be government intervention to prevent pareto improvement over the competitive equilibrium. He cites an example in his 1977b version that employment policies pursued by the US had reversal

effects of lowering the natural rate of unemployment. Porter in Kabanda (2014,) also acknowledges the importance of state involvement in the economy especially the role of the state in cluster development to that of the facilitator.

He notes that in situations where the domestic producers are less competitive and the techniques less supportive, FDIs distort the underdeveloped market further by applying techniques which are highly inappropriate in a developing country' context; they undermine the local competitors and change prices and efficiency is undermined, they tend to undermine the democratic process of the host country and make the host country pay the price of the incentives to attract them. In perfectly neoclassic world, such as assumed by the comparative theory by there would be no need for MNEs or FDIs give that the, this is because the absence of transaction costs, market could easily be costless and effortless, suppliers would be with any point of the globe and in environments where there are no barriers to trade, MNE affiliates will arise (Stiglitz, 1998)

2.2.6 Other Factors that Determine the Level of FDI Gains in the Host Country's

The level of benefit from FDIs so much on the market conditions may depend on the market conditions in the host country, (Walid and Safarian 1999), spillovers will also depend on the labour productivity and on manufacturing on a country, gains in terms of knowledge transfer can depend on the absorption capacity of the domestic country regardless of the social structure that shapes it Alex (2012). This is the ability and motivation which are very much needed to facilitate the transfer of knowledge form the part of MNCs (Dana, 2013). After acquisition there is a one way transfer of knowledge from the acquirer to the acquired. (Henric, 1999), this depends on the level of communication; visits and the time elapse since acquisition.

From the development dimension of Foreign Direct Investment, there is an inter-linkage between development and FDI, Jos and Stokman (2004) conclude that much as it is good to finance investment, also development of infrastructure and human resources may be necessary in creating conducive environment for FDI

Gains also depend on the ties that that firm has with the foreign firms since this reduces the constraints that domestic firms usually face in searching for and transferring foreign technologies. Dana B. (2013). Policies governing business operations of certain nationals may also intervene in their business operations in a foreign country for example the Americans are barred from engaging in bribery either at home or abroad (KPMG, 2016).

According to the World investment report (2013), the benefit business relations and structure of Global Value Chains (GVC) affects the scope and methods of knowledge transfer to developing-country firms operating in GVCs the business relations and governance structures in value chains are determined by the complexity of information and knowledge transfer required to sustain transactions, the modifiability of information and knowledge, and the ease with which it can be transferred, as well as by firms' capabilities and competence. The types of governance structures in GVCs are thus an indication of the potential for technology and skills transfer between various actors in the chain, and related learning mechanisms

Dirk (2001) concludes that the benefits that a country can realize out of FDIs highly depend on the policies in place in the host country and macroeconomic policies for example, macro –economic development in terms of sustainability which Mensah (2009) refers to as ''our common good'' or simply to mean development which benefits the present and the future generations.

2.2.7 Host Country Gains from Foreign Direct Investments.

Governments are liberalizing investment regimes as a way of attracting FDI with hope of positive effects for economic development and poverty reduction in their countries and governments would like to maximize the tapping of the FDI benefit of the indigenous industry (Dirk, 2001) and quotes Lall (2000a) and Borensztein *et al* (1998) asserting that, in actual practice benefits of attracting FDI differ by country (technology, market access, growth, poverty alleviation) in reducing poverty, according to the host country, FDIs, through foreign private investment will lead to economic development foremost through technology transfer (OECD, 2012), Obwona (1998) explains that FDIs can't entirely is help to cover Uganda's capital gap though the employment in the country. The increased flow of FDI in developing in emerging economies has raised expectations about its potential contribution to their development (OECD, 2008).

Jos (2004) in his study on Foreign Direct Investment and Business Cycle co-movement reports that the presence of foreign investors means that part of domestic output is produced by firms controlled by foreigners and in this case the host country is a mere observer and benefits less from the foreign investors.

Uganda' effort in supporting FDIs has been intended to develop the economy in the areas such as; employment creation, technologies, Government revenue generation (tax and non tax) and standards of living improvement thus looking at FDI as a solution to Uganda's problems and that it is capable of helping in the achievement of the millennium development goals (World Bank Report, 2013). However Obwona (1998) adds that FDI may negatively contribute to economic development in the host country through; lowering saving and investment interest, creating tight competition amidst international agreements, reducing foreign exchange in flow through profit

repatriation, their interest in royal treatment, detrimental environmental impact and crippling the local entrepreneurs.

From the operation of FDIs a country expects capital, transfer of the most needed technology and transfer of skills and knowledge plus corporate social contribution and employment creation from these firms, plus other benefits (Ezra, 2005), however, much as it may be hard to raise private capital, FDI may lead to the crowding out of local firms, reducing their ability to operate at an economically efficient scale. However, increased market-competition as a result of FDI may strengthen incentives among domestic firm to improve efficiency (OECD).

The World Bank report on investing across borders (2010) warns that it is important to note that the impacts of FDI are often limited and in some cases detrimental, the consequences of crowding out local competition, enclave production with limited forward and backward linkages, and “race to the bottom” effects often related to labor and environmental issues. The potential benefit of inward FDI depends on the extent to which local firms and workers can benefit from these assets (OECD, 2008).

Ezra (2005) gives a number of other factors intervening in these benefits like; laws of the host countries governing business operations in the foreign land, the policies of the host countries such as licensing, administrative steps, the registration of properties, the procedures involved in procurement like non refundable fees payment as well as market features in the host country may all limit the effectiveness since the increase the operation costs and minimize the competitiveness of the producer Ezra (2005).

2.4.1 FDI and Technology Transfer

Murat and Isparta (2005) explain that FDIs are importance for the transfer of technology, however Codjoe (2012) challenges the usual thinking by concluding that not all FDI activity is associated with the transfer of technology and where it occurs, technology transfer is more likely to involve product and process technology compared to skills and technological knowledge and yet this transfer of skills and technological knowledge via formal training is generally low among senior managers compared to production workers. Several general principles however, FDI ensure effective management of intellectual property IPR especially by foreign firms in Uganda; it is an important part of the overall strategy to protect your IPR and IPR is protected differently in Uganda than in the United States. These rights are registered and enforced in Uganda, under local laws. U.S. trademark and patent registrations will not protect your property in Uganda. (US guide 2014). This implies that some knowledge and skills may not be transferred.

FDIs are generally associated with the transfer of technology to the host country especially in terms of machinery (Lukasz, 2013) but still this heavy machinery that comes with FDI is (Selma 2013) creates fears and causes big threats to the environment.

Technological progress is very crucial to economic growth and welfare especially in capacity building and trans-national companies are looked at as the major creators of new and advanced technologies and have the potential to bridge the gap between rich and poor countries (Charlotta, 2007) but the fact is that there is a wide technology gap between the two countries, technology is concentrated in developed economies and the benefit from FDIs in terms of technology highly depends on host country policies yet developing countries usually experience difficulties in establishing effective policies thus opening up for FDIs may not transform the technology base. (UNCTAD, 2010)

2.4.2 FDI and labour/employment

International direct investment and other means such enterprises can bring substantial benefits to home and host countries by contributing to the more to labour quality through the framework of development policies established by governments and in this way may promote economic social welfare; to the improvement of living standards and the satisfaction of basic needs; to the creation of employment opportunities, both directly and indirectly; and to the enjoyment of basic human rights, including freedom of association, throughout the world. (Tayo *et* al, n.d) However, Dirk (2001) argues that FDI can lead to undesirable outcomes, Te Velde, (2000), Feenstra and Hanson (1995) and Tsai, (1953) in Dirk (2001) add that FDI may result into raising the inequality between groups of individuals or regions.

FDI play an important role as an engine of employment (Cole, 2010) though the challenge may be hat most of the jobs created by FDIs require enough resources such as sufficiently educated human resource meaning that the creation of jobs may not benefit countries like Uganda which lack the sufficiently educated human resources due to lack of apprenticeship and this is aggravated by the operation of the EAC where labour flows freely among the members (Kissel, 2013). In the same case, they may create inequality between individuals or regions (Lall, 2000a, and Borensztein *et al.*, 1998) thereby creating divergence in the benefits between regions and individuals and create worsen wage costs when people working with domestic firms begin to also ask for higher wages (Lipsey, 2004).

FDIs are expected to increase access to research and development resources from which the local population can benefit the employment opportunities though created by new businesses and from which labour quality can improve, however, Srijanee (2012) and David et al (2008) explain that

FDI benefits to the host country may mostly be realized in the increasing income taxes and also development through boosting of export earnings but not really labour quality improvement.

2.4.3 FDI and environment

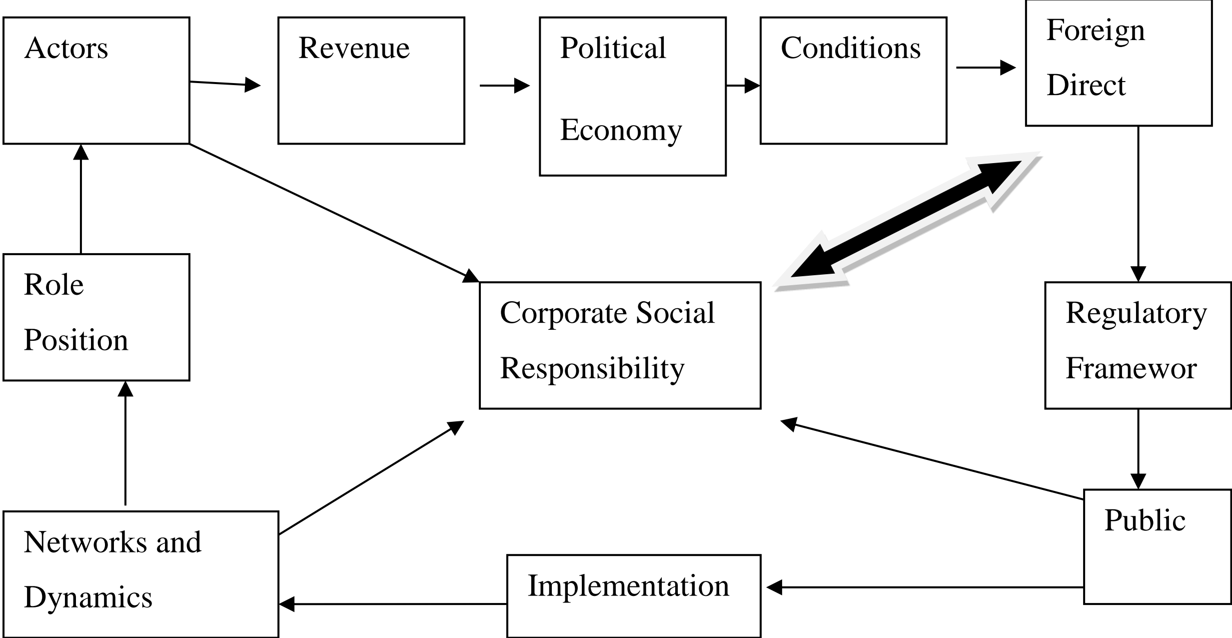
FDIs may result into corporate environmental benefits to the host country through passing on good practices though sometimes they pose a risk by shrinking the environmental standards (OECD, 2002), however, for cases where countries either have none or never implement their written environmental standards required of FDI, they may neglect local capabilities and cause environmental damages as well as inequality between individuals or regions (Lall, 2000a, and Borensztein *et al.*, 1998) thereby creating divergence in the benefits between regions and individuals.

In the presence of FDIs UNCTAD (2003) suggests that it is better to have the voluntary corporate code in line with environment governed by international regulations of hard law as opposed to soft law standards so as to stabilize the obligations and rights for businesses and the reasoning is that local laws would not solve the conflict of interests between corporate management that operate in the foreign country and the government in the host country. This Selma, (2013) explains further in a sense that FDIs have a tendency of neglecting local capabilities which may cause environmental damages.

Alejandra (2011) explains that there is a direct relationship between Direct Investment (FDI) and CRS and this relationship which sometimes seems neglected although it can have important consequences for instance CSR can serve as a signaling device, changing the under-efficient outcome of a Prisoners' dilemma to cooperation, as the final equilibrium outcome. Thus for companies entering the country it is clear that both CSR and FDI are expected to be endogenous,

because a higher level of FDI can have an increase of responsible business practices, but a higher level of social responsibility within a country can increase its attractiveness for FDI inflows. Alejandra expresses this relationship diagrammatically (CSR Analysis framework).

Figure 3: Showing the relationship between FDI and CSR



Source: Alejandra (2011)

Nicky Mabey (n. d) argues that the pollution havens debate produced focus on site-specific environmental impacts and emissions a few industrial pollutants and he observes that companies will move their operations to less developed countries in order to take advantage of less stringent environmental regulations. In addition, all countries may purposely undervalue their environment in order to attract new investments and that either way this may lead to excessive (non-optimal) levels of pollution and environmental degradation.

2.5 Foreign Direct Investment in Uganda

There are different requirements that foreign investors are expected to fulfill as they find their way into Uganda, according to the investment policy review (2000), in order to obtain a license, a prospective foreign investor must submit, in effect; its business plan as well as corporate details including the identity and nationality of its owners; in deciding whether a license is to be granted, show the ability of proposed business to generate or save foreign exchange; extent of utilizing locally-sourced inputs; ability to create employment; ability to introduce new technology, and the ability to contribute to regional development are taken into account.

Foreign Direct Investment in Uganda is governed by the Investment Code which was enacted in 1991. The Code is a restrictive and control-oriented regime for FDI, and if implemented to the letter or in an unsympathetic spirit, it could seriously deter FDI. Under the Investment Code no foreign investor may undertake business in Uganda without a license. Foreign investors are defined to include non-citizens of Uganda, any company that has more than 50% of it foreign owned, or a partnership in which the majority of partners are non-citizens. About National Treatment (NT), the code gives no assurance of NT to foreign investors and there are several instances, both in the code and in several legislations, in which they are provided lesser entitlement than national investors, including the following (The investment review 2000).

Ideally, foreign investors may be subject to a condition of an investment license and a number of performance obligations which are not imposed on national investors. These obligations may include requirements as to minimum investment size, staff training and localization and, local procurement and environmental protection. The Investment Code foreshadows limits, which may be placed by the Bank of Uganda on access by foreign investors to domestic credit. It is understood that no such restrictions have been applied in practice. Foreign investors are expected to invest the equivalent of at least $300,000 in order to qualify through the Investment Code for an entitlement to externalize fund. The threshold for national investors is the equivalent of $50,000. This distinction has little practical relevance as the entitlement falls short of a guarantee of convertibility. Foreign-owned banks and insurance companies are subject to higher paid-up capital requirements than nationally-owned firms. The introduced land legislation permits for foreign investors to hold leasehold but not freehold land title. This code provides no room for expropriation of foreign investors and that in case it happens, the investor should be compensated at a fair market value within a period of twelve months. (OECD, 2005)

Since Uganda is part of different treaties, international arbitration is permitted in case of disputes, according to the US guide (2014), as per trade regulations, customs and standards, Uganda, Kenya, Tanzania, Rwanda and Burundi have adopted a three-tiered duty structure for imports from outside the Customs Union (EACU) under the terms of an East African Community (EAC) agreement, Uganda has few formal trade barriers, though bureaucratic inefficiencies, high transport costs, most non-tariff restrictions including quantitative restrictions have been abolished.

The workers' compensation Act 2000 talks of compensation of workers in case of damage and or termination after a warning and or with reason. Child labour is prohibited just as forced labour, no discrimination, no sexual harassment, arbitration is accepted, certificate of service to be given,

disciplinary penalty is allowed and workers are entitled to; sick leave, maternity leave, annual leave and sick leave with pay. However, these laws and regulations can be key determinants of the quantity and quality of FDI received and legal regimes governing FDI can be incentives and encourage beneficial FDI, whilst preventing or at least minimizing damage to the national economy and resources. (Srijanee et al, 2012).

OECD (2005) summarizes Uganda's rules governing FDIs as follow; among the general restrictions; Uganda restricts entry of foreign investor, limits foreign purchases of shares. The Investment Code allows foreign ownership of shares up to 100% of the value of a company. In the IMF Article VIII status, Uganda has accepted the obligations of Article VIII of the IMF's Articles of Agreement. Transfer of profits and the proceeds of liquidation. No restrictions on the repatriation of proceeds are reported. Of the specific restrictions; In addition, secondary licenses are needed in the following sectors: mining; air transport; banking; forestry; fishing; tourism; timber; coffee; insurance; pharmaceuticals and broadcasting; and media. The UIA endeavors' to assist investors in obtaining these approvals and financial services and the Investment Code requires a larger amount of paid-up capital for foreign-owned banks and insurance companies. Acquisition of real estate for FDI purposes by the 1995 Constitution vests the right to land ownership to the citizens of Uganda. Non-citizens may obtain land through leasehold, to up to 99 years or through joint ventures with Ugandans, who must hold the majority stake.

There are post entry requirements; exceptions to national treatment of established foreign controlled enterprises. The Investment Code does not provide a general assurance of national treatment to foreign investors, except for tax issues where according to Uganda official website, there are no discriminations against foreign investors. Access to subsidies; non-citizens who invest in any of the following activities will not be entitled to investment incentives: wholesale and retail

commerce; personal service sector; public relations business; car hire service and operation of taxis; bakeries, confectioneries and food processing (for the Uganda market only); postal and telecommunication services; and professional services.

Among the other restrictions are; nationality-based regulatory restrictions on company board composition, discriminatory private practices permitted under corporate legislation. Again the Investment Code allows for distinctions in the treatment of foreign and domestic investors, entry of key personnel: granting visas to business people in a transparent and efficient manner. Work permits for expatriate staff are usually granted to employees of foreign enterprises approved to operate in Uganda provided the applicants are key personnel, or Ugandans are not available, and the investor has demonstrated the need for such employees.

US companies have traditionally been the largest group of foreign investors in Africa. Since 2007, they have launched 700 FDI projects across the continent, pouring in US$52.7b and creating nearly 98,000 jobs. After a slight drop in 2013, US companies became the largest investors in Africa again in 2014, overtaking those from the UK. Launching 101 FDI projects, up to 29.5%, US investors accounted for 13.8% of total FDI projects in Africa, an increase from a 9.8% share in 2013. The US guide (2014) gives the following as examples of FDIs in Africa from America Citibank, AIG, Caterpillar, NCR, Sheraton Hotels, FedEx, Ernst & Young, Deloitte, Price Waterhouse Coopers, General Motors, Coca-Cola, Pepsi-Cola, Halliburton, American Tower Corporation, and Hertz. Prominent Ugandan investors appear interested in U.S. franchises, and three KFC outlets recently opened in Kampala are the first major U.S. food franchise in the country.

IMF report (2012) argues that the incentives Uganda uses for attracting FDIs may result in a loss of current and future tax revenue; create differences in effective tax rates and thus distortions between activities that are subsidized and those that are no; could require large administrative resources; could result in rent-seeking and other undesirable activities; could, in the case of income tax holidays, be a particularly ineffective way of promoting; can be outside the budget and non-transparent.

2.8 The Future of FDI

David *et* al (2008) explain that all the current changes in FDIs are a result of; the rise of new players (new source countries and companies for FDI), more government ownership in cross border FDI, the rising oil prices and the current account supplies. The international business environment is constantly changing. For several decades, globalization has transformed the rules of international competition, favoring those companies that have been able to expand and integrate operations particularly across North America, Europe, and Japan. In the 21st century, however, rapid change in the developing countries and the associated entry of new competitors into the global economy suggest the need for continued change among the already well-established multinational corporations (MNCs). The strategic and organizational challenges are daunting, as much of what has been learnt over the past few decades will be of limited help in the years ahead. The new entrants into the global economy, as illustrated by companies originating in China, India, and other developing economies, display a combination of characteristics that constitute a formidable challenge to the already well established MNCs. They are based in countries with potential market sizes that in some cases by far supersede those of most developed economies, they use frugal engineering and innovation to develop products and services that are particularly adapted to the demands of customers in emerging markets, and they expand into countries and

regions which have been largely neglected by traditional MNCs. This form of significant environmental change and strategic challenge is bound to require some form of response among the already well-established MNCs.

Ivo (2004) in giving a brief history and future of FDIs describes that over that time there is a connection between changes in international business environment and the strategy and organization of MNCs. After World War II, tariff reduction paired with a reduction in the communication and transport costs opened penetration of formally protected markets both locally and internationally. From around 1970, internationalization and consolidation were the best strategies, for MNCs which responded, the ways to go were; acquisition, re-structuring and specifying of internationally dispersed unit and around 1990s FDIs were seen in form of MNCs. As new MNCs entered the global market around the 2000s, there was need to strengthen intellectual property rights, protect brand names, technology and knowledge. These new entrants had basically three features; they were based in low cost locations with potential market size, they used frugal innovation and engineering to maintain cost structure below those of the established global companies and their expansion strategies focused on expanding in developing and emerging economies unlike MNCs from developed countries. All these posed a challenge to the established MNCs in traditional industries which have now to take on new strategies like; addressing lower-end segments of the market through decentralizing and streamlining operations, adopting new organizational mindset and routine to produce the frugal and good enough products and services demanded by customers in emerging economies and also granting an unusual amount of freedom of operation to subsidiaries in some foreign countries. Established MNCs need to become engaged in what may be labeled re-internationalization or forceful effort to enter and penetrate previously

neglected developing countries which in terms of operating and institutional conditions differ substantially from the more accustomed developed economies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents in detail the methodology; research design, the area of study, he description of the population from which the samples were selected, the method used in sample selection, the sample size, the methods of data collection, quality control methods, data management and processing methods, the methods of data analysis, the ethical considerations and the limitations of the study.

3.1 Research Design

By design the research was a cross-sectional descriptive survey aimed at establishing the flow of Foreign Direct Investment, measure its contribution to the development of Uganda measured in terms of technology transfer, labour quality and environment and show the relationship between FDI and economic development.

This study took both qualitative and quantitative designs based on Newman et al (2003) as he explains that quantitative research generally uses measured variables to test hypothesized relationships in more controlled situations and that qualitative research is usually holistic uncontrolled, descriptive, and carried out for purposes of widening understanding and meaning.

This involves Ministry of Finance, Uganda Investment Authority and Bank of Uganda to ascertain the volume, nature and flow of FDI. These few institutions were chosen for the survey given the limited resources especially in terms of time where all producers of the same could not be included in the study. And also they happen to be the best custodians of information about FDI in Uganda.

3.2 Scope of the Study

3.2.1 Geographical Scope (Area of the Study)

The study was done around two places; Ministry of Finance (MOF), Uganda Investment Authority (UIA) and Bank of Uganda (BOU). These have been chosen because BOU and MOF have records on the flow of FDI capital into the country and UIA has details of the regulations and monitors the works of t FDI on the economy. These are all situated in Kampala central business district in central Uganda.

3.2.2 Time Scope

Purposeful information for the study was mainly chosen from the period after 2006 and 2014. This period was chosen because it is the period in which Uganda witnessed notable recorded variations in the inflow of FDI in various sectors ranging from petroleum, telecommunication and manufacturing among others.

3.3 Study Population

A total of 70 respondents were involved in the study from Ministry of Finance, Uganda Investment Authority and Bank of Uganda. This number was chosen given the limitation in terms of finance and time. Among the respondents were officers in both lower and senior positions in the chosen areas.

3.4.0 Sampling Procedure

3.4.1 Sampling Technique

Samples were chosen purposively given that the research had purposeful choice of respondents. According to Pickard this method can either begin with a referral of go direct but with a purpose

(Pickard, 2007). In this method the researcher goes directly to the purposive respondents and this, as per this study was even clearer when it came to the choice of people to be interviewed.

3.4.1 Sample Size:

A sample of 70 respondents was involved in the survey and this was determined purposively basing on the theoretical method of the ground theory. Here samples were selected using the ongoing means given that the researcher had neither the sampling frame nor the informants. (Gentles *et al,* 2015). In this case the samples are not all taken at once but one after another until the target is reached kind of snowballing. This sample size was chosen because it would give a basis for realistic conclusions and allowed choice of respondents in the varied places. In this method as per lesson notes, a bundle of specific techniques are used in flexible and different ways with the aim of generating theoretical insights. The good thing about this ground theory is that it is indicative not deductive from moving specific instances for general conclusions.

3.5 Data collection

3.5.1 Sources of Data

The survey used both primary and secondary data. Primary data was gathered with the help of a survey questionnaire to collect information from the respondents. Also secondary method of data collection was employed by the study. The secondary data was gathered from journals, working papers, internet and dissertations done by other researchers using guiding questions.

3.5.2 Data collection

Data was collected using questionnaires and a guide for secondary data. These were distributed to facilitate the gathering of information and the choice of questionnaire method was to gather

information from a bigger number of respondents and also be able to draw dependable conclusions. These questionnaires were emailed together with a covering letter; to allow respondents greater confidentiality and reduce the biasing error and allow them time to consider answers and consult and because of the fact that respondents were widely dispersed geographically.

In this study, both primary and secondary data were used; secondary data was used for specific areas where factual information from BOU, MOF and UIA as trusted sources is actually documented and primary data was used for those specific aspects where Uganda has no clear factual statistics. This was to build further exploration about the topic.

3.5.2.1 Questionnaire

These are forms containing a list of questions which were used for gathering information for the survey. These were used to gather primary data a bigger number of respondents and also be able to draw dependable conclusions. Under this, a Likert was chosen instead of the Thurston-type scale because the former can be used without a panel of judges (Thurstone, 1992). Each variable statement was given empirical tests for discriminating its ability for causality. This method is respondent centered thus it stimulates centered studies through studying relationships. Between two variables and how responses differ. It was further preferred because according to lesson notes (2015), Wyte (1991) says that it is good for areas where opinions have to be colleceted for conclusions since it is broad and gives variety; and Eden and Huxham (1996) it is used as a problem solving approach to organizational challenges. A total of 125 were sent to the selected areas but only 70 were received back these back since this mode is associated with low responses rate.

3.5.2.2 Secondary data collection

Secondary data on Foreign Direct Investment was collected from Uganda Investment Authority, Ministry of Finance and Bank of Uganda. It was collected from reports. Primary data was added to support these secondary sources given that they may not be up to date, releases on the state of the matter and surveys.

3.6 Quality Control Methods:

For validity, the research tool was checked through expert's review where the tools were checked by knowledgeable persons until the results became homogeneous from the subsequent administering.

To ensure reliability of the data collected, the questionnaire was checked through test and retest method and results were dependable. In this method, the questionnaire was reviewed by knowledgeable persons in the field of research. Reliability is when the study results can reproduce the same results when done under the same or similar technique or method (Joppe, 2000).

3.7 Data Management and Processing

The data collected from the field was grouped according to the themes and analyzed. The responses according to the questions under the different themes were then added to establish the frequencies which were used to make frequency tables and descriptive statistics. The purpose of this was to put related data together to organize data for presentation and ensure proper organization and presentation of the findings for the study. Field editing of the work was done by translating or reviewing the reporting forms by the researcher and through central editing which involved giving abbreviations for the recording of responses through schedules.

3.8 Data Analysis and Presentation

The data that was gathered was entered into SPSS for the generation of frequency tables for the preliminary information. After, descriptive statistics were done from which averages of responses were established and the spread of the responses. Correlation was run using the Pearson correlation co efficiency after to give clear conclusions about the relationship between the variables. The purpose of this was to organize data and present it. The researcher checked all the questionnaires for relevancy of the responses and appropriateness of the answers provide for each question. This data was analysed quantitatively and SPSS software was used for correlation after which conclusions were made.

In this study, using the Ordinary Least Squares method and assuming the dependent variable as TEL (Technology, Employment and Labour) and the dependent variable as Foreign Direct Investment (equity share, reinvested earnings and affiliate loans). The calculated F value is then compared with the critical values at a given level of level of significance. If the calculated F is greater than the critical F, at a chosen time *i,* then the null hypothesis are rejected, otherwise accepted. When running the OLS, it was hypothesized that there is no relationship between FDI and TEL. So a linear regression was run to confirm the relationship.

$TEL = \alpha_1 + \beta_0 + \beta_1 . FDI_1 + \varepsilon_1$ .... (1)

In this case TEL_1 and FDI_1 explain the change in Technology Environment and Labour brought about by a change in FDI_1.

ε_1 represents the error term;

α_1 represents the slope and,

β_1 is the coefficient of the regression.

β_0 is the constant and β_1 here explains how a unit change in the independent variable FDI changes the dependent variable TEL.

ε_1 in the equation caters for other factors that may bring changes in the TEL (Technology, Environment and Labour).

But it depends on the assumptions and that the results of the methods can be adversely affected by outliers. In addition, whereas the ordinary least squares regression analysis can establish the relationship between the dependence and independent (TEL and FDI) or vice versa, this does not necessarily show the direction of the relation or causation.

3.9 Ethical consideration

Clear introduction in line with quality control was done using the letter of introduction form the University students' identification card for card. This was to ensure in-biased responses.

To ensure protection of the rights of the respondents, they were informed of the general purpose of the study, participation in the survey was voluntary, names and other details of the respondents were excluded and all respondents were assured of confidential of the responses.

The researcher made clear self identification as a student of Uganda Martyrs' University carrying the student's identity card and the letter of introduction from the university to explain the purpose of the research as purely academic.

In respect of earlier researchers, clear referencing was done of all sources where secondary data was pinched as required by the research ethics.

3.10 Limitations of the study

The study has a time limitation in terms of FDI flow period; this is because the whole period from the evolution of international business relations could not be covered. This limitation was solved using longitudinal secondary data

The study is so limited in terms of coverage of development indicators and therefore its conclusions and recommendations may not be exhaustive. This was solved by in-depth study of the chosen limited indicators so that better conclusions are drawn about them.

Generalization to developing countries, Africa or even East Africa form the results can't be made based on the results. This is because the nature of policies and their level of implementation differ from country to country. The results however apply to Uganda.

Results from the study may not be used for policy formulation purposes in Ministry of Finance, Bank of Uganda and Uganda Investment Authority simply because they are based on a small time scope.

In the study, economic development is measured by the transfer of technology, employment creation and corporate environmental practices. This however is a limitation in the measure of development because it does not show an exact relationship of FDI with production totals and general standard of living in the country.

The practicability of the results of this study is also limited to academic research given the fact that it is based on a small period so may not representative.

CHAPTER FOUR

PRESENTATION OF RESULTS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter contains the presentation of results and discussion of findings. Presentation of the findings together with the discussion is done according to the three main objectives of the study.

4.1 Presentation of Results from secondary sources

4.1.1 Foreign Direct Investments Flow in Uganda by country of origin (2007-2013)

The table below explains the sources and values of FDI inflow into Uganda for the period between 2007 and 2013.

Table 3: Grossed-up FDI Flows to Uganda (2007-2013) by sources (US $, millions)

	2007	2008	2009	2010	2011	2012	2013
Unite Kingdom	262.3	249.72	2227.8	126.74	115.81	116.81	78.86
Australia	178.19	162.92	189.27	120.12	201.13	203.09	81.77
Kenya	116.21	94.21	55.49	86.12	172.55	99.37	43.64
South Africa	66.86	51.14	89.53	16.85	14.4	24.95	11.43
U SA	83.37	69.27	18.83	10.31	3.44	20.36	8.45
Bermuda	59.66	50.36	87.41	11.62	38	-13.36	0.49
Netherlands	21.85	16.76	16.24	121.52	164.41	611.19	493.51
Unite Arab Emirates	96.78	89.03	102.8	65.24	109.24	64.37	1.62
Mauritius	39.88	30.91	54.01	90.56	104.54	6.27	71.33
Switzerland	38.77	35.67	41.18	26.14	43.76	-12.96	2.64
Denmark	18.64	17.15	19.8	12.57	21.04	-21	-3.54
India	29.02	27.41	18.77	38.13	19.15	39.32	18.73
Nigeria	16.84	15.49	17.88	11.35	19	5.24	-3.71
Egypt	6.294	5.75	6.68	4.24	7.1	-2.6	9.35
Norway	4.72	4.35	5.02	3.18	5.33	2.88	5.56
Togo	3.16	2.91	3.36	2.13	3.57	1.09	17.86
Singapore	0.76	1.01	0.1	-1.72	9.49	9.63	2.08

I O	7.55	6.95	8.02	5.09	8.52	5.78	8.68
Canada	2.98	2.74	3.16	2.01	3.36	-6.73	6.33
China	792.3	728.86	841.6	894.3	1,205.39	1,096.10	
Others	254.08	-198.99	-115.7	-213	-169.56	32.83	24.02
Total FDI	1584.6	1457.72	1683.1	1428.4	2,099.68	2,301.49	1,096.10

Secondary Source: UBOS, BOU and UIA, 2015

The survey shows that the major Foreign Direct Investment sources for the Ugandan economy and are notably; USA, South Africa, United Kingdom, the Netherlands, Bermuda and Nigeria including Kenya the neighbor among others.

Apart from the listed countries, there are other sources of FDI inflow and these have consistently contributed though little to the cause from; 254.08 in 2007 to negatives between 2008 and 2010, this only resumes between 2012 and 2013 from 32.83 to 24.04

There also a notable trend of increases in the total FDI flows into the country from 1584.6 in 2007; 1457.72 in 2008; 1683.4 in 2009; 1428.4 in 2010; 2,099.68 in 2011; 2,30149 in 2012, and 1,096.10 in 2013. This implies that there was a drop in FDI inflow between 2009 and 2010 and the same happened between 2012 and 2013.

4.1.2 Distribution of Foreign Direct Investment Projects within Uganda by Region

The table below shows the distribution of FDIs within the country. This in line with the topic reflects the distribution of development within the country as a result of FDI inflow between the period 2011 and 2015.

Table 4: Distribution of FDI projects within the Uganda by Regions in number of projects

Region	2011-12	2012-13	2013-14	2014-15	%Distribution
Central	202	320	385	286	87
Eastern	29	38	28	15	5
Northern	11	25	28	15	5
Western	30	29	20	11	3
Total	272	412	461	327	100

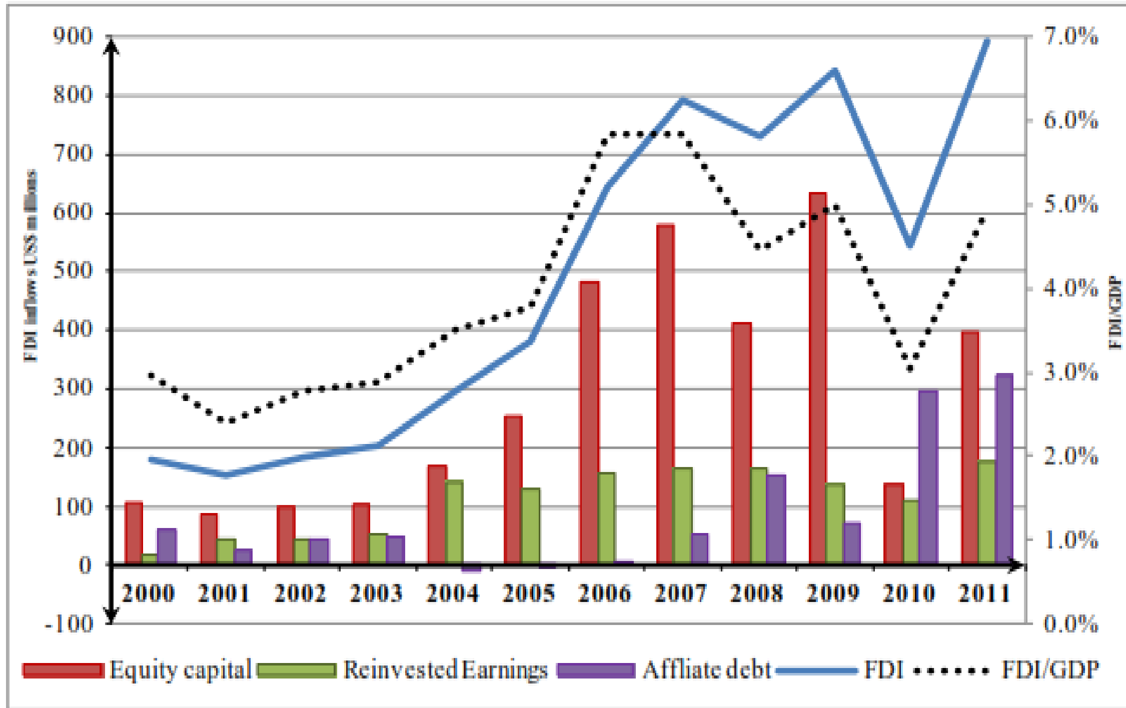
Source; Uganda Investment Authority, 2015

Within the country, the distribution of FDI projects in not even and the concentration is around the central. Of the total FDI inflow within the period, the central region has a total of 1,280 projects between 2011 and 2015; the Eastern region has 115 projects; Western has 93; and Northern region has 84. Thus they happen to be more concentrated in the central region, followed by the Eastern and the Western. This can be explained by the difference in the levels of development between these regions, infrastructure development in both which then determines their level of attractiveness. In terms of regional distribution, according to BOU (2012), Uganda's FDI are concentrated in the Central region mainly within Kampala and its neighboring districts.

4.1.3 Contribution of Foreign Direct Investment to Uganda measured in GDP

Table below shows the magnitude of the different forms of FDI as a relationship with the increase in the country's GDP.

Figure 4: Equity capital, Reinvested earnings and Affiliate debt and GDP in Uganda (2000 – 2011)



Secondary data: Bank of Uganda, 2012

According to this Bank of Uganda report (2012), in Uganda, the commonest forms of FDI inflow are; equity capital, reinvested earnings and affiliated debts trend is more stably low for affiliated loans. However portfolio investments happen to be insignificant and not presented here. Between 2010 and 2011, there was an increase in the volume of reinvested earnings in the country maybe due to the increased government efforts in the attraction of foreign investor for example through the creation of EPZs (SEATINI report, 2011), the petroleum exploitation and especially the intensified role of Uganda Investment Authority in the attraction of investors, and helping them access permitting their quick operation. The most common and contributing form of Foreign Direct Investment in the country is equity capital followed by reinvested earnings and

the trend is more stable as compared with affiliated loans which is consistently low. The ratio of FDI flow in compared to GDP increased from 3.0% in 2000 to 5.0% in 2011.

4.1.4 Distribution of Foreign Investments by sector in Uganda between 2012 and 2013

The table below shows the distribution of FDI projects in Uganda according to the different sectors between 20012 and 2013

Table 5: FDI distribution according to sectors in Uganda (UG Shs Millions)

Sector	2012	2013
Agriculture	331.4	452.4
Mining and quarrying	14.713.1	16169.5
Manufacturing	1,918.80	2,105
Electricity and gas	944.5	977.9
Water supply	31.6	34.3
Construction	297.9	371.7
Wholesale and Retail	917.5	863.4
Transport and storage	87	167.9
Accommodation	209	198.4
I.C.T	924	1,114.10
Finance and insurance	2,275.30	2,513.70
Real estates	24.1	28
Professional services	15	13.8
Administrative services	642.2	684.7
Education	2.1	18.5
Health	6.8	9.8
Arts and entertainment	6.4	5.2
Others	42.3	66
Total	23,389	25,794.50

Secondary Source: UBOS, BOU and UIA, 2015

According to the above 2012- 2013 statistics the leading sectors in the share of FDI are; the finance and insurance sector 2,275.3 and 2,513.70 UG billion Shillings; mining and quarrying at 14,713.1 and 16169.6 and the manufacturing sector with 1,918.8 and 2,105 UG billion Shillings.

Professional services, education, health and art and entertainment happen to receive the least share of the total FDI value of 15 and 13.8; 2.1 and 18.5; 6.8 and 9.8; 6.4 and 5.2 billion Uganda Shillings of the total received between 2012 and 2013

It is also clear according to the statistics that there was an increase in the value of FDI inflow in Uganda between 2012 and 2013.

4.2 Presentation of primary data

4.2.1 Foreign Direct Investment and technology

The table below shows the spread of responses for the study about the technology that comes with Foreign Direct Investments to Uganda. The questions asked here included; if FDI production exhibits new technology; its appropriateness to Uganda; FDI initiatives over technology transfer and if this transfer has occurred.

Table 6: FDI and technology transfer

	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
New technology	1	5	2.41	.154	1.291	1.666
Technology appropriateness	1	5	2.43	.160	1.336	1.785
Technology transfer	1	5	3.14	.146	1.219	1.487
Transferred technology	1	5	3.30	.123	1.026	1.054
N Statistic =70						

Source: Primary data, 2016

According to the analysis of results from the study, a mean of 2.41 at standard error 0.154 indicates that averagely 2.41 of the respondents agreed that the production exhibited new manufacturing technology, however, the standard deviation of 1.291 indicates that the results were more spread and varied by a margin of 1.666. The interpretation of these results is that majority of the respondents agreed that the biggest percentage of respondents agreed that production exhibits new manufacturing technology. This can be explained from the sense that FDI is a big multinational company so it uses more sophisticated technology in manufacturing which all together looks new to Uganda.

About the assessing whether the technology that comes with FDI is appropriate to Uganda, results depending on the mean of 2.43 at a standard error of 0.60 indicated that averagely 2.43 of the respondents agreed that the FDI technology is appropriate to Uganda, however the standard error of 0.179 shows that the results were more spread and the margin of variation of responses was 1.390.

In checking if FDI undertakes technology transfer initiative, a resultant mean of 3.14 at a standard error of 0.46 indicated the majority of the respondents disagreed that the company has actually not undertaken initiatives in facilitating technology transfer. A standard deviation of 1.219 presents that the results are less spread and the margin of variation is 1.487.

About finding out if the technology transfer, a mean of 3.14 at a standard error of 0.46 indicated that responded were in disagreement, which actually shows that FDI not have done big measures to bring about transfer of this technology in Uganda. There was a lesser deviation in the results and the margin of variance is 1.054.

The table below shows the relationship between FDI and development in terms of technology transfer.

Table 7: Relationship between FDI and technology

Correlations

		Technology
FDI	Pearson Correlation	.846**
	Sig. (2-tailed)	.000
	N	70

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data, 2016

The results from the table above show that FDI performance measured by percentage of earnings reinvested is significant to technology transfer at 0.864** and this shows that there is a significant relationship between FDI and technology transfer. The possible implication here is that FDI bring transfers manufacturing technology to Uganda much as there is no transfer of the same. The correlation between these two variables is significant at the 0.01 level of 2-tailed Pearson Correlation.

The table below presents the nature and education attainment for the people that are likely to benefit from the employment created by FDIs in Uganda.

4.2.2 Foreign Direct Investment and the Employment

The table below presents the FDI benefit to Uganda in terms of employment and labour. This table specifically established the education category of people employed with FDIs in Uganda asked to people in BOUT, UIA and MOF for their diversity of knowledge.

Table 8: Education categories of employees in FDI

Education level	Frequency	Percentage	Cumulative Percentage
Certificate level	14	20	20
Diploma level	23	32.9	52.9
Degree level	26	37.1	90
Post Graduate	7	10	100
Total	70	100	

Source: Primary Data, 2016

In foreign direct enterprises people of different employment levels are accommodated. Extensively skilled man power happens to account for small percentages (10.0%). These serve as administrators, finance managers and other senior positions. Those with lower education levels happen to be many, certificate holders (20%) and Diploma (32.9%). Many of those basic levels of education happen to engage in casual work and the last two categories are dominant in manual work as the skilled do in specialized positions. Graduate employees account for 37.1%. These findings imply that most of the Jobs created by FDIs need at least some basic kind of skills save for the cleaners. In the same sense, top most positions may be reserved for international officials.

The table below presents results about findings on the gender distribution of jobs created by FDIs in Uganda.

4.2.3 Gender composition of FDI employees in Uganda

This table establishes the gender composition of FDI employees in Uganda.

Table 9: Gender composition of employees in FDIs

Gender	Frequency	Percentage	Percentile
Male	42	60	60
Female	28	40	100
Total	70	100	

Source: Primary data, 2016

Results indicated that a big percentage of the people working with FDIs both local and foreign in Uganda are males comprising of 60% and the remaining 40% are females. This can be explained by the fact that some of the FD Investments in Uganda are in sectors that need more masculine services than the feminine handling especially in departments that employ many people for

example; Caterpillar, Coca Cola and General motors. This can be explained by the fact that the dominant sectors in terms of FDI activities include manufacturing plus mining and quarrying which activities happen to be dominated by males.

The following table explains the nationality composition of workers in Foreign Direct Investments in Uganda.

4.2.4 Nationality composition of FDI employment in Uganda

This table presents result from the test of who dominates the jobs created by FDIs in Uganda.

Table 10: Nationality composition of employees in FDIs

Nationality	Frequency	Percent	Valid Percent	Cumulative Percent
Uganda	57	81.4	81.4	81.4
Foreign national	13	18.6	18.6	100
Total	70	100	100	

Source: Primary data, 2016

Results indicated that of the total number of employees in FDIs, 81.4% are nationals of Uganda and only 18.6% are foreign nationals. This could be explained by the fact the internationalization theory (Buckerly and Casson, 1976) which emphasizes that firms go international so as to cut costs as a way of maximizing benefits. In this case, foreign nationals (18.6%) are normally brought to perform specialized roles given that employing them means incurring exaggerated costs.

4.2.5 The next table presents the respondents' rating of the pay of workers in FDI companies.

The table below uses primary data to establish the rating the pay salary earnings of FDIs in Uganda.

Table 11: Rating of salaries given to FDI employees

Pay ranges	Frequency	Percent	Valid Percent	Cumulative Percent
<700,000/=	9	12.9	12.9	12.9
700,000 - 1.5M	24	34.3	34.3	47.1
1.6M - 2.5M	12	17.1	17.1	64.3
2.6M -3.7M	9	12.9	12.9	77.1
3.8M - 5.5M	6	8.6	8.6	85.7
> 5.6M	10	14.3	14.3	100
Total	70	100	100	

Source: primary data, 2016

Of the respondents who were involved in the study, 12.9% receive a take home pay of less than 700.000Shs, a majority percentage of 34.3% receive between 7.000Shs and 1.5 million shillings. In the category of 1.6 million to 2.5 million, results indicated a percentage of 17.1% while 12.9% take home between 2.6 million to 3.7 million Uganda Shillings. At a higher level of income (3.8m to 5.5m), results indicated a percentage of 8.6% and 14.3% receive beyond 5.6 million. This sliding scale of results indicates that majority of the workers in the company receive pay which is less varied and that at top levels workers are paid more highly. This can be explained by the variation in the level of education of the workers or even by the input at work. This goodness of pay is what Klein (1998) warn that if not controlled may make workers in domestically owned businesses to also ask for higher pay and thus worsen the wage cost.

4.2.6 In the next table is an expression of the distribution of jobs creators in Uganda depending on enterprise ownership.

This part uses secondary data to explain the present the distribution o

Table 12: Spread of job creation amongst domestic, foreign and jointly owned enterprises

Ownership	Percentage
Foreign owned enterprise	53
Domestic owned enterprise	42.3
Enterprise jointly owned by foreign and	4.7
Total	100

Secondary Source: Investor Survey 2012

Findings from this survey in which FDI formed the majority of the enterprises that were surveyed, it was concluded that domestically owned enterprises created more employment opportunities compared to FDI enterprises. This could be explained by the fact that FDI employ capital intensive technology and this means that continued attraction of FDI may actually not result reduction in the level of unemployment in the country. This however implies that sometimes problems of developing countries can actually be solved without big investments in attracting FDI but just making the investment climate favorable for local investment or preferably joint ownership allowing more domestic control.

4.2.6 Foreign Direct Investment and employment in Uganda.

The table below shows the spread of results after the study on the FDI benefit to the Ugandan economy in terms of employment.

The following questions were asked under this; if the pay is good; and enough to meet basics of life; its equivalence to the labour in put; and similarity to that in other sectors at the same level plus if workers enjoy fringe benefits.

Table 13: FDI and labour

	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Good pay	1	5	2.14	.128	1.067	1.139
Basic needs	1	5	2.46	.150	1.259	1.585
Equivalent to labour input	1	5	2.31	.157	1.314	1.726
Similar to similar jobs	1	5	3.19	.162	1.354	1.835
Fringe benefits	1	5	2.37	.162	1.353	1.831
N Statistic = 70						

Source: Primary data, 2016

Respondents by an average of 2.14 at a standard error of 0.124 implied that the pay given in FDI is good meaning that they are convinced that the pay is good. A standard deviation of 1.067 means that responses were actually more varied from the mean by a margin of 0.780 means that the results are less homogenous.

In the same sense, responses were in agreement that the pay of workers at FDI matches with the labour input by a mean of 2.46 at an error of 0.150, a standard deviation of 1.259 means that results

were more spread from the mean and the variation range is 1.5.85. This means that the respondents were less homogenous.

In checking if the payment o workers from FDI was similar to that of similar jobs in the industry, most of the respondents disagreed and their argument was expressed by the mean 3.19 at standard error of 0.162. The standard deviation of 1.026 means that the results were more spread from the mean and the level of variation in the results are indicated by the variance of 1.835. This means that the results are less homogenous.

When it came to checking if workers in FDI enjoy fringe benefits, workers agreed by a mean of 2.39 at standard error of 1.62, however the standard deviation of 1.353 indicate that the responses were more spread from the mean and the variation was by a margin of 1.831. The stand here is that the results are less homogenous.

Table 14: Correlation between FDI and labour

Correlations

		Labour
FDI	Pearson Correlation	.643**
	Sig. (2-tailed)	.000
	N	70

**. Correlation is significant at the 0.01 level (2-tailed).

The results from the table above show that FDI performance measures by percentage of earnings reinvested is significant to labour at 0.643** and. This shows that there is a significant relationship between FDI and labor quality in the host country. The correlation between these two variables is significant at the 0.01 level of 2-tailed Pearson Correlation. The possible implication here is that FDI contributes the host country in terms of labour. This is supported by OECD (2008) by the

assertion that FDI significant benefits by creating high-quality jobs and introducing modern production and management practices.

Table 14 below indicates the FDI contribution to economic development through environmental responsibility and sustainability.

4.2.7 Foreign Direct Investment and Corporate Environmental Practices.

The table presents results about the study of FDI and Environment. The asked questions in order includes; if FDIs have environmental policies; their use of natural resources economically; if FDIs save energy; if they manage their wastes; the durability of their packaging in manufacturing and about reverse logistics.

Table 15: FDI and the environment

	N	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
1. FDI has policy	70	1	12	2.79	.214	1.793	3.214
FDI natural resources	70	1	5	2.33	.152	1.271	1.615
FDI saves energy	70	1	5	2.67	.157	1.316	1.731
FDI manages wastes	70	1	4	1.80	.116	.972	.945
FDI durable packaging	70	1	5	1.53	.120	1.003	1.006
FDI reverse logistics	70	1	5	1.46	.111	.928	.860
Valid N (list wise)	70						

Source: Primary data, 2016

Findings from the study indicate, with a mean of 2.79 at standard error 0.214, that FDI have environmental policies. Responses were less spread by a standard deviation of 1.793 at a variance margin of 3.214 implies that the results are more spread from the mean and thus a conclusion that the results are less compact.

A mean result of 2.33 at standard error 0.152 indicated an average of responses in agreement. A standard deviation of 1.271 indicated that results were more spread from the mean and the margin of variation was 1.615. Thus the results are less homogenous. This means that a big percentage agreed with the statement that FDI use natural resources economically. These results may be explained in a way that some FDI companies like in the soft drinks sector majorly use imported raw materials in production, possibly the only local raw material used is water.

About the objective of whether the company saves power, a mean of 2.67 at a standard error of 0.157 indicated the average of respondents who were in favor of the statement. A standard deviation of 1.316 indicated that the results were more spread from the mean and the level of variation in the responses was 1.731. These results imply that the responses are less compact

In finding out the handling of wastes at the plant, a mean or average of 1.80 responses at a standard error of 0.15 strongly agreed that the company manages its waste well, however, a standard deviation of 1.316 showed more spread of results from the mean at a variation margin of 1.731 implying that the results are less homogenous. These results indicate that a big margin of the responses were strongly in agreement with the statement.

In checking the durability of the packaging that FDIs use in the manufacturing sector, a mean of 1.53 at standard error of 0.120 indicated the responses in agreement with the statement. The standard deviation of 1.003 indicates that the results were less pread from the mean to a much lesser level and the margin of the variation was 1.006. This implies that the results are more similar. The implication is that a much bigger group of the respondents were in line with the statement that FDI methods and materials of packaging are highly durable.

Lastly in checking if the company has reverse logistics, a mean result of 1.46 at standard error of 0.111 indicated that the result were strongly in agreement with the statement. A standard deviation of 0.928 indicated that the results less deviated from the mean by an even much less level and the margin of the variation in the result. These results indicated that are less h

4.2.8 Foreign Direct Investment and Environment

The table below shows how the two variables above are related

Table 16: Relationship between FDI and environment

		Environment
percentage of the FD's earnings reinvested	Pearson Correlation	.649**
	Sig. (2-tailed)	.000
	N	70

Source; Primary data, 2016

According to results from the table above show that FDI performance measures by percentage of earnings reinvested is significant environment at 0.649** and. This shows that there is a significant relationship between FDI and quality in the host country. The correlation between these two variables is significant at the 0.01 level of 2-tailed Pearson Correlation. The possible implication here is that FDIs relate well with the environment of the host country.

The table expressed the relationship between FDI and development of Uganda's technology base, employment creation and environmental responsibility and sustainability.

4.3: Foreign Direct Investment and development in Uganda

4.3.1 Percentage FDI contribution to economic development in Uganda (2006-2014)

In this section FDI results I the period 2006 and 2014 were used to establish the relationship.

Table 17: Frequency Distribution of Foreign Direct Investment in Uganda

		Frequency	Percent	Cumulative Percent
Valid	2006 - 2008	8	11.4	40.0
	2009 -2011	6	8.6	70.0
	2012 - 2014	6	8.6	100.0
			28.6	
Total		20		

Source: Primary data, 2016

From the above table, the percentage inflow of FDI in Uganda was 28.6% between 2006 and 2014. The period 2006- 2008 accounted for 11.4%, 2009- 2011 accounted for 8.6& and 2012-2014 accounted for 8.6%. This shows in total (28.6%) that there was a low level of FDI inflow in the period 2006 to 2014

4.3.2 Description of the contribution of FDI to Economic Development in Uganda (2006-2014)

This section will present the spread of the results in relation to FDI and development.

Table 18: The Description of Foreign Direct Investment and Development in Uganda (2006-2014)

Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Development	70	1	5	2.47	.161	1.348	1.818
FDI inflow	70	1	5	3.60	.112	.939	.881
Valid N (list wise)	70						

Source: Primary data, 2016

The mean of 2.47 at a standard error of 0.161 according to the study implies an average level of Uganda's benefit from the FDI in terms of technology, employment/labour and environment. into Uganda. . A standard deviation of 1.345 implies that the results are highly spread from the mean at a1.818 level of variation meaning that the results are less homogenous or compact.

Looking Development, a mean of 3.60 at a standard error of 0.112 implies and average flow of FDI into Uganda. A standard deviation of 3.890 implies that the results are more less spread from the at a variation level 0.881. In this case, results can be interpreted to be less compact or homogenous.

4.3.3 Co-relation between FDI and development in Uganda (2006 and 2014

The table below shows the relationship between FDI and development in Uganda's technology, employment and environment

Table 19: Relationship between FDI and Economic Development in Uganda (2006-2014

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
FDI	6.237	69	.000	1.900	1.97	3.83
Devt	32.087	69	.000	3.600	3.38	3.82

Source: Primary data, 2016

Based on the stated assumption equation explaining the relationship between the dependent and the independent variables with the null that there is no relationship between FDI and TEL

linear regression model of the form TEL = $\alpha_1 + \beta_1$FDI $+ \varepsilon_1$, where TEL_i and FDI_i show the Technology, Environment and employment generated and Foreign Direct Investment at a particular time i, respectively while εi represents an error term in this case measuring the other factors that can result into change in economic development other than TEL; αi and βi represent the slope and coefficient of regression. Taking the independent variable as FDI and TEL as the dependent variable standing for the measure of economic development; in line with the Pearson correlation coefficient p = 0.000 0.747 (in the table above) which shows that there is FDI and TEL are correlated, a relationship tending to 1which is close to perfect correlation.

The table below shows the summary of the regression model of the relationship between FDI and economic development in Uganda.

Table 20: Regression coefficients

Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Co linearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	-1.671	1.779		-.939	.351	-5.221	1.879		
FDIs'	1.270	.478	.306	2.654	.010	.315	2.224	1.000	1.000

a. Dependent Variable: TEL

Source: Primary Data, 2016

For the estimated regression equation,

$Tel = \alpha_1 + \beta_1.FDI_1, \varepsilon_1$ ………………………………………………….…. (1),

$TEL = \alpha i + -1.671 + 1.270\ FDI + \varepsilon_1$ ………………………………………….. (2)

The co efficient β = 0.306 means that there is a direct link between the variables FDI and TEL. this means that a growth in inward FDI will result into a 0.306 increase in the level of Technology, Environment responsiveness and Labour (employment creation).

For testing the parameters of the regression model, using *t*- Test, *Sis* (0.010[a]) being more that α_1 (0.05) means that the slope of the regression does not correspond to the significant link between the two variables. This implies that we reject the Null that there is no relationship between FDI and developed ad we take the alternative that there is a relationship between FD and environment.

Using 95% degrees of freedom indicates that the researcher takes a 95% risk of rejecting the Null hypothesis that there is no relationship between the dependent variable development and the independent variable.

Table 21: Measure of variation ad relationship

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	98.024	1	98.024	7.044	.010[a]
	Residual	946.276	68	13.916		
	Total	1044.3	69			

Source: Primary Data, 2016

F test (ANOVA) in the table above, F = 7.044 and *Sig* = 0.010 which is more than α_1 (0.05) means that the independent variable FDI Does not explain the variation in the dependent variable TEL.

Table 22: Summary of the Regression model

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.306[a]	0.094	0.081	3.73	1.913

a. Predictors: (Constant), percentage of the FDI's earnings reinvested

b. Dependent Variable: TEL

Source: Primary data, 2016

R squared = 0. 306[a] shows that the variation in the dependent variable TEL) can be explained by changes in the independent variable FDI.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter contains the summary of the findings drawn according to the specific study objective, also contains conclusions and recommendations made according to the findings and lastly the areas where additional studies should be made so as expound on the FDI presence in an economy.

5.1.1 Summary of findings

In summary, the contribution of FDI to the development of Uganda's economy is positive though the negative can also be observed. According to this research the contribution is measured in terms of the transfer of technology, skills and knowledge, creation of employment opportunities, the creation of access to new markets and responsible environmental practices.

5.1.2 Flow of FDI into Uganda FDI

According to the findings, there is a steady increase in the value of FDI inflow into Uganda and therefore, it given the benefits of FDI, it has led to economic development.

Secondly there is an increased in flow of FDIs from India and China as opposed to the traditional America and South Africa.

5.1.3 FDI and economic development (TEL)

Findings from the study indicate that Foreign Direct Investments use technology which is to be better especially in manufacturing and construction sectors. FDI contribute to the host Uganda's

growth and development normally beyond domestic investment especially through increasing factor productivity and efficiency.

Data from this study should not be used as a proxy for government reforms in general and should not assume that FDI increase flow increase will result into increased technology transfer.

Technology transfer

The FDI technology according to the findings is important and appropriate to Uganda especially in its promotion of investments and development. This means that if nationals can learn and apply the same technology, the overall level of development can shape up (OECD, 2002)

On the other hand, the FDI have not done much to facilitate technology transfer and for that reason this new technology like in the construction and manufacturing sector has not been transferred even within the sector.

Results indicate that much as FDI come with technology, it is however, not guaranteed that the host country will benefit from this avenue; the knowledge and skills can be hard to realize given that they cannot be packed and sold, on top of that, intellectual knowledge is protected by international arrangements like WIPO (World Intellectual Property Organization) and WTO and they are difficult to secure (Sirijanee, 2012) and the level of benefit from a foreign firm will actually be dependent on a number of factor, Spatz (2013) that growth and development is highly dependent on the host country' absorption capacity and institutional development.

Foreign companies' technology which the results have presented as appropriate is not well transferred; exclusive knowledge remain with the investor and the implication of this is that the technology may be brought by FDI but the challenge remains with its transfer to the host country.

In general, about the technology that comes with FDIs is observed but not much has been done to ensure that it is transferred

Labour

Findings indicated that FDIs create jobs in the country where they operate though most of the jobs created need a defined level of education. The challenge is that in many developing countries some skilled personnel are missing resulting into the use of foreign expatriates who happen to not only be expensive, repatriate their gains, but also encroach on the created jobs.

Results also indicated the workers' pay is good in Foreign Direct Investment; however this will bring challenges; when FDI pay is bigger income inequality may arise and that people employed with locally owned firms may also end up asking for a higher pay (Lipsey, 2004). Dunning (2000) adds to this voice by saying that foreign multinationals pay relatively higher wages thus benefiting the host country but this is also associated with a cost in terms of undesirable outcomes such as rising inequality between (groups of) individuals as Valve (2000)

From the study, male workers were more than the females; this scenario of findings indicates gender disparity according to the surveyed. This gender composition Wang Lie (2012) explains that it goes beyond just the survey but on the whole in the general employee totals. He says that at the age group of 22-28 women are taken more by, marriage issues (Personal development, looking for partners, family relations / Children's education, desire to be together with children, struggle to balance life and work than professional life development. And that they recover between 28-35 years where they stabilize on job but again are lack the motivation to learn new skills which may make it difficult for them to find new job so they stabilize. To him this is enough to explain the variation in the gender composition of workers.

According to the results, responses lead to a conclusion that workers enjoy fringe benefits. In this case it means that FDI in the host country result into the improvement of the quality of labour.

In line with the benefits to workers, FDIs tend to create an imbalance compared with employees of locally owned entities. Adam Smith (2005) in the wealth of nations explains that the whole of the advantages and disadvantages of the different employments of labour and stock, must, in the same neighborhoods, be either perfectly equal, or continually tending to equality.

Important to note is that these other benefits to employees in FDIs depend on the terms of service (Temporally or casual, contractual and permanent basis). The justification of the work term on temporal basis is explained in line with the level for demand at a given period. This Rev. John Maynard Keynes explains this very well in expressing the causes of unemployment (Jhingan, 2011).

In general, FDI contribute to development of Uganda's employment by creating jobs, giving workers a competitive pay and skills transfer.

Environment

Findings indicated that FDIs have environmental protection programs, and care about the environment. However, it should not be taken for granted that all foreign investor will put this in place. In this case, government should undertake regular environmental auditing as well as a continuous follow up to ensure effective implementation (Negash, 2004).

In the same sense, Foreign Direct Investments usually have the objective of obtaining interest by resident entity in an economy other than theirs and they are different from local firms since multinationals need to overcome the extra costs of operating under different circumstances in

another country. Dirk (2001) believes that governments would like to maximize the tapping of these assets to the benefit of the indigenous industry though they need to ensure that these operations are checked. FDIs have a tendency of operating beyond the framework of the host country leading to abuse of concentration of economic power and conflict national policy objectives and with the interests of the workers Tayo (n.d).

In general according to the survey, FDI have corporate environmental practice especially through management of industrial wastes, use of durable packaging materials, reverse logistics and economic usage of natural resources.

5.1.4 Relationship between FDI and Economic Development

Results from the regression analysis indicated that there is a relationship between FDI and economic development. This sounds a go-ahead for the government of Uganda to continue attracting foreign investors. However, in the equation there are outliers which do not need to be forsaken meaning that other possible causes of economic development should be emphasized as well to foster development not forgetting that results here just express that there is a relationship but its direction is not showed.

5.2 General conclusion:

In general, Uganda has a trend in the attraction of FDI and many attempts have been directed in this bearing. FDI on the whole result into economic development of Uganda, is that; FDI bring modern technology especially in line with manufacturing though this is not related with its transfer, meaning that much as FDI bring new technology, it does not guarantee that this technology is transferred. FDIs create employment for the local persons though these gains majorly educated

people. The FDI relate well with the host country though this calls for attention in terms of monitoring because in a bid to maximize gains, there may be gains. On the whole, there is a positive correlation between FDI and the economic development of Uganda-the host country measured in terms of technology, the relationship is stronger with labour and environment meaning that FDI inflow results into economic development in Uganda. Thus countries attracting FDIs should put in mind that much as this effort has benefits, but they are not just implied, to harvest them, there is need for an enabling environment for business which encourages domestic as well as foreign investment and provides incentives for innovation and improvements of skills and contributes to a competitive corporate climate.

5.3 Recommendations

Agriculture should be the back born for the economy of Uganda, much more should be done to increase FDI flow into the sector, this is because FDI that use local raw materials as this will create market for raw material suppliers and uplift their standard of living. This is because findings indicated that This is entirely because (UBOS, 2012) agro-processing firms form about 39% of manufacturing exports in Uganda and these are high cost producers by but operate at excess capacity with capacity utilization averaging to 50% given the increased production that comes with.

To achieve economic development to greater levels from FDIs, Uganda should be put more attention to equity capital attraction as opposed to Portfolio investment since the former is more attainable at the current level of development in the country. In the same case, much should be added in making the environment more attractive for the reinvestment of FDI earnings as a way of increasing benefit.

In is recommended that Uganda improve its education system, especially include a lot of apprenticeship training (ADB, 2014) so as to tap fully the jobs created by FDI instead of the use of foreign expatriates. This is because findings indicated that especially for FDI in value chain as well as efficient-seeking FDIs will prefer to locate where there is quality labour.

More effort should be put in the attraction of FDI. This is because findings according to the findings, in East Africa, Uganda is surging in terms of attraction of FDI compared to Kenya and Tanzania.

An integrated industrial policy should be adopted for sustainable industrial development and to promote competitiveness between domestic and foreign owned business enterprises.

Government should foster competition and strengthen FDI regulations by allowing comparison between regions. This is to ensure spread of FDI development within the country; however, these regulations should not be scaring.

Uganda needs to upgrade its macro environment to international standards also allowing comparison and application of home country FDI policies given that theirs from home may apply better. There should also be regular and clear follow up ad evaluation of FDI activities to rule out the negative impacts.

It is further recommended that the country leverages further on progress in the robust institutions that maintain and improve the business environment and macroeconomic management. Bronszetein (1998) and Selma (2013) add that without development of local capabilities which is crucial in benefiting from FDI results may be feeble.

There should be more benchmarking to increase the value of FDI inflow into the economy of Uganda, especially with the EAC opened opportunities.

The government should encourage linkage programs or in cluster development strategy between local suppliers and foreign multinationals to insight skills and knowledge transfer or else the attraction of FDI may be ineffectual.

The government should continue with its efforts to attract more foreign investors as this contributes to the development of Uganda. Lindita (2006) adds that Foreign Direct Investment is very vital for a country's economic growth especially given its impact on dissemination of technology transfer strategies meaning that all economies which are striving to attract many FDIs have it in mind that these will result into a big boost in the level of development.

The government should also take measures to ensure that foreign investors in the country are confident to reinvest the gain in Uganda. This can be through making the investment climate more attractive giving hope to the investors that it is more beneficial to reinvest their gains in Uganda than repatriate these gains.

From the study it is recommended that Uganda can facilitate economic growth and development though other avenues given that FDI may not enough to solve the development challenges of the country thus a need to maximize the gains for this capital binder.

5.4 Suggestions for further Research

Further studies should be done to establish the impact of Foreign Direct Investment on the home economy. This is because as FDI bring many benefits to the host country there must be an impact at home.

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Appendix ii: Questionnaire for the Research Project:

Participating in this research is voluntary, details of respondent including name and contact are not necessary and total confidentiality of respondents is assured.

Section I

<u>For this part, tick in the appropriate box</u>

1. In which education bracket FDI workers fall?

   Certificate level ☐ Diploma level ☐

   Degree ☐ Post graduate ☐

2. What is the majority gender composition of FDI workers in Uganda?

   Male ☐ Female ☐

3. What is the nationality composition of FDI workers in Uganda?

   Ugandans ☐ Foreign nationals ☐

4. What is the average take home pay of FDI employees in Uganda?

Pay range	< 700.000	800,000 -1.5	1.6m-2.5M	2.6m-3.7m	3.8m- 5.5m	Above5.6m
Response						

5. What percentage of FDI inflow in Uganda?

> 20%	21%-40%	41%-60%	61%-80%	81%-100%

<u>For these questions use the following responses</u>

Use; 1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 = Strongly disagree, 5 = Undecided

Section ii FDI AND TCHNOLOGY

		1	2	3	4	5
i	FDI in Uganda exhibit new technology in the country					
ii	This technology is appropriate to Uganda's development technology needs					
iii	FDIs undertake initiatives to facilitate technology transfer.					
iv	This technology been transferred to other sectors of the Uganda.					

Section iii: FDI AND employment (Labour)

		1	2	3	4	5
i	FDI salaries given to employees is good					
ii	FDI pay enable workers to meet their basic needs					
iii	FDI pay matches equivalently to the labour in put					
iv	FDI pay is based on similar positions within the industry					
v	FDI employees enjoy fringe benefits					

Section iv **FDI AND ENVIRONMENT**

		1	2	3	4	5
i	FDI have structured CSR policies geared towards environmental protection					
ii	FDIs effect means to ensure economical usage of natural resources in the company					
iii	FDIs do ensure the following to reduce environmental effect					
	a) Saving energy					
	b) Waste management and recycling					
	c) Use durable packaging					
	d) Use reverse logistics					

…………………………………Thanks a lot for the participation………………………

Appendices iii Covering letter

Dear Respondent,

I am Nakandi Gorret a student of Nkozi University, Kampala. I am under taking a research study as a partial fulfillment for the award of a Masters Degree in International Trade Policy and Law.

My area of study is Foreign Direct Investment and Economic Development in Uganda and am more interested in establishing its level of inflow, its contribution to Uganda's development in the line of technology, employment/labour and environment corporatizes.

Therefore, you are requested to freely fill out this questionnaire as a way of providing the necessary information.

Personal details of you the respondent are not required.

………………………..Thank You for Taking Part……………………………………………….

Appendix iv: TOOL FOR COLLECTING SECONDARY DATA

In line with the study secondary data which is related with Foreign Direct Investment was collected.

i) What is the statistical flow of Foreign Direct investment into Uganda between within the past ten years?

ii) What are the leading origins/Sources of Foreign Direct Investment inflow into Uganda for the past ten years?

iii) What is the regional distribution of the different forms of Foreign Direct Investment inflow in Uganda within the past ten years?

iv) What is the distribution of Foreign Direct Investment projects in Uganda within the past ten years?

v) What is the distribution of Foreign Direct Investment inflow among the different sectors of Uganda's economy