UNIVERSITY OF AGDER

The Effects of Foreign Direct Investment on the Ugandan Economy

A case study of the impact of foreign direct investment in Uganda with an emphasis on employment

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This Master's Thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.

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Abstract

Many developing economies have endeavored to encourage Foreign Direct Investment (FDI) in a bid to facilitate economic growth. Uganda has remained ahead of several other African economies in offering incentives and creating a favorable environment for foreign investors. In spite of the discouragement caused by the tyrannical regime of Idi Amin from 1971 to 1979, foreign investors still find Uganda a favorable place for investment. This has been enhanced by the government's efforts to attract investors through many favorable investment policies.

Foreign Direct Investment usually has significant effects on any economy and this paper presents a case study of the effects of Foreign Direct Investment in Uganda with an emphasis on employment. It presents answers to the questions of; what the level of FDI is in Uganda, how many people are employed in the foreign companies, the type of foreign investments in the country as well as which sectors receive most investment.

However, there is a conflict in the findings of the effects of FDI in the Ugandan labor market as the gathered information varies, thus questioning the validity of the data, and the fact that there is still a need for 15 million jobs to be created, implying that FDI is not the sole solution for economic development through employment generation. Furthermore this study suggests that a range of factors need to be taken into consideration to understand the effects of FDI on the Ugandan economy. The quality of labor, standard of living, skills, human resource retaining capacity of the local market, wages, etc. determine the success of employment generation. The study concludes that additional valid primary data should be gathered to answer the research questions satisfactory as there seems to be conflicts in perspectives of its effects on local employment. Nevertheless, this study should provide a point of departure for further research on the topic.

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Definitions

Foreign Direct Investment (FDI) - refers to the investment that is made by a company in a foreign country different from the financier's home country (Feenstra, 2003).

Developing economy- refers to a country whose material well-being is low and is striving to develop its wealth through industrialization (Pritchard, 1996).

Land-locked country - a country that is completely surrounded by land (Limao & Venables, 2001)

Globalization - it is the process through which production, trade, governance and many other aspects of life have continued to be standardized across the world (Macionis & Plummer, 2005).

Direct employment - engagement to an employer under agreed terms (Viswesvaran & Ones, 2000)

Indirect employment - benefiting from the presence of a company in the market through association or from an associate of the company (Whitfield & Poole, 1997).

Incentives - refer to any aspect that acts as a motivating factor towards undertaking a certain action (Najmi et al. 2005).

Job security - refers to the confidence given by an employer to an employee who can continue to work for the employer as long as the employee is providing the required services (Viswesvaran & Ones, 2000).

1.0 Introduction

1.1 Introduction to Foreign Direct Investment

Foreign direct investment is a phenomenon resulting from globalization, which involves the integration of the domestic economic system with global markets. It is accomplished through opening up of the local economic sector as well as domestic capital for foreign investors to establish business, within the economy. When there is a rise in capital movement within several countries, it results in financial globalization. Domestic lenders and borrowers take part in the international market with the use of global financial intermediaries (Macionis & Plummer, 2005). Financial globalization in developing countries is mainly favored by the availability of cheap labor and the fact that, return on capital is relatively high (Obstfeld & Rogoff, 1996). In the recent years, there has been a rise in the amount of capital that has been flowing in to developing countries. Foreign companies investing in developing countries are significant in facilitating economic growth (Feenstra, 2003).

Historically, technological advancement led to the emergence of better means of transport and communication. These in turn led to the movement of investors beyond political boundaries, especially during the post-colonial period (Pritchard, 1996). Even after nations acquired independence, globalization continued to influence trade between investors and foreign countries, whereby the less developed countries were supported by the developed nations to acquire materials and equipment to extract and utilize the available natural resources for economic development (Sacerdoti, 1997). However, the equipment needed the appropriate skills to ensure that less developed countries were able to utilize to their full potential. As economies expanded, trade grew and exchange of goods and services continued to advance. With the less developed economies possessing plenty of raw materials for industries abroad, foreign investment was inevitable, as industries from developed economies sought to establish in the less developed countries where raw materials were available (Sornarajah, 2004).

The concept of foreign investment also derives its roots from the realization by industries in the developed countries that the domestic labor market was expensive. Companies therefore sought to establish in other regions where they could make use of cheap labor and produce the same quantity as they would in the parent country. Markets are also a major factor that facilitated the movement of firms to venture in regions with ready market for commodities (Spar, 2003). For example, foreign companies tend to invest in the third world countries where they can acquire a large market share, with few competitors. It also means that companies establish in foreign economies as a strategy to evade rising competition in their country of origin. Foreign investment therefore is a result of the rising needs of companies to enhance the accomplishment of organizational goals (Yarbrough & Yarbrough, 2002).

Local resources are utilized maximally thereby eliminating a situation whereby a country may possess raw materials, but lacks the capacity to convert them in to finished products. This utility is achieved through the initiative of foreign companies extracting them and producing goods that are useful to the natives at minimal costs since the cost of transportation of the raw materials as well as the finished goods is low (Mankiw, 2003). With foreign companies engaging in production within a country, the status of the host country in the international market improves. It becomes known especially if it produces goods that are not readily available in the global market (Dunning, 1999).

Nevertheless, foreign investment does not come devoid of some negative aspects. There is normally the tendency for over utilization of the available natural resources, as the companies strive to maximize profits in their venture (Colen et al. 2009). The ‘tragedy of the commons’ whereby many organizations compete to utilize a shared resource leads to degradation of natural resources as well as environmental pollution, which have largely been associated with the issue of climate change. Uganda is among the nations currently bearing the blunt of global warming (Bowles, 2004). With the foreign companies depending on factors such as political stability and the good will of the existing regime, there is a possibility of collapse leading to mass unemployment (Mwega, 2009).

1.2 Study objectives

1. To examine what role FDI plays in Uganda's economic development
2. To investigate to what extent foreign capital inflows affect employment in Uganda, through direct employment and indirect through linkages/spillovers to domestically owned firms

1.3 Research questions

a) What is the level of FDI in Uganda?
b) How many people are employed as a result of FDI in Uganda?
c) What kind of foreign investments are most prevalent in Uganda?
d) Which sectors receive most investment?
e) How is employment being indirectly created as a result of foreign investments?

1.4 Scope of the Study

This paper presents a critical analysis of the effects of foreign direct investment in emerging African economies through a case study of Uganda. The study aims to provide a better understanding of the relationship between foreign direct investment and its effect on employment in Uganda. It examines the role of FDI in Uganda's economic development with special emphasis on the extent of foreign capital inflows and their impacts on employment in Uganda by means of direct employment as well as indirect compensation through connections /spillovers to local organizations.

1.5 Facts about Uganda

Uganda is among the developing economies in the East African region. The country's population is estimated to be approximately 34,612,250 as of July 2011(CIA, 2011). It borders Southern Sudan to the north, Kenya to the East, Tanzania to the South-East, Rwanda to the South-West and the Democratic republic of Congo to the West. The country was a former British colony, but gained independence in 1962. The country is multilingual, but English became the official language after independence. Swahili and Luganda are also widely spoken throughout the country.

Uganda has struggled with civil wars and political conflicts the last 4 decades since independence and this has had a negatively impact on the economy. Nevertheless, the country has experienced a relatively high economic growth the last decade, but it is estimated that 35 % of the population live below the poverty line (CIA, 2011).

The inflation rate was 13, 1 % in 2009 and the commercial bank interest rate around 21 % (CIA, 2011). The main export commodities include: coffee, fish and fish products, tea, cotton, flowers, horticultural products and gold, while the main agricultural products are: coffee, tea, cotton, tobacco, cassava (tapioca), potatoes, corn, millet, pulses, cut flowers; beef, goat meat, milk and poultry (CIA 2011). Lately substantial reserves of oil were discovered and this is expected to stimulate the economic growth further. The agricultural sector remains the major employer (82 percent), providing raw materials for multinational companies operating in the country. The country has a real GDP growth rate of 5, 2 percent (CIA,2011).

The country's infrastructure is fairly poor with roads in bad shape nationwide and frequent power cuts caused by electricity shortages.

There are five major towns in which most of the foreign firms are located including; Gulu and Lira in the northern region, Jinja and Mbale in the Eastern and Kampala in the Central region.

The country is land-locked and most of its imports are obtained through the Kenyan coast after which they are transported through railway and road. This transport network helps the country to cope with the challenge of being land-locked.

The country's main international gateway is Entebbe International Airport (EBB) located approximately 40 kilometers from the capital city Kampala. The airport enjoys direct connections to other parts of Africa, the Middle East and Europe

Figure 1: Map of Uganda

Source: CIA 2011

1.7 Chapter summary

This chapter highlighted some of the important aspects of Foreign Direct Investment, which has been portrayed as one of the resultant aspects of globalization. Some of the factors that facilitate FDI have been mentioned. The need for developing countries to encourage FDI has been noted as well as the demands that compel companies to establish foreign subsidiaries. The chapter also details the two objectives of the study as well as the five research questions that need to be answered. It also explains the scope of the study and finally, some important terms in the paper have been defined to ease understanding for the reader. The next chapter is a review of relevant literature to the study.

2.0 Literature Review

2.1 Theories of Foreign Direct Investment

A number of theories have advanced reasons why firms choose to locate in certain geographic areas than in others. Buckley and Casson (1998) discuss theories of foreign direct investment and arm's-length trade in firm-specific assets. They argue that, until the 1980s, FDI was just viewed as part of the theory of capital movements in factor-proportions. They report that huge empirical evidence now hold that FDI not only comes from, but goes to high-income capital rich countries, that have led to what they are referring to off -shoring.

Mankiw (2003) applying the Solow growth model argues that private businesses invest in traditional types of capital such as bulldozers and steel plants and newer types of capital such as computers and robots. On the other hand, government invests in various forms of public capital, called infrastructure, such as roads, bridges and sewer systems. Mankiw further argues that policy makers trying to stimulate growth must confront the issue of what kinds of capital the economy needs most. In other words, what kind of capital yields the highest marginal products?

Yarbrough & Yarbrough (2002) discuss recent theoretical models of economic geography that attempt to explain the spatial location of FDI. They assume that the decision of a Trans National Corporation (TNC) on which province to locate investment depends on a set of characteristics of the host province affecting firm's revenue or costs such as factor endowments, market size, income per capita, skilled labour and availability of public infrastructure, among others.

Aiello et al. (2009) argue that other things being equal, a change in infrastructure expenditure influences the cost faced by the firm in adjusting its current capital stock to the target level. They argue that this is a reasonable assumption, given that the adjustment costs depend not only on the firm's internal characteristics, but also on external factors, such as the provision of public infrastructure.

Bajona & Kehoe (2006) discussed explanations of multinational production based on neoclassical theories of capital movement and trade within the Hecksher-Ohlin framework. However, they criticize these theories on the basis that they were founded on the assumption of existence of perfect factor and goods markets and were therefore unable to provide satisfactory explanation of the nature and pattern of FDI. In the absence of market imperfections, these theories presumed that FDI would not take place. Nevertheless, they argue that the presence of risks in investing abroad implies that there must be distinct advantages to locating in a particular host country.

The eclectic paradigm of Dunning (1988) provides a robust framework for analyzing and explaining the determinants of international production, and how this varies between firms, industries, and countries, and over time. Dunning provides a framework of three sets of advantages to analyze why, and where, MNEs would invest abroad. This is the famous ownership, location and internalization (OLI) paradigm (or eclectic paradigm). In this context, investment could be; natural (resource) - seeking, market- seeking, efficiency-seeking or strategic asset-seeking.

The ownership advantages refer to firm-specific features sometimes called competitive or monopolistic advantages which must be sufficient to compensate for the costs of setting up and operating a foreign value-adding operation, in addition to those faced by indigenous producers. Such features include things like brand, patents, market access, research and development, trademarks and superior technology. These may be deficient in the host country. When foreign firms use such features in exploiting host country opportunities, they employ adverse selection in an imperfect market situation in fostering their activities. Consequently, due to information asymmetry and limitation of the features possessed by host country firms, competition with MNCs is difficult. The ownership specific advantages, being superior, to home country firms, may make foreign investors to crowd out domestic investments (Miberg, 1996).

The locational advantage is the second strand of the eclectic paradigm. It is concerned with the "where" of production. These include host country-specific characteristics that can influence MNCs to locate an economic activity in that country. They include economic factors such competitive transportation and communications costs, investment incentives, availability of comparatively cheap factors of production, policy issues such tariff barriers, tax regimes, access to local and foreign markets, among other factors (Buckley & Casson, 1998)

The third factor is the internalization advantage. It explains 'why' a MNE would want to exploit its assets abroad by opening or acquiring a subsidiary versus simply selling or licensing the rights to exploit those assets to a foreign firm. Yarbrough & Yarbrough (2002) report that though this theory has been criticized for only listing the conditions necessary for FDI without explaining its phenomenon, it has widely contributed to international production theory.

2.2 Nature of Foreign Direct Investment

According to Wang (2009), FDI can take various forms including 'greenfield' investment which involves developing completely new assets as well as mergers and acquisitions that involve a shift from an existing local firm to a foreign firm. Mergers and acquisitions are the main forms of FDI. Most foreign investors prefer introducing their strategy to increase productivity of an existing firm locally.

Merging two or more companies in a bid to provide assistance in form of finances, or boost the rate of growth of a company without necessarily developing another unit. On the other hand, acquisition is a situation whereby a company is purchased by another. Ownership is fully transferred completely to a different company (Bulan, 2001). Acquisition usually involves a superior company purchasing a smaller one although in other cases a smaller firm purchases a more superior one and continues using its name for the purpose of maintaining its customers. Both mergers and acquisitions can take this reverse process. The process of mergers and acquisitions is usually a long and complicated one, depending on various factors that influence the outcome, which may be a success or a failure (Wang, 2009). The five mergers and acquisition strategies described by Perry & Herd (2004) include;

2.3 Over-capacity strategy

This is a situation whereby the organization acquiring another develops strategies to reduce its capacity in order to accomplish economies of scale through a more effective setup. This helps it to acquire a substantial market share. The main goal is usually to reduce the employees in order to achieve this. Oligopolies are the major companies that exhibit this kind of mergers and acquisitions. They usually have excess human resources and mainly merge with organizations of similar capacity (Perry & Herd, 2004). This kind of mergers and acquisitions usually encounters problems due to the differences of the relative status of the organizations which are almost similar. It is therefore evident that human resource management strategies in regard to reduction in the number of employees are involved in the enhancement of the mergers and acquisition strategies (Kaplan, 2002).

2.4 Geographic Roll-up strategy

This arises from a situation whereby the organization expands its operations to establish in new geographical areas. The units of operation are usually maintained locally. After acquisition, the acquiring company usually maintains the operational structures of the acquired companies and therefore the local human resources are maintained. Banks mainly exhibit this type of acquisitions, whereby one bank may acquire a number of regional banks (Perry & Herd, 2004). Such acquisitions usually take place before the organization has undergone the whole lifecycle. They typically emerge in the early stages of the mergers and acquisitions. This strategy is usually significant in accomplishment of economies of scale through avoidance of doubling-up human resources (Schneider, 2003).

2.5 Product Market Extension

This involves the expansion of the market across borders. The mergers and acquisitions are usually undertaken by the organizations that offer products and services without the normal competition. The major difference between such companies is that they target different markets for their products. Human resources of the smaller company are usually maintained, since the success of the acquiring organization is largely dependent on the capacity of the acquired firm, and its familiarity with the market. In most cases, one large firm may merge with many smaller firms in different geographical locations in order to accomplish the objectives (Perry & Herd, 2004).

2.6 Mergers and acquisitions as a form for Research and Development

This kind of mergers and acquisitions result from the desire for banks to utilize the research and development, and new skills of other banks, rather than researching on their own. Under such circumstances, human resources play a significant role in ensuring that knowledge transfer is achieved. The banks tend to acquire highly performing institutions and maintain the staff in order to utilize their experience. However, the acquiring institution tends to harmonize its culture with that of the acquired bank through influencing the change of particular values and norms (Perry & Herd, 2004). However, this may not be fully welcome by the employees of the acquiring firms, which gives the human resources managers a task of strategizing on the most appropriate way to maintain satisfaction amongst the employees in order to enhance retention (Pilbeam and Corbridge, 2006).

2.7 Industry Convergence Strategy

This usually occurs where mergers and acquisitions are meant to sustain a firm whose performance is deteriorating. It is saved from collapse through financing and developing human resource strategies in order to ensure that its performance is upheld (Harzing, 1999).

2.8 Determinants of FDI

Many factors have been considered in the literature as determinants of FDI. However, the selection of determinants is often ad hoc. The selection process is determined by the availability of data and the nature of relations studied. The following are some of the variables that have so far been used in an FDI modeling. The availability of good infrastructure, above all reliable power supply, transportation, water and communication, is a significant factor determining the level of FDI (Barnet and Brooks, 2006). When emergent economies struggle for FDI, the economy that is adequately equipped to minimize infrastructure drawbacks will attract a larger quantity of FDI (Sethi et al. 2003).

Multinational Enterprises are often attracted to developing countries by the abundance of low-priced man power. For instance Urata (1997) contends that minimal wages, negligible inflation, underrated exchange tariffs are important determinants of cost-saving FDI. Low labor costs can attract investment in labor intensive activities and thus stimulate vertical FDI. Khadaroo & Seetanah (2008) have used nominal wage as a proxy for labor cost. This study will employ annual average wage in the private sector as a proxy for labor cost. A positive relationship is postulated. They argue that for foreign investors, the market scale that in addition corresponds to the host economy’s financial circumstances and the possible requirements for their productivity as well is an important element in the FDI decision-makings.

Sustainability of nominal price increases tells investors that the host countries are committed to prudent macro-economic strength and hence anticipation for further development. They use an average rate of inflation as an alternative for macro-economic permanence. Exchange rate volatility has been empirically proven as a disincentive to foreign investment inflows. Clustering countries have played a very vital role in attracting inward FDI to a host country. Kinoshita & Campos (2002) uses one lag stock of FDI as an independent variable to acquire knowledge on the agglomeration effects. Other studies have employed the number of industrial zones or Economic Processing Zones as proxies to determine the impact of agglomeration. This variable also proxies for policy incentives like tax exemptions, tax holidays that influence foreign firms to locate in a certain geographical region.

Insecurity in host country has been established to deter FDI. Asante (2000) assessed determinants of private investment behavior in Ghana and found out that political instability has a negative sign and highly significant, suggesting that military takeovers, may have created a climate hostile to private investment. Bulan (2001) asserts that conflicts are a barrier to efforts at increasing a location's share of global FDI. Citing crime and violence, the author contends that such incidences have many direct economic costs that may hinder FDI inflows directly or indirectly. The study uses a dummy variable, in which the variable takes a value of 1 if the situation is classified as insecure and zero otherwise.

Corruption has become a policy concern of most governments the world over. This is because it leads to increased outlay of investment. Houston (2007) studied about the impact of corruption on FDI flows and the results show that corruption in the receiving economy has an unfavorable impact on FDI inflows: a one-point increase in the corruption leads to a reduction in per capita FDI inflows by about 11 percent. A negative relationship is postulated between corruption and FDI flows.

2.9 Foreign Direct Investment and Economic Development

It is important to understand that economic development in a nation is a slow process whereby the people's standards of living are improved as a result of increase in income, leading to a shift from low income to a high income economy (Spar, 2003). To accomplish economic development, the government needs to ensure a favorable environment for investment especially allowing foreign capital movement in to the economy. For this to be accomplished, the political environment has to be conducive for foreign investors who might be scared by investing their capital in a volatile economy. In many less developed economies, population growth is usually high, leading to a large labor force with few opportunities for work. This is because there are few local industries to provide employment. Foreign investment comes in handy. It supplements the local industries generating employment for skilled and unskilled labor. This contributes to economic growth, as people are capable of coping with the increasing cost of living (Obstfeld and Rogoff, 1996).

Local employees usually benefit through knowledge transfer from foreign employees whom they have a chance to work with. This helps the local labor force to develop advanced skills that are significant for productivity. Economic development is accomplished when an economy has a capable workforce to maintain competitiveness in the local industries. Knowledge and technology transfer are significant in economic development. Moreover, the establishment of foreign industries locally leads to the development of other enterprises (Feenstra, 2003). For example, small and medium enterprises providing goods and services to the employees of foreign companies are major income earners for the local population. This is because the workers have to use products that are not manufactured by the foreign company, such as food and drinks, services such as telephone, internet and transport among others.

Foreign investors are also major consumers of products manufactured locally. They use most of the products generated locally as raw materials such as agricultural products, which benefits the local producers since they have a ready market for their commodities (Houston, 2007). On the other hand, the byproducts from industries owned by foreign investors are used for local industries, which is important in lowering the price of commodities locally. The host government also earns through taxes paid by the foreign investors, as well as the increased income taxes from the employees of these companies. Increased foreign investment in a particular country indicates the presence of a favorable environment created by the country's regime (Bowles, 2004). Other economies tend to reciprocate by offering their local resources to be exploited for economic development. The host nation is also likely to enjoy foreign markets for the locally produced commodities.

Infrastructure is developed where the foreign industries are established, which is beneficial to the economy. For example, roads are developed for transportation of raw materials, airports are developed for landing and exportation of finished products and many other developments in infrastructure. In general, the local economy benefits to a large extent from foreign investment. However, it is important to note that there are several disadvantages regarding foreign investment to the host economy. There is a likelihood of dependence on foreign companies in many aspects such as employment and government revenue through taxes to the extent that if the foreign investors withdraw, the economy is likely to collapse (Pritchard, 1996). On the other hand, the influx of foreign investors in a country leads to a rise in demand of particular services such as housing, leading to the increase in prices of the services, suppressing the local people who are unable to purchase the services. This deficit lowers the standards of living of the population.

2.10 Factors influencing the flow of Investment, Political Risk and FDI

Foreign corporations are usually faced with risks associated with hostile foreign investment climate, especially political factors. Volatile economies are usually the most risky, although after destruction that is brought about by politics, there usually arises numerous opportunities for investment. Investment decisions need to be made considering all the characteristics of the foreign country. Companies usually tend to limit the amount of investment in politically volatile regions no matter the opportunities available for investment. Some regimes tend to change often, making it impossible to make long term goals or investments (Robert, 1997). Others interfere with operations through imposing tariffs and other barriers to trade that hinder competitiveness, especially with the intentions of protecting local organizations from foreign competition. Such interference may be disadvantageous to the foreign organization.

Foreign Direct Investment is influenced by various other factors, including incentives that are offered by the host country to encourage establishment of foreign industries in the local market. Governments may exempt foreign organizations from taxes to encourage them to introduce more capital in to the local market. Generating an enabling investment climate through offering security for investors is also an important strategy of encouraging foreign investment (Bowles, 2004). Issues such as terrorism and destruction of property are the major factors that contribute to the avoidance of investing in most less developed countries by foreign companies. Government policies are important since they protect the foreign investors from drastic changes in the operating environment (Dugan et al. 2008).

Foreign companies may also establish branches in countries that import their products to escape import tax. For example, importing and exporting products within the East African community has been subsidized for member countries (Alfaro & Charlton, 2009). Foreign firms outside the organization therefore tend to establish branches in one or more of the member countries to take advantage of the local subsidies especially when the products are targeted to markets within the East African Community.

Fluctuating exchange rates are also a factor that leads to the establishment of multinational companies in developing countries in order to avoid losses that are associated with these rates. This phenomenon, as explained by Asante (2000) arises when companies produce at a high value of the local currency and then the value falls during exportation. They opt to establish a subsidiary industry in the importing country. Competition gives rise to multinational companies in developing countries, and is accredited to the rising number of foreign firms established in East Africa. Foreign companies operating within the East African Community have a tendency to acquire a strong footing into the global market than local companies. This is because the companies' markets are distributed in strategic areas globally (Campa, & Mauro, 1999).

In some cases, multinational companies face problems that are associated with regimes of the host countries. Political instability is a major problem that is currently affecting multinational companies (Charlotte, 2004). For example, Idi Amin's regime in Uganda was a major setback to foreign companies, which were confiscated and the investors forced to leave the country. This led to unprecedented losses that in turn largely affected employment among the Ugandan population. During this regime, sanctions were imposed by many international organizations on Uganda's government (Kategaya, 2006).

When host governments impose quotas on imports, foreign companies are faced with difficulties, especially if part of the raw materials to be used in the production process has to be imported.

This hampers production and is a major threat to a multinational company (Colen et al. 2009). On the other hand, political instability in neighboring countries largely affects foreign companies. For example, the 2008 post election skirmishes in Kenya affected transportation of raw materials to Uganda through the Kenya-Uganda railway that was destroyed in Kenya. Uganda being land-locked could not rely on the major port of Mombasa for imports (Dugan et al. 2006).

Strategy development for the foreign firms in developing countries has to be in line with the host government's policies. This hampers the firm's autonomy that is necessary for maximum productivity. Apart from the revenue generated through tax paid by the foreign companies in the host country, multinational companies assist in poverty eradication through provision of employment opportunities for the natives. This assists in the improvement of the standards of living, as well as the host countries' Gross Domestic Product (Kinoshita and Campos, 2002). With the foreign companies introducing new skills in to the labor market of the host country, they contribute towards improving the skills within the local labor market, consequently improving local production. In this context, local firms are challenged to produce quality products. The emergence of foreign companies brings with it the desired quality for products as a result of adherence to international standards organization (ISO) (Makola, 2003).In the developed nations; the cost of skilled labor is higher than in developing economies. However, to get the desired kind of labor in developing and less developed economies is usually difficult. The emerging economies are therefore a major attraction for foreign investors since the cheap labor is augmented with skilled labor from the parent country. This helps the foreign investors to reduce the operating costs. Many developing countries in a bid to encourage economic growth tend to offer work permits with ease to immigrant workers to enable foreign investors to maximize production. On the other hand, the availability of raw materials is important for foreign investors. It helps in reducing the cost of transportation from the source to the industry, especially for the investors who deal with refining of natural resources (Pritchard, 1996). For example, a UK based industry dealing in products from cash crops such as tea and coffee would minimize the transportation of raw materials through establishing in tea and coffee producing countries. Many organizations derive benefits from producing in the country where they can easily access raw materials, and export finished products to the domestic markets in the country where the main company is based. Many such organizations operate through foreign subsidiaries.

Foreign investment is also dependent on the exchange rate. Companies tend to invest in the economies that have a strong exchange rate. It is usually an indicator of a stable economy. This is also a major factor that contributes to low foreign investment in third world countries. Foreign investors also make considerations of the adherence to the rule of law in the host country (Feenstra, 2003). Strong judicial systems are significant in ensuring protection of foreign investors in a foreign country. Complexity in the bureaucracy regarding the acquirement of operating licenses may also discourage investors. Host governments need to make it easier to establish business in any sector of the economy to encourage foreign investors (Robert, 1997).

Developing countries mainly prefer the 'greenfield' investments whose contribution to economic development is associated with development of new infrastructure and assets. Mergers and acquisitions do not introduce new resources to the economy but rather tend to take over the existing domestic firms, a process that is viewed by critics of foreign investment as denationalization of local industries (Capron, 1999). This process is associated with the loss of jobs as the local firms adopt new strategies to suit the new owners after acquisition. Technological assets are lost to foreign firms while monopoly increases as foreign investors take over many firms in the domestic market leading to market concentration (Robert, 1997). The consequences include reduced competition and barriers to new entrants especially for local start-up firms. According to OECD (2000), mergers and acquisitions pose higher risks than benefits to host developing nations weighed against 'greenfield' investments, particularly if they are short lived in the market, for example when foreign organizations acquire local firms to undertake projects that last for several years. Under such circumstances, local firms are destabilized and left after some years to regain competitiveness on their own. This leads to loss of jobs as well as government revenue.

Through mergers and acquisitions, the developing economy's capital stock is not increased by the financial resources since they comprise meager productive investment compared to 'greenfield' investment (Kumar, 2001). Technological transfer through M&As are minimal, and therefore FDI through this form may not lead to employment creation in the host economy at the onset time. Rather, M&As lead to reorganization of local firms causing massive layoffs.

In essence, the rationale for investment is to promote the accomplishment of both the investors as well as the host financial system. Nevertheless, M&As may benefit the investing company while on the other hand hurting the host economy (OECD, 2000). Studies indicate that in most cases, foreign investment is used as a strategy to disintegrate the domestic competition to give way to a strong monopoly in the host country. Without a strong competition policy, the domestic economy stands to loose to foreign investors (Sornarajah, 2004). The policy enhances efficiency in the market in terms of competition, resource allocation as well as ensuring consumer wellbeing. It regulates organizations' behavior to eliminate the possibility of limiting trade practices.

Sub-Saharan Africa faces challenges of competition presented by foreign investment that mainly take the form of mergers and acquisitions. In East Africa, Obstfeld & Rogoff (1996) observe that the capital intensive foreign direct investments are focused on the established economic sectors, mainly the service industry and manufacturing. The 'greenfield' investments are mainly in the agricultural sector, which is focused on the exploitation of the natural resources. Both forms of FDI have negative impacts in the sense that M&As result in monopolies and uncompetitive local firms while the 'greenfield' investments lead o natural resource degradation.

Nevertheless, whichever form of FDI is seen as significant for economic growth in Africa, which is a view that has perpetually been echoed by reputable international bodies such as the World Bank and the International Monetary Fund. FDI is considered to be the solution to Africa's economic woes, which makes African governments to make every effort to attract considerable inflows from foreign investors. The influence of the international organizations has caused a shift of African governments from their conventional role of creating employment and spillovers for the domestic economy to administrators of economies that are focused on enhancing competition and exploration of foreign inflows that assist in filling the local resource gap (Günter & Andreas, 2008). According to Feenstra (2003), the high preference for FDI in African economies is as a result of the entrenchment of neo-liberal perspectives as well as structural changes influenced by the monetary international bodies.

2.11 Foreign Direct Investment and employment

Proponents of FDI generally argue that it generates employment. However, Sornarajah (2004) points out that FDI do not always lead to meaningful employment creation. Rather, it is sometimes accompanied by massive layoffs especially in the privatization of public companies. Miberg (1996) cautions that the portion of FDI that expands employment is considered to be $^{1}/_{4}$ while $^{1}/_{3}$ rd is considered to contract employment. Even though FDI may be considered to create employment, Houston (2007) argues that a closer analysis of the kind of jobs created reveals poor working conditions and meager wages especially in the less developed countries in the Sub-Saharan Africa. Many workers lack job security in the foreign firms and also have diminutive prospects of personal or career development. In other words, their standards of living remain deplorable even with employment in the foreign firms. The quality of jobs generated through FDI might therefore be questionable (Günter & Andreas, 2008).

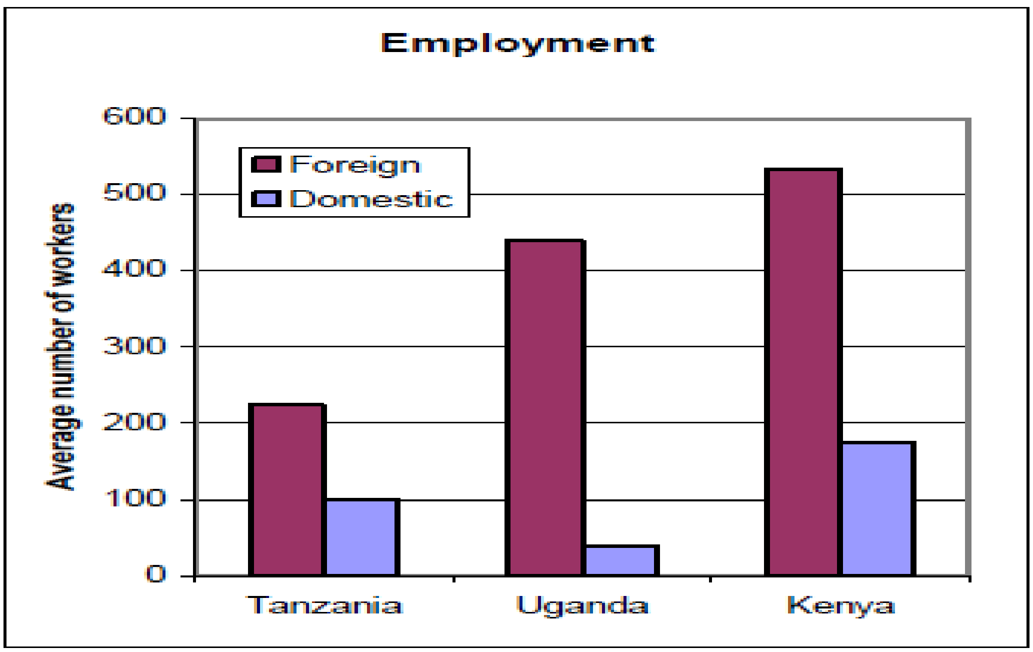
Nevertheless, Spar (2003) observes that in an ideal situation, FDI is expected to generate new job opportunities either directly or indirectly by means of onward and rearward linkages with locally owned firms. The multiplier effects are expected to be high in developing economies in regard to domestic employment. In other words, for every direct employee in a foreign company, 2 to 4 employment opportunities should be created in the local labor market (Pilbeam and Corbridge, 2006).

The labor market is expected to follow the international labor laws. Kumar (2001) observes that foreign enterprises significantly boost compensation in the host economy since they pay higher wages. The domestic investors are compelled to comply with the international labor standards regarding remuneration so as to remain competitive. According to Robert (1997), industries in the regions that have many foreign investors in the host country tend to offer higher wages than in the areas dominated by local investors. This is a major factor influencing rural-urban migration due to the perception among workers that the urban centers that have more foreign industries present better terms of employment than the rural local firms (Asante, 2000).

Technological transfer is also one of the significant benefits of foreign investment to the host economy and its labor pool. Spillovers of domestic workers from foreign companies to the local industries lead to diffusion of emergent technology (Kaplan, 2002). Local employees gain skill and competence necessary to join the global labor market. However, foreign firms set up strategies to retain experienced workers. One such strategy is through offering competitive salaries and benefits to thwart efforts by domestic companies to adopt the new technology. Generally, foreign companies improve the productivity of workers in the locally owned firms, which according to Obwona & Egesa (2004) is attributed to the training and development opportunities that workers in foreign enterprises are presented with.

Dupasquier and Osakwe (2005) note that foreign direct investments in African countries contribute to employment generation resulting in higher growth, raise skills of manpower through training and learning and have a positive impact on on employment in such developing countries as in the case of African countries. According to Moss et al. (2004), while FDI comes with its benefits in terms of increased capital and integration into global economic networks, it also increases employment among other things, at the microeconomic level as many countries impose a legal binding on part of the FDIs to employ locals, with FDIs in Uganda employing on a 10 to one ratio of foreign firms to local firms as shown in Figure below:

Figure *2:* Foreign vs. Domestic firm employment in Uganda



Source: Moss et al. (2004, p 10)

2.12 Difficulties Faced in Foreign Markets

As investors move in to foreign markets, they usually face difficulties depending on many factors such as political stability, barriers to trade and conflicts of interests among other hindrances. These usually present high risks to foreign investors considering the fact that it requires a high initial capital outlay to establish in a foreign economy. The stocks acquired by foreign companies may be lost if the host country fails to formulate policies that protect foreign investment. In case of policies focused on the expropriation of foreign companies to utilize property or premises for other development purposes, foreign organizations may face difficulties and are usually at a risk of closure and losses (Dugan et al. 2008). This is one of the problems that foreign investors face in the highly volatile less developed economies. For example, foreign investors in the African economies have been faced with a lot of challenges especially due to the high turn over of regimes which have different policies in regard to foreign investment. Some of the rulers have even led to heavy losses amongst investors through taking property belonging to investors, such as the losses incurred by foreign investors in Uganda during the tyrannical rule of Idi Amin and the recent crisis caused by the unfavorable investment climate in Sudan (Robert, 1997).

However, the international law has provisions aimed at protecting foreign investors from losing their property. This is mainly emphasized through treaties such as NAFTA, WTO, and COMESA among others. Such treaties have been significant in protecting foreign investment, especially advocating the elimination of protectionism (Sacerdoti, 1997). Multinational companies operating under the protection of these treaties are shielded from the impact of unfavorable climate create by various regimes. However, many less developed countries usually encourage foreign investment to enhance economic development and therefore tend to offer subsidies and relaxing trade barriers to encourage foreign investment.

Conflicts of interest are major drawbacks for foreign investment. The host country may be focused on satisfying its development agendas through foreign investment. On the other hand, foreign investors may not be focusing on helping the less developed countries to accomplish industrial take-off. Instead they may be focused on satisfying their organizational interests through exploitation of the available resources without the host country reaping much benefit. The international law provides for the foreign investors to file complaints in situations whereby there are disputes. However, the developed countries, as (Dugan et al. 2008) argue, tend to dominate the process through the strong organizations such as the World Bank. The United States is one of the developed economies that have been identified to dominate organizations such as World Bank. The less developed and the developing economies under such circumstances tend to assume that they have been relegated to a lower level whereby their interests are unlikely to be considered.

The powerful organizations are viewed as having influence in regard to foreign investment. For example, the fact that the World Bank is capable of offering an annual credit amounting to $23 billion puts the developing nations in a particular situation whereby they have to adhere to the interests of such organizations, including the IMF that tend to form cartels for offering finances for development purposes. In other words, the less developed countries will be affected by conflicts of interests from foreign countries that dominate the strong organizations which provide finances. The foreign countries have to ensure that the interests of the companies that they support are satisfied (Alexander, 2006). Due to the fact that they dominate the international organizations that offer finances to the less developed countries, a conflict of interest arises whereby the foreign investors satisfy their interests regardless of whether the host country is benefiting.

In many situations, when the host country fails to present the foreign investor from a developed country with a favorable environment, the lending cartel formed by the international organizations, which are dominated by the developed countries fails to offer financial assistance for economic development. However, the host country may have different development strategies that can only be satisfied through other means other than through serving the interests of the foreign investors, which mainly tend to focus on maximum utilization of the available resources. Compulsion of the host country to accept the demands of the foreign country in order to get favors from the international organizations usually leads to depletion of the available resources, as investors focus on maximizing the utilization of available resources (Dugan et al. 2008). In the long run, the host country may lose from the depletion of resources.

On the other hand, foreign investors usually face conflicts of interest in foreign countries where they establish their investments. They may invest in the sectors that the host government has interests, which leads to trade being inhibited in favor of the local organizations. This might be the reason why governments impose barriers to trade even for already established foreign industries. For example, tariffs are usually imposed for various reasons; the host government may impose them to reduce foreign competition, thereby protecting the emerging as well as the inefficient local industries (Charlotte, 2004). This means that the market may be free for foreign investors, but there are no chances of growth due to the host government's interest in the domestic market.

According to Alexander (2006), foreign companies and local investors need to understand that their interests are common, aimed at facilitating economic development as well as making profits for the purpose of organizational growth. Conflict of interest leads to failure in one of the parties playing part in foreign investment and economic growth may not be accomplished.

2.13 Historical development of attitudes towards FDI

Attitudes towards foreign investment are varied depending on the onset of the practice. People are usually emotional in regard to the ownership of resources in their country. Foreign investment has generated different emotions since its inception in many countries. In most of the less developed countries whereby foreign investment was initiated after independence, people initially viewed the practice as a form of neo-colonialism, whereby after being declared independent in terms of political and the social aspects, they remained economically dependent on their colonial masters, for employment and finances that were offered by foreign organizations (Obstfeld & Rogoff, 1996). This is mainly because there are few situations in many years that companies from the less developed economies expand their investment to developed nations.

On the other hand, economic globalization which has led to the development of foreign investment has not been understood for many years, especially in the formative years of development of the business practice. People therefore have tended to have a negative attitude towards foreign investment, especially when it focuses on the establishment of companies to utilize the locally available resources (Yarbrough & Yarbrough, 2002). In other words, locals and governments are made to realize that the economy has the potential for self sustenance, but it lacks the capability of extracting the resources to make them facilitate growth. In many circumstances, foreign investment has resulted in political enmity between economies, since after realization of the fact that a nation has the potential to steer its own growth through the local resources, it tends to get rid of the already established foreign investors. The international law recognizes that foreign investors are at a risk of losing through nationalization of foreign property for the local purposes, and provides for compensation of property acquired by host governments from a foreign organization operating in the country (Charlotte, 2004).

Nevertheless, people's attitudes towards foreign investment especially in the developing countries have been appreciative of the practice due to improvements in the local standards of living as a result of expansion of the employment opportunities and availability of cheap products. They tend to feel that they participate in the global business and that they have an opportunity to learn from skilled foreigners regarding better methods of production. However, there have been situations whereby workers feel that foreign companies are exploiting the local human resources for the benefits of their people abroad (Feenstra, 2003). Sentiments regarding the expansion of foreign companies locally are usually echoed by the recent wave of politics whereby people tend to feel that regimes expose local opportunities to foreign competition.

Nevertheless, the attitude of people in regard to foreign investment has gradually changed as a result of the understanding of globalization and the integration of societies internationally through education and trade. It has come to be understood that foreign investment is paramount to the success of an economy. Moreover, people derive enthusiasm in being part of the global economy. Understanding that few human needs can be satisfied through protectionism has made it possible for nations to adhere to the policies of organizations such as the WTO and the World Bank regarding reduction of trade barriers (Sacerdoti, 1997). As Spar (2003) observes, the old practices and attitudes continue to fade as people and nations tend to embrace foreign investment as a source of livelihood for employees who work in foreign organizations.

Developing countries have been compelled over the years to encourage foreign investment to boost their growth. Countries that are able to attract foreign investors have a higher per capita income compared to economies that are deemed unfavorable for investment (Antonio, 1993). For this reason, emerging African economies have concerted efforts towards speeding up growth and development by encouraging Foreign Direct Investment. This is accomplished through offering incentives, subsidies as well as maintaining a favorable investment climate, which are factors that they consider to be significant in filling the domestic resource gap. Foreign exchange rises thereby making it possible for the economies to increase their imports (Charlie, 2007).

A company situated in a developed country may be producing enough to satisfy the domestic market, thereby being compelled to look for extra market for the surplus. Under such circumstances, the developing countries that may not be producing similar commodities become the major target markets for the foreign products. To enhance marketing, foreign companies establish subsidiary firms in the newly found markets (Buckley and Casson, 1998). In other situations, a company may establish branches in different countries in order to reduce the cost of transporting raw materials, thereby reducing the production cost. Developing countries are rich in raw materials that are largely unexploited, which attracts foreign investors who have exhausted their domestic reserves (Gorg, 1998).

2.14 Chapter summary

The first part of this chapter explains the theoretical framework that gives an insight of what is to be expected in the study based on various theories that have been put forward regarding FDI. It also highlights the nature of FDI in terms of the various forms that it can take as well as the strategies that are generally applied by companies to accomplish their goals in foreign markets. The second part of this chapter details the work of earlier scholars who have studied various aspects of FDI. Their findings are significant in identifying the knowledge gaps in past research. It is important in the development of a suitable methodology to acquire substantial information to fill these gaps. The next chapter discusses the methodology that was applied in this study.

3.0 Methodology

3.1 Research method

A methodological research approach and design is a framework that binds research together so that the research questions can be analyzed effectively (Edmunson & McManus, 2007). Identification of the research method is important because it makes the collection of data easier, and gives a clear idea about the required information (Trochim & Donnelly, 2006). The issue of employment as it pertains to foreign direct investment in Uganda can be analyzed through a quantitative research method that ensures a strong and authentic research project so that it can become a basis for future research efforts.

The main purpose of a quantitative method is to avoid a situation where the evidence presented does not focus on the initial research question. Quantitative research provides the opportunity to examine and to gather quantitative data that is significant for the researcher to obtain facts regarding the situation. A quantitative research method will allow the research topic to be explored in a comprehensive approach (Yin, 1994). Selection of this method was appropriate for the study as it involves an empirical exploration of quantitative aspects of the effects of FDI on employment in Uganda.

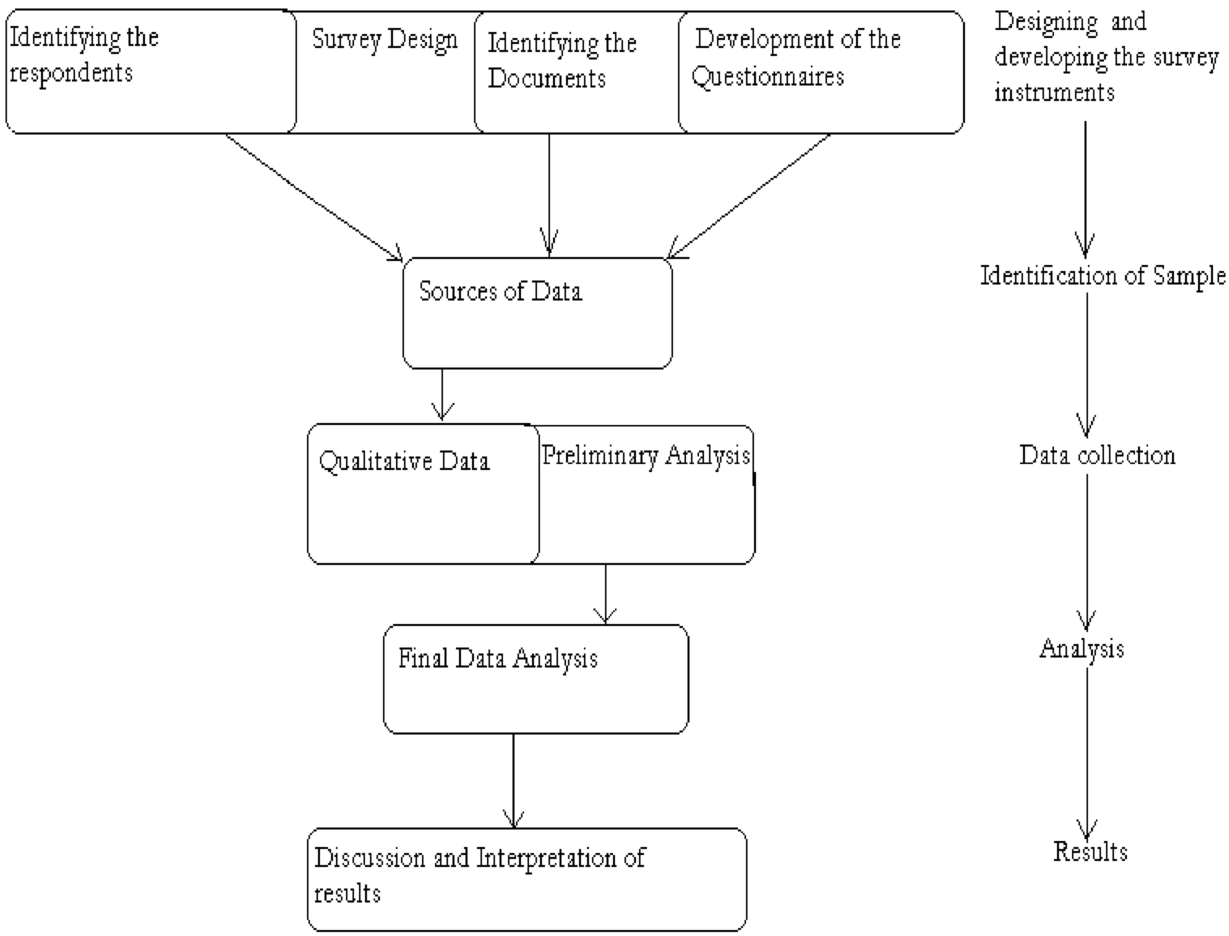
Quantitative research applies the process of measurement that helps the researcher to predict relationships in the phenomena under investigation. As stated by Creswell (2003), an understanding of specific phenomena used when defining a quantitative purpose statement can be explored by getting a better understanding for the variables involved in the study. The quantitative study will mainly involve gathering and analysis of empirical data as well as evaluation of results. Research triangulation will be used to enhance precision since data will also be obtained through various methods in addition to primary research. Graphs and charts will be used to present the results, followed by an analytical discussion of the findings.

3.2 Research design

This study will use structured questionnaires with questions aimed at establishing the number of employees in the companies sampled as well as the nature of employment. The questionnaires will be distributed through company websites, e-mail as well LinkedIn, which is a networking tool that allows individualized communication with trusted contacts. This will enable prompt and non-coercive response among the respondents (Cobb & Forbes, 2002). The sample of 60 companies will be selected from three major towns of Uganda including Jinja, Mbale and Kampala, which are significant regions in terms of trade.

Apart from questionnaires, the data will also be obtained through document reviews, which will include foreign trade programs, documents obtained from the Uganda Revenue Authority administrators detailing the FDI inflows and outflows as well as the key foreign investors in the Ugandan market. Uganda Investment Authority's archives will also be a significant source of information regarding promotion of FDI in the economy. Newspaper articles will also be reviewed for information regarding FDI issues. These will provide important information regarding the events that have occurred for Uganda to reach its level of FDI. Reviewing the documents will be significant in backing up the evidence obtained from questionnaires. However, as Creswell (2003) observes, documents may provide biased and unreliable information and therefore the information obtained will be logically evaluated against other available information before making conclusions. Figure 2 illustrates the research design for this study.

Figure 3: Research design



Source: Author

3.3 Data analysis

Data analysis will play a major part in the completion of this study. Data will be reviewed after receipt the questionnaires and compilation of information from the archive. A critical analysis will be done after which the data will be interpreted into graphical representations that offer lay the foundation for interpretation.

The final analysis will be presented in a report featuring the results, discussion, and generalizations of the study. The results from the case study will provide planners and investors with significant information regarding foreign direct investment in Uganda and its implication to the working population.

3.4 Assumptions

As a guide to this research, it is assumed that participants will be volunteers who will be willing to offer the correct information, and who will be under no influence of jurisdiction or any form of force. The researcher will assume that every participant will have permission from their superiors to take part in the survey. It will be assumed that the participants will be truthful in their responses for validity and reliability of the results (Struwig & Stead, 2004). In carrying out survey, many factors will have to be taken into consideration, including subjective elements such as participant attitudes and the context within which the data will be generated, and which will require a mutual relationship between the investigator and participants (Cobb & Forbes, 2002). Another assumption will be that the reader will be interested in discovering the relationship between FDI and employment in Uganda.

3.5 Limitations of the methodology

Limitations are the boundaries that restrict the research scope and may cause difficulty in completing the research (Cooper & Schindler, 2002). Many limitations exist in this research. This qualitative case study is limited to exploring the effects of FDI on employment in Uganda. A focused sample of 60 foreign companies will be selected based on their willingness to share relevant information. The results of this study will be limited to workers in the executive level in the organizations sampled. Some respondents may provide the wrong information.

3.6 Target population

Behling & Law (2006) observe that a research population includes all elements that meet certain criteria for inclusion in a study. The number of participants involved in a research study can be determined by the objective of the research and on the number of individuals possessing the characteristics necessary for the study. The target population of this study is the foreign companies operating in the Ugandan market. The objective of the study is to capture relevant information from 60 companies. Gathering the required information from this sample will provide significant data reflecting the situation in many other foreign companies in the market. Questionnaires will be sent to qualified participants occupying an executive managerial level. Documents from the archives will provide significant backup information for the questionnaires.

3.7 Sampling

The sample will be taken from the above-mentioned population. The sample qualifies because of the executive level managers' knowledge relevant to this research. Sampling has a direct impact on the representation of the study (Yin, 1994). In this study, the participants will be selected using purposeful non-probability sampling. Using non-probability methods permits selection of participants with certain characteristics to provide the opportunity to "discover, understand and gain insight and select a sample from which the most can be learned" (Gable, 1994).

The criteria for selection include job status (senior level positions) and investment location (foreign companies). As mentioned by Behling & Law (2006), purposeful samples are usually small, and based upon investigator awareness about the particular individuals who are providing the data. The sample size for this study consisted of 60 managers in executive positions who meet the criteria identified earlier.

3.8 Informed consent

The respondents will receive a complete overview of the research endeavor so that they can be as objective as possible, though no certain method exists to control objectivity. The respondents will sign an informed consent form before the interview, through which they are given full assurance of the confidentiality of their responses. In this scenario, the respondents who are willing to provide information on company human resources will be targeted. The signed informed consent forms will be retained for a maximum of three years in a secure location.

The participants will receive instructions on the nature and purpose of the research under study through the consent agreement form (Appendix A). The participants will also receive an assurance of confidentially, so they will be more comfortable in sharing and explaining their personal views (Cobb & Forbes, 2002). The process of collecting data uses a systematic and collaborative strategy by gathering information about actions and evaluating conclusions in a written explanation. The study will use 60 questionnaires (Appendix B) with the objective of capturing the impact of FDI on employment in Uganda. The Uganda Revenue Authority and Uganda Investment Authority will be informed regarding the information needed from the administrative documents and also the fact that the information will only be used for research purposes.

3.9 Confidentiality

The first point of contact with the participants will be through telephone calls to confirm the issue of questionnaires. Each participant will be aware that participation in this study is voluntary and confidential. The identity of the participants will remain confidential and will not be directly associated with any data since the company name and address will not be included. The information obtained from the administrative records will remain confidential.

3.10 Instruments

Different researchers use different data collection instruments. The most common are interviews and survey questionnaires. Questionnaires can be administrated in person, through mail or over the internet (Yang & Miller, 2007). The research instruments are the tools that will be used to evaluate the phenomenon in question. The questionnaires are the most useful in terms of serving the purpose of this study as they enable the researcher to get specific information from the respondent.

3.11 Validity and Reliability of findings

Rigor in a study comes from the validity of the research, the reliability of the findings, and the use of triangulation in data collection. A valid work must be supported, acceptable, and convincing. Face validity comes from believability and must be judged by the individual reviewer. Each piece of research adds to their particular discipline and often does so by adhering to the guidelines for proper research. According to Trochim and Donnelly (2006), validity refers to the best estimate of the truth of any proposition or conclusion or inference described in the research. Reliability refers to the measurement of the quality of the data collected in any research.

It is a measurement of the consistency of the data with the research background, and is also a measurement of the suitability of the data for analysis (Behling & Law, 2006).

Validity is used to assess the quality of the research conclusions. The internal and external validity of the research will be evaluated to determine the cause and effect relationship between the variables identified in the hypotheses. According to Creswell (2003), validity plays a significant role in a qualitative study in that it is a powerful source used to determine the accuracy of the study's findings. To increase the validity of this study, the triangulation process will be used. Triangulation is the method of using multiple research approaches and methods. Such a technique can help in overcoming the bias and unproductiveness of a single method. It can be applied to both quantitative validation and qualitative validation (Yin, 1994).

Validity and reliability involves checking the status of the data collected to determine if it is valid and reliable. Internal validity basically calculates the extent to which the responses from the respondents reflect the same attributes. The use of the triangulation technique ensures the validity and reliability of the data gathered through the questionnaire, which asks multiple questions of the target sample to determine the integrity of the answers. The sources for the historical qualitative research taken from official company websites and peer reviewed journals are to ensure that the information used in the literature review was accurate and valid. Valid research instruments are paramount to collection of reliable data (Trochim and Donnelly, 2006).

The questionnaires will be validated before commencement of data collection. Preliminary questionnaires will be issued to 10 respondents to identify any difficulties that may affect the respondent's feedback. The validation exercise will also be aimed at identifying the unreliable questions, i. e. the ones that the respondents do not provide answers. These questions will be changed to suppress the difficulties in the ultimate questionnaire.

3.12 Chapter summary

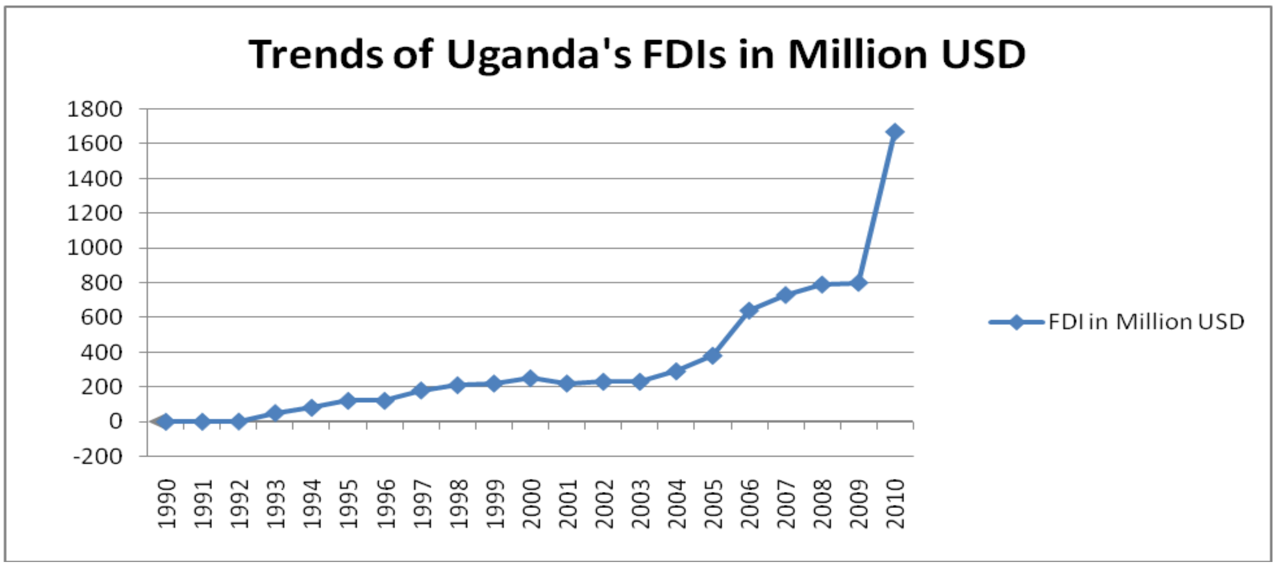
The first part of this chapter details the research method to be applied in this study. The importance of applying a quantitative research method has been highlighted. The next part explains the research design. Based on the research questions, the methodology uses a quantitative research design that helps to identify the numerical characteristics of the effects of FDI on employment in Uganda. The chapter also details how data analysis will be performed, the underlying assumptions as well as limitations of the methodology. The target population has been explained as well as the sampling procedures. Some precautionary measures such as informed consent for the respondents and confidentiality of information have been highlighted. The survey instruments have been explained as well as validation and reliability check for the findings. The next chapter offers a detailed report of the findings in the case study.

4.0 Findings

4.1 Findings

There has been an increasing trend of FDI in Uganda since 1990. The year 2008 had a marked rise of FDI to 799 million USD, which has continued to grow steadily reaching a high of 1.67 billion USD in the year 2010 (World Investment Report, 2008).

Figure 4: Trends of Uganda's FDI since 1990 to 2010



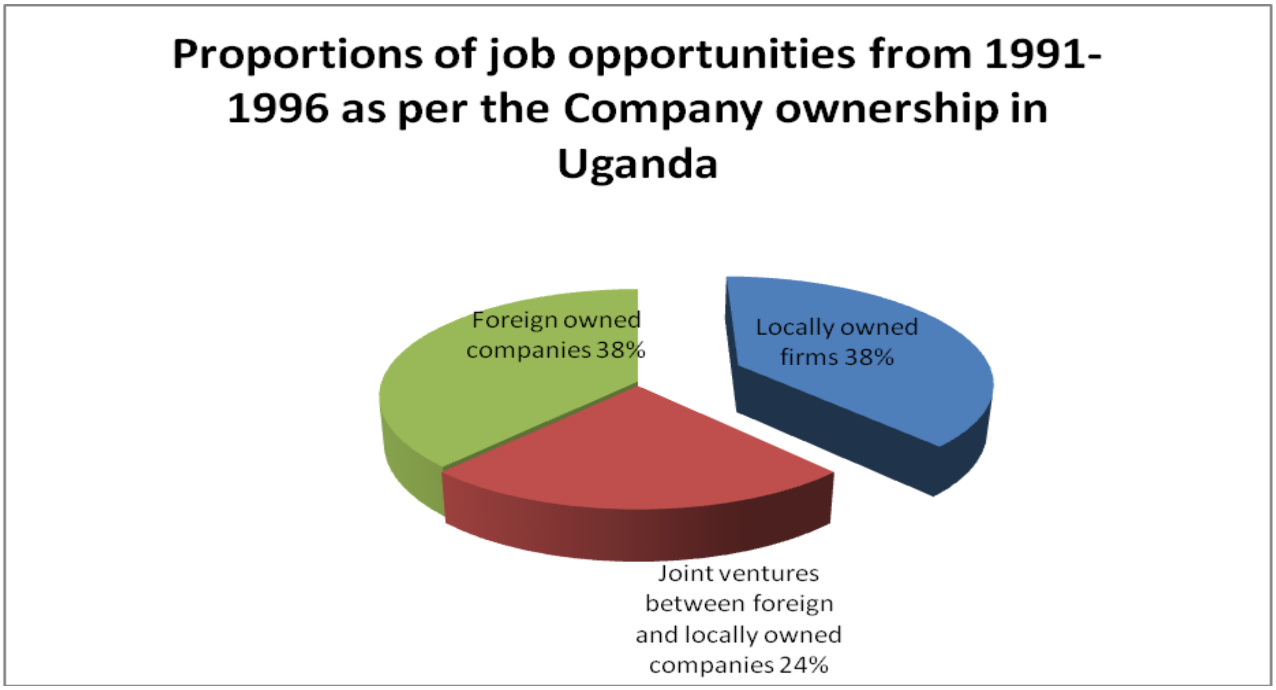
Source*:* Uganda Investment Authority, 2010

The recent trend dates back in the year 1991 when the country began recording remarkable improvements in capital inflows. The period between early 1991 and the end of 1996 saw a significant rise in employment opportunities, with totally foreign companies accounting for 38% of the emerging job opportunities, while the joint ventures between local firms and the foreign owned accounted for 24% (World Investment Report, 2008).

Uganda Investment Authority anticipates a 7% growth in FDI in 2011. In 2010, all foreign firms in the local market employed 65,000 people directly and it was found to have a multiplier effect of 2 workers employed indirectly per employee. Generally, local and foreign investments in

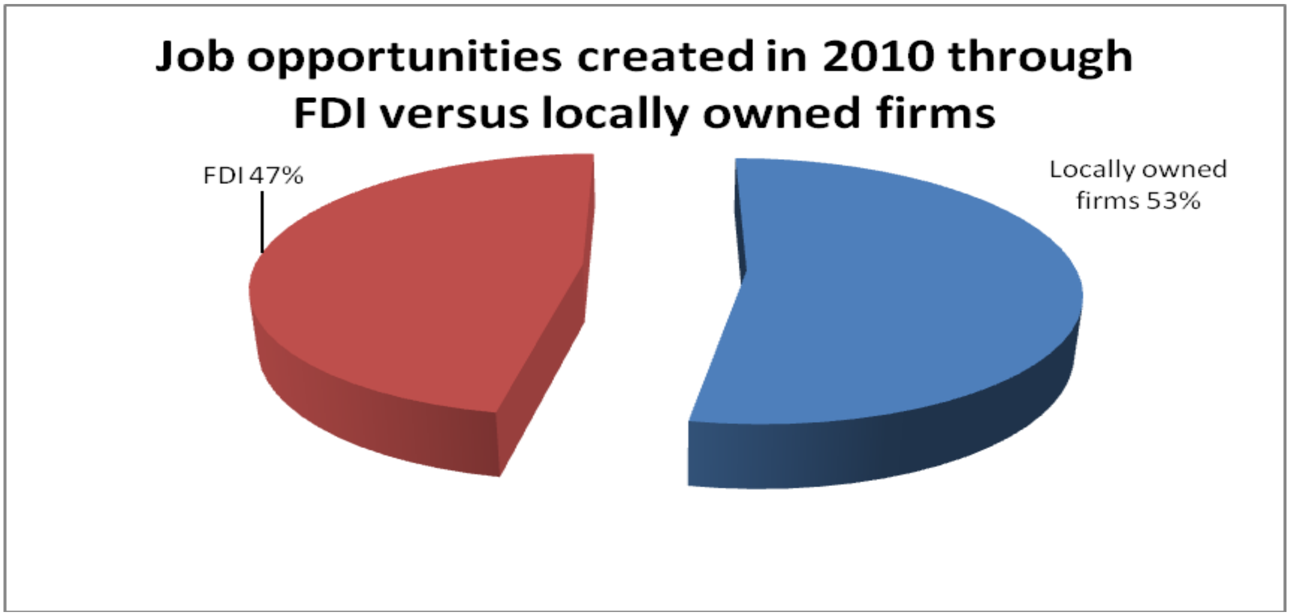
Uganda generated 149,000 employment opportunities n Uganda in 2010. FDI accounted for 47% of the jobs created while 53% of the opportunities were in the locally owned firms (Uganda Bureau of Statistics, 2011).

Figure 5: Job opportunities Generated through Local, Foreign and Joint Ventures



Source: Uganda Bureau of Statistics, 2011

Figure 6: Job Opportunities Created through Local and Foreign Firms



Source: Uganda Bureau of Statistics, 2011

Out of the 60 companies sampled, UK companies had the greatest share of investments followed by Canada, Kenya, USA, Kenya, South Africa and India among others. During the year 2010, 150, 000 Ugandans were directly employed through FDI (Uganda Bureau of Statistics, 2011). Indian multinational companies have continued to exist in the Ugandan market in spite of the drawbacks encountered during Idi Amin's regime.

The manufacturing sector leads in FDI inflows to Uganda. 80% of the more than 1.02 billion USD invested in the first three quarters of 2010 was manufacturing (Uganda Investment Authority, 2010). Nevertheless, most of the firms sampled in the study were not 'greenfield' investments. Rather, they are refurbished industries that were re-acquired by the rightful owners who were forced out of Uganda during Amin's regime.

Firms in the manufacturing sector mainly concentrate on beverages that have ready market locally. For example, Coca-Cola and Pepsi are major soft drink manufacturers that directly employ 664 and 850 employees respectively. There are more than 20, 000 Ugandans who are indirectly employed through dealing in the companies' products. The Madhvani Group of companies that manufacture safety matches and sugar among other products directly employ more than 10,000 workers and more than 70,000 people indirectly. They offer market for raw agricultural products such as sugarcane that are a source of livelihood for thousands of Ugandan farmers. Lafarge Cement Company and its affiliate firms directly employ 1,700 permanent workers and 7,200 on contract terms. Uganda Bata Shoe Company from Switzerland directly employs 2,000 Ugandans and more than 150,000 indirectly. Other firms in the manufacturing sector include producers of packaging and synthetic materials as well as food processing. Generally, the manufacturing sector directly employs 41% of Uganda's working population (Uganda Bureau of Statistics, 2011).

The services sector of Uganda is also flourishing in terms of FDI. Generally, local and foreign firms need service providers to enhance their success. Global banks have acquired local banks, such as Citibank and Stanbic bank. The bank of Baroda, Trans Africa Bank, Standard Chartered and Barclays are also among the major foreign owned banks that have 86% market share in the country. Nevertheless, the financial sector employs many expatriates due to the high level of experience required to run the institutions. The same case applies to insurance, stock markets and the media. However, the tenure for expatriate workers is usually short-lived since companies are encouraged to train locals to take over the tasks that require skills (Lutwama, 2010).
Communication has also led to the establishment of foreign industries in Uganda. These include MTN and Vodafone. Many people are earning their livelihood from providing telephone services as well as selling their products such as airtime. Many other people are employed by the agencies that provide the company's services, such as the MTN mobile money transfer. Generally, FDI in Uganda's communication industry is experiencing fast growth and has directly employed more than 6,000 and over 320,000 indirectly (Johnson & Nino-Zarazua, 2010).

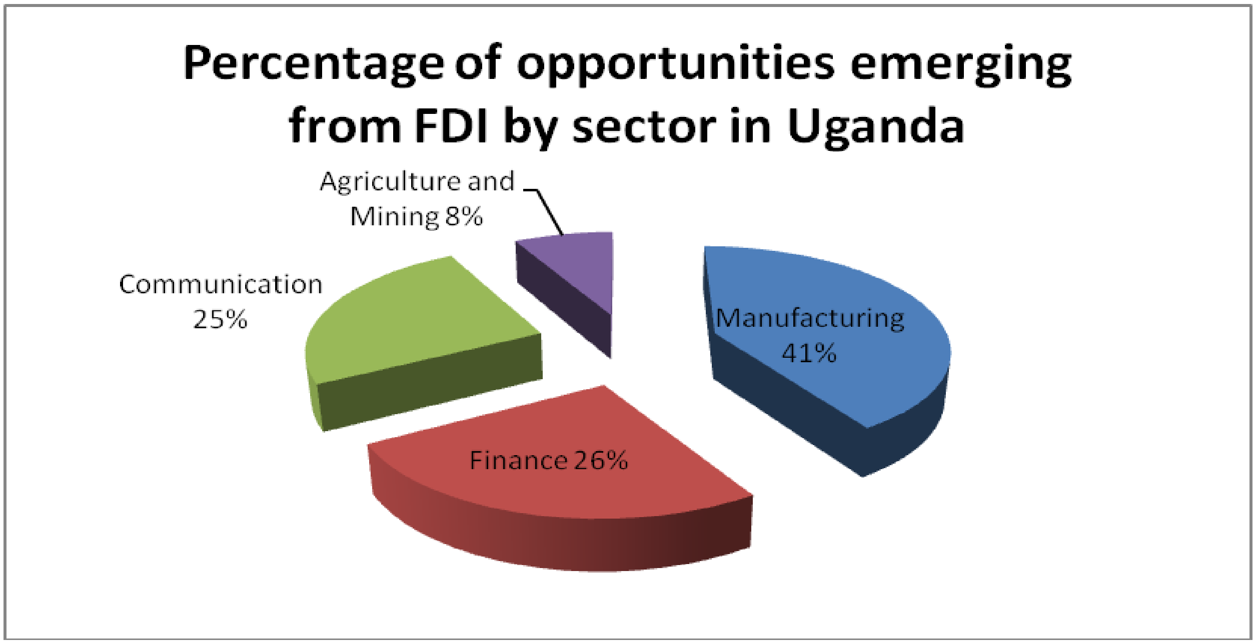
Agriculture, mining and forestry have attracted minimal FDI mainly because of inappropriate policies to encourage foreign investors these sectors. Nevertheless, Agriculture supports 80% of Uganda's population through subsistence farming. Foreign firms investing in the agricultural sector are mainly involved in projects such as production of flowers for export markets, growing of oil seed and processing it to finished product, cotton growing, processing, spinning and knitting, producing and processing of livestock products such as milk and hides. They also engage in farming of horticultural crops such as fruits and vegetables while on the other hand they buy locally produced coffee and cereals for value addition (Uganda Bureau of Statistics, 2011).

Figure 7: Composition of Foreign Companies in Uganda

Source: The Uganda Investment Authority, 2010

Generally, foreign investors are mainly involved in processing agricultural products such as coffee, flowers and fish or adding value for export. FDI in mining is also scanty although in the early 1950s it contributed more than 30% of the country's exports (Uganda Bureau of Statistics, 2011).

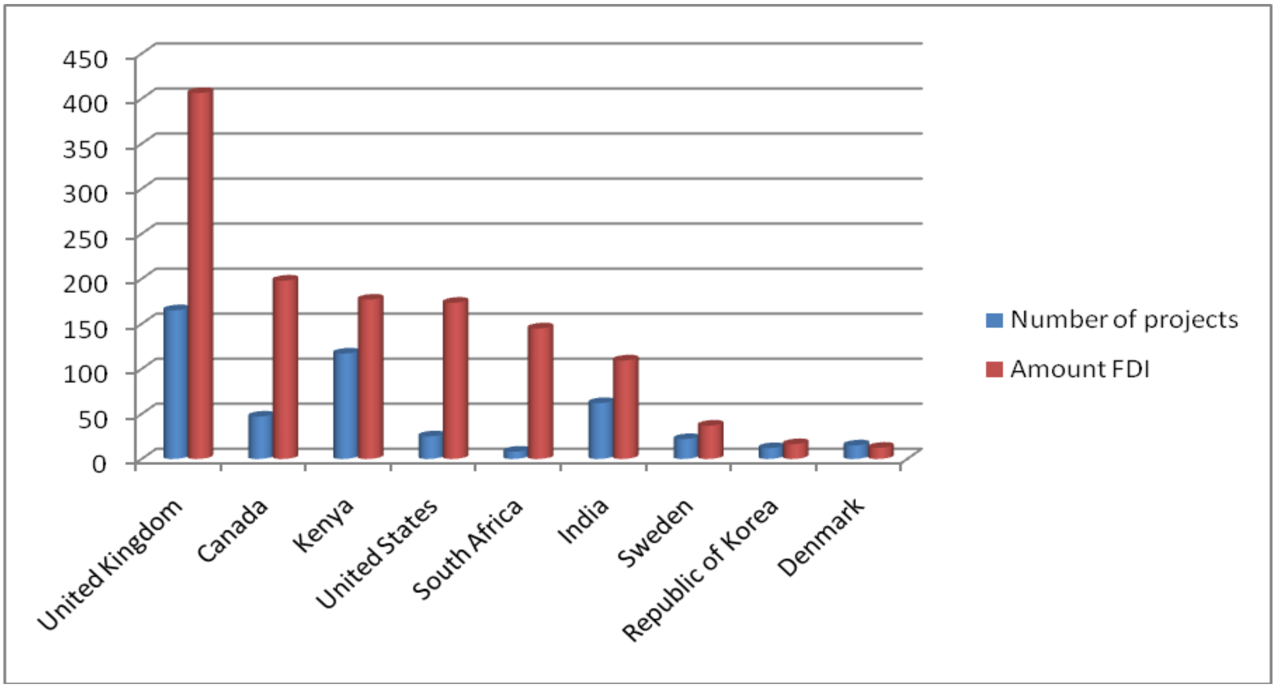
Figure 8: Emerging Opportunities through FDI



Source: Uganda Bureau of Statistics, 2011

The FDI inflows to Uganda are generally more than the outflows. Most of the FDI inflows are from the developing nations followed by the developed economies. The inward FDI hit a $1.02 billion mark by the end of 2010. These were mainly from new projects licensed to countries such as the UK, China, India, South Africa, Kenya and Denmark among others (The Uganda Investment Authority, 2010).

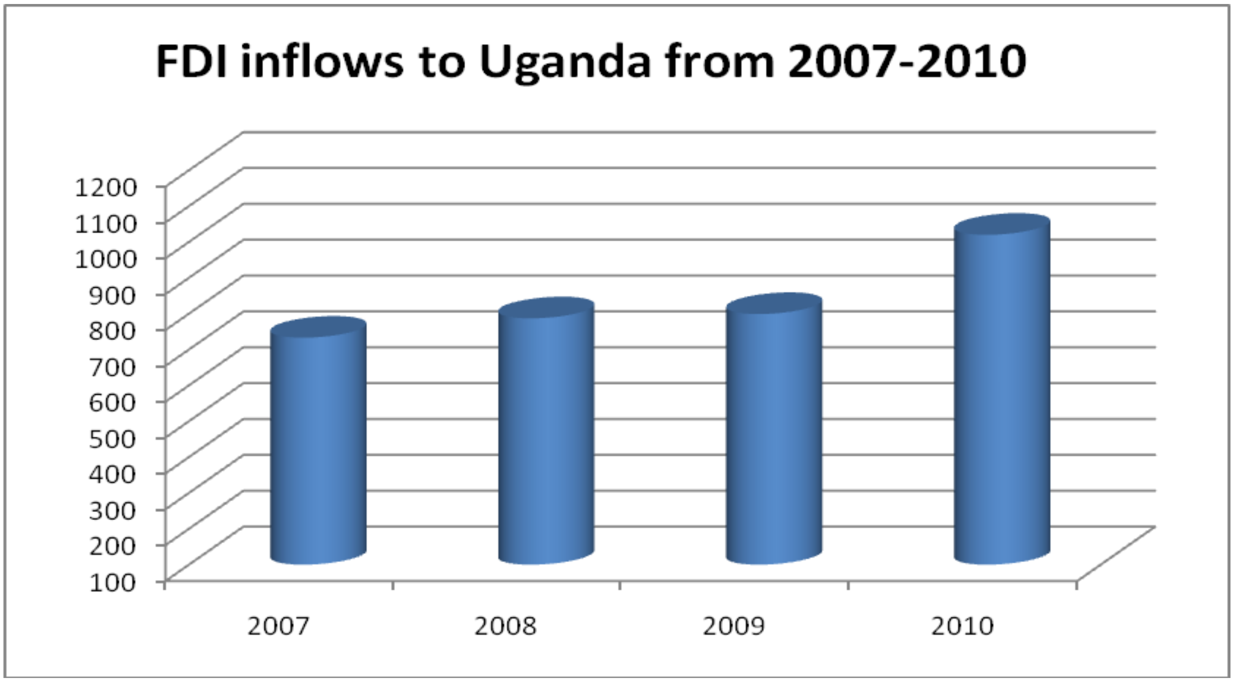
Figure 9: Economies that are involved in Uganda's FDI inflows



Source: The Uganda Investment Authority, 2010

The inward FDI created 70,000 direct employment opportunities and indirectly employed more than 165,000. There were marked advancements in machinery and manufacturing as a result. This is the reason why the manufacturing sector had the greatest percentage of opportunities created from FDI. The discovery of oil deposits in the country attracted foreign investors especially due to the fact that Uganda does not have the capacity to explore and extract the resource. Companies such as Tullow Oil (TLW.L) of Britain, Total (TOTF.PA) of France, and the Chinese CNOOC Ltd have invested and are planning to invest millions of US dollars in refining crude oil and marketing oil products (Uganda Bureau of Statistics, 2011).

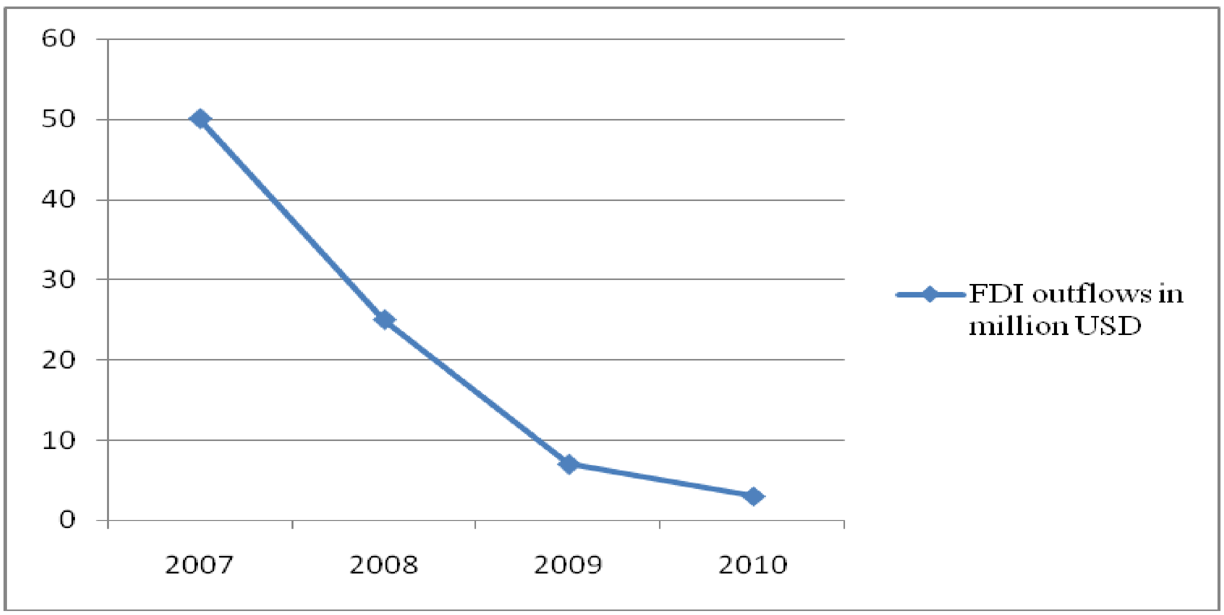
Figure 10: FDI In-flows to Uganda



Source: Uganda Investment Authority, 2010

In contrast to the FDI inflows to Uganda, the outflows have been declining since 2007.

Figure 11: FDI Outflows from Uganda

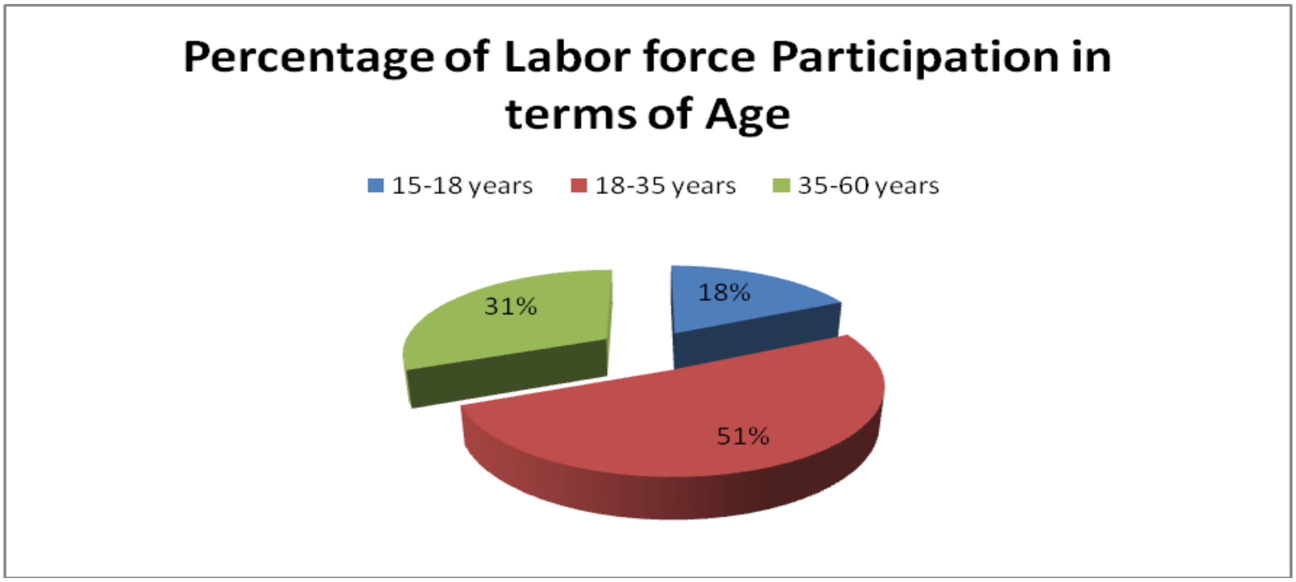


Source: Uganda Investment Authority, 2010

The changes in the FDI outflows from Uganda have had no adverse impacts on employment rates in the economy since there are few opportunities generated from these kinds of investment for Ugandans abroad. FDI inflows therefore remain the second major source of employment opportunities after domestic investment in Uganda. Nevertheless, the gap between the two sources of employment is negligible, ranging between 2-3%. The civil service employs 0.2 % of the labor force (Uganda Bureau of Statistics, 2011).

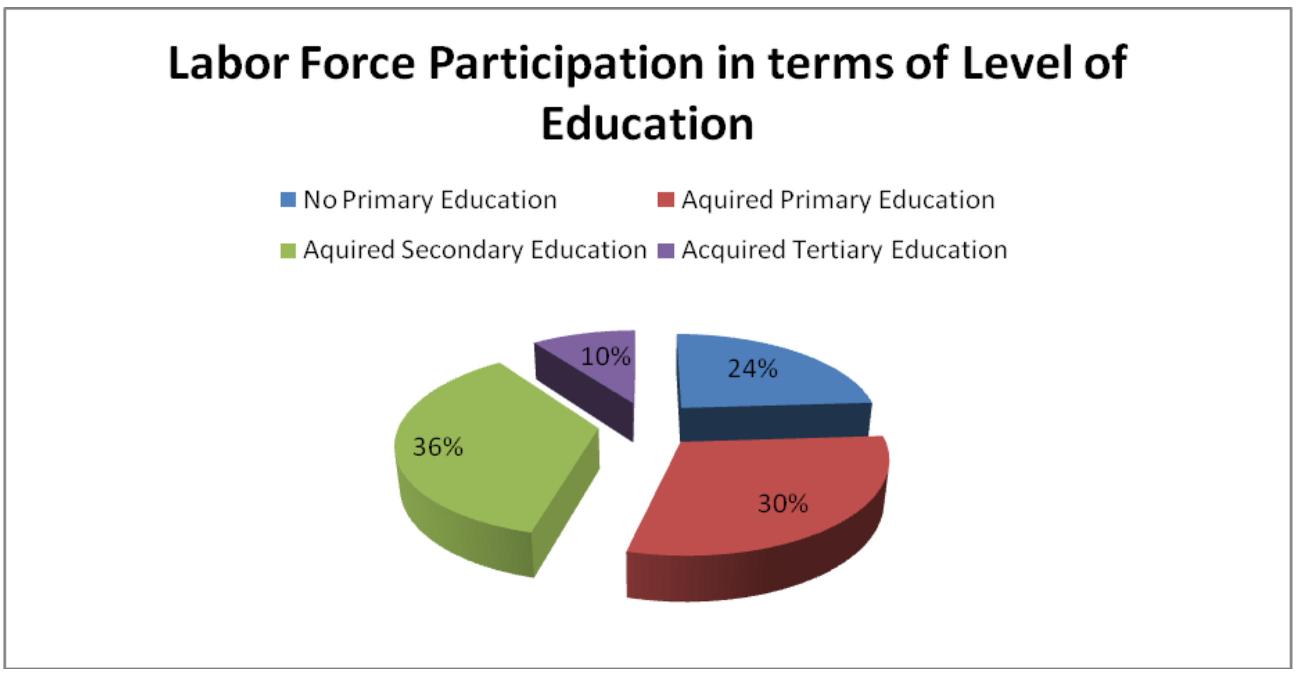
This study established that labor force participation in Uganda is slightly more than 80%. Women participation is relatively high. The study revealed that the greater percentage of participation is higher among the illiterate than among the educated especially in the manufacturing sector. People with post secondary education were less in the workforce than lower grades. Moreover, the average onset age for female workers in employment was found to be 15 years while that of male workers was 18 years. Generally, child labor participation in foreign companies was found to be 18%.

Figure 12: Labor Force Participation in Terms of Age



Source: Author

Figure 13: Labor Force Participation in Terms of Education Level



Source: Author

4.2 Chapter summary

This chapter presented the findings as they were acquired from the survey instruments. The graphical representations were used to help the reader to understand the findings at a glance. The trends indicate clearly the changes occurring in FDI within the economy. These data were mainly acquired from archives of various state bodies such as the Uganda Bureau of Statistics, Uganda Investment Authority as well as Uganda Revenue Authority. The next chapter presents a critical discussion of the findings. It offers themes and meanings of the results in the case study.

5.0 Discussion

5.1 Discussion

Natural resources in Uganda are substantial and largely unexploited. These include arable land, adequate rainfall, mineral deposits and fresh water, including Lake Victoria that is significant for fishing. Even though the country is land-locked, there are numerous opportunities for both domestic and foreign investment. The first phase of economic take-off was interfered with by the conquest of power by Idi Amin's regime in 1971. Most of the foreign investors were compelled to leave Uganda, which generated an economic crisis in the country. Asians were the major targets of Idi Amin's tyranny, yet ironically they were the key sources of FDI in Uganda (Kategaya, 2006). Nevertheless, subsequent governments have tried to encourage foreign investors promising a safe environment for investment.

Currently, foreign investors are not allowed to permanently own land in the country. However, the government has developed policies geared towards encouragement of foreign investment such as leasing land to foreigners up to 99 years. This policy has facilitated FDI by allowing investors to undertake long term ventures. It has increased job security and also raised the expectations of the domestic links to the foreign firms. Uganda leads in terms of incentives offered to foreign investors in the economy. Tax and non-tax motivators are more than in any other East African economy (Colen et al. 2009).

The government has developed policies to attract FDI such as through market liberalization and reinforcing the economy's investment regulation structures for diverse policy objectives. This strategy has reduced the bureaucracy involved for investors to establish in the Ugandan market. Indirect employment has been created through FDI in Uganda since the trade liberalization policies took effect. The foreign manufacturing firms have forward and backward relationships with the local firms such as through sub-contracts and supply of raw materials as well as semi-processed goods needed for production in the foreign industry. Since they are mainly concentrated in Uganda's major cities, the population density is ever increasing as people move to these places to look for employment (Obwona & Egesa, 2004).

Small businesses emerge in order to satisfy the demand for the common goods that the population needs, but are not provided by the large manufacturing organizations. This means that the local companies and small enterprises operating in Uganda's urban centers have a large local market where commodities can be sold in small scale. The SME sector comprises 90% of the investments in the private sector. For example, the rise in population in Kampala has resulted in high demand for Information Technology services since internet usage for communication purposes has greatly increased (Lutwama, 2010). The emergence of self employment opportunities in SMEs is an indirect benefit of FDI in Uganda.

The agricultural sector that is the source of livelihood for 80% of Uganda's population has thrived as a result of the backward linkages between local producers and the foreign firms that require the semi-processed goods for production of finished goods for consumption locally and abroad. Food and beverage firms are the major consumers of the agricultural products from the local producers. Semi-processed cotton is also sold to the foreign textile firms. The entire supply chain indirectly employs a substantial number of Ugandans (Colen et al. 2009). However, primary data reveals that contrary to popular belief that the agricultural sector employees the highest labor force, it can be seen that the manufacturing and services sector has attracted the most FDI and has also been able to create direct employment. This explains why the agricultural sector has less FDI pumped into it, but it nevertheless has gained through indirect employment due to the demand for its products by the firms involved through FDI.

Job opportunities created by the local firms is more than those created by foreign firms which indicates the shift of employment to local firms even though foreign firms establish far greater firms with much investment. This can be explained by the legal binding in case of foreign investments that demand a 2:1 employment creation in the public sector to that created in a foreign firm. It can be understood that the legal binding on part of the foreign firm helps create local employment in the local firms not just through joint ventures but also boosting the demand for local products.

Outsourcing is a significant aspect of business linkages between multinationals and local SMEs in situations where the foreign investors in Uganda opt to concentrate on the areas in which they are competent. Such links open up new opportunities for local firms to expand their operations thereby generating new employment opportunities. For example, the telecommunication industry in Uganda is characterized by outsourced marketing and distribution networks (Lutwama, 2010).

Foreign firms in the petroleum industry such as Shell and Gapco among others also outsource locally whereby they allow local dealers in petroleum products to use their brand names. Such products are also transported from the port of Mombasa to Uganda through local transport firms. Other activities that do not require skilled staff such as messaging, cleaning and cleaning services are also outsourced from local firms. These are major sources of indirect employment through FDI in Uganda (Obwona & Egesa, 2004).

Exporting firms are offered incentives to help them cope with the country's infrastructure shortfalls as well as the expenses of bureaucratic indolence. Furthermore, the export incentives are also targeted at developing a level and favorable playing field to enhance the competitiveness of the economy's exports. For example, foreign exchange has been liberalized allowing the exporting firms to keep all their earnings from exports. VAT and duty are not charged for export goods unlike Kenya where the exporters have to pay tax on exports. Moreover, exporters are allowed to claim compensation of the VAT charged on the inputs used in the production of export goods. The compensation also applies to the duty paid on imported inputs for export products (Uganda Export Promotion Board, 2010).

Access to the Ugandan market has been made easy through Uganda's government policy of global economic integration. It is aimed at increasing the amount of trade thereby offering economic prospects to foreign investors. Bilateral agreements such as COMESA and the EAC allow better tariff rates for Uganda's products in foreign markets. The Cotonou accord as well as AGOA initiative allows entry of Uganda's exports to the EU market as well as the USA duty free. This encourages foreign investors to establish in Uganda (Lutwama, 2010).

Manufacturers of export products are also allowed to "Manufacture under Bond", which entails using imported inputs with a custom license, meaning that they do not have to pay duty upon importation. In other words, their working capital is not withheld in refundable duties. On the other hand, movement of capital in and out of the economy is not restricted due to the liberalized foreign exchange system. Even though Uganda's infrastructure is not the best in the East African region, the government has endeavored to improve the business environment through committing finances for development and maintenance of the economy's infrastructure, which has a direct impact on the cost of investing in Uganda (Nkote & Luwugge, 2010). Upon the discovery of oil deposits in the Western region, more interest has been witnessed in foreign investors who may or may not be directly involved in dealing with the oil. This could mainly be attributed to the possibility of decreased production costs if oil products are obtained locally.

From 1991 to 1996, there was marked FDI in Uganda as the government engaged in concerted efforts to develop a positive image after it was tarnished by the previous regime of Idi Amin. New projects were licensed to foreign investors especially in the virgin sectors where investment had been suppressed for many years. On the other hand, Kenya which is the leading economy in East Africa was experiencing political upheavals and a good investment climate was not guaranteed. This left Uganda with a better opportunity for FDI. The government in its bid to show investors that the investment climate was favorable offered tax holidays among other incentives (Lutwama, 2010).

Some of the speculative foreign industrialists rushed to enjoy the tax holidays in the economy as well as minimal competition. The situation within this period led to increased job opportunities in the economy. Some of the FDI were not "greenfield" investments. Rather, foreign investors acquired the plummeting local industries that had been affected by inflation and poor infrastructure since 1985. Some merged to develop competitive organizations in the global market. Indians restored their businesses investing greater capital than before their forced exit in 1971(Kategaya, 2006).

There has been an upward trend in Uganda's FDI since the early 90s, with the highest number of projects being licensed in 2010. The working population comprising of more than 15 million people still need more employment opportunities, which compels the government to liberalize the market to encourage more foreign industries that are necessary for job creation (Obwona & Egesa, 2004).

The investment code of 1991 can be accredited for the rising trend in FDI since it was ratified. It led to the emergence of the Uganda Investment Authority (UIA), which was mandated to uphold, enhance and oversee investments in the economy. The state agency was supposed to initiate and support actions that augment the investment climate in the country for local and foreign investors. This meant that apart from recalling the foreign investors who had been ejected out of the

country, there were many other benefits to be gained from investing in Uganda (Nkote & Luwugge, 2010).
The agency also engaged in promotional activities such as improving Uganda's image abroad, as well as approving the setting up of new businesses in the country. Promotions were carried out in India, China, UK, USA, and South Africa among other prospective investors to enlighten them on the foreign investment opportunities available in Uganda's agriculture, manufacturing and finance among other sectors. It made it easy for foreign industries to engage in mergers and acquisitions with local industries as well as establishing foreign subsidiaries in the country (Colen et al. 2009).

Many of the multinational firms currently operating in the Ugandan market today attribute their success to UIA, which is also mandated to gathering and publicizing current information regarding the incentives presented to investors. It provides arriving and established investors by offering support services as well as informing the government and making recommendations to the government regarding appropriate policies to promote investment (Kategaya, 2006).
Apart from the direct jobs that are generated from FDI Uganda currently has a multiplier effect of 2, meaning that for every job created through FDI, 2 more jobs are created. This is evident from the number of indirect jobs generated from foreign companies. The most significant sector in terms of indirect employment is agriculture, which is a source of livelihood for 80% of Uganda's population (Obwona & Egesa, 2004). Apart from the permanent employees and casual laborers employed in foreign coffee, flower and fruit production companies also provide market for products from small scale producers, who on the other hand employ casuals on their farms.
Foreign financial institutions also indirectly employ a significant number of employees. They mainly concentrate on professional aspects such as accounts and customer relationship management. Other non-professional services such as security, catering and telecommunication are outsourced giving local firms the opportunity to establish and employ locals. People employed indirectly through FDI are more than those directly employed by foreign companies. This spillover effect is significant for economic development since it ensures that all levels of human resource capacity are utilized (Yarbrough & Yarbrough, 2002). It has helped the government to reduce unemployment rates on the basis of lack of skilled Ugandans in the labor

market. Nevertheless, foreign investors are encouraged to train Ugandans for them to take up supervisory positions in the organizations. This trend has enhanced knowledge transfer that was evidenced in this study by the number of Ugandans occupying top management positions in foreign subsidiaries in the country.

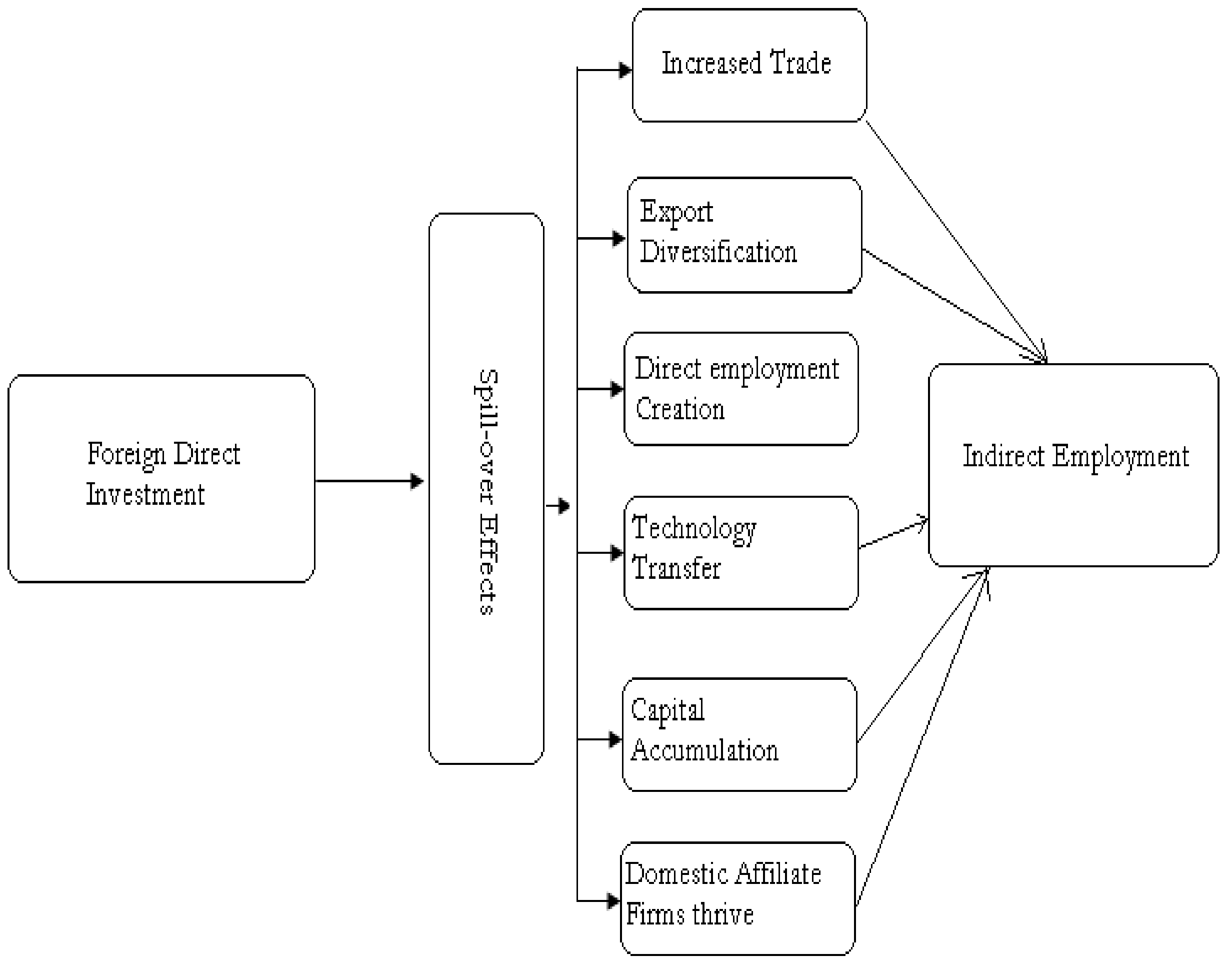
This study established that FDI accounted for 47% of the total number of jobs created in 2010. This is an indication of the significance of FDI in employment creation. Local industries may not be in a capacity to satisfy the demand for 15 million jobs in the Ugandan labor market.

This is the estimated number of people seeking employment in the country (Uganda Export Promotion Board, 2010). This can be attributed to the observation that FDI is not always beneficial to the local employment market as 'Greenfield' investments as in Uganda can lead to massive layoffs in the local job market as the foreign firms that merge with or acquire local firms tend to layoff human resources in a bid to boost economy. Also, due to spillover effects of M&As and privatization of public companies, layoffs may seem to be the ideal choice for firms. Local skill that gains higher technological skills and competence has higher chances of diffusing into the global market, leaving the local companies short of skill. Also, as locals see FDI as a means for foreign companies to exploit local resources for the benefit of foreign companies abroad, the benefit accrued to local market in Uganda can be questioned in spite of the 1:10 employment ratio in foreign to local companies. As the developing economies are characterized by population increase and rural to urban migration, it is debatable if the 15 million jobs will be created in the near future. And the nature of FDIs, if short-term can increase the risk to the local employment market, even more.

On the other hand, Uganda lacks the capacity for commercial extraction and utilization of the available natural resources. Equipment and financial resources from foreign companies have enabled the extraction of mineral deposits, utilization of the vast arable land as well as exploration of hydrocarbon deposits.

Technological transfers and spillover of man power from the foreign subsidiaries to local organizations has helped in developing the capacity of the local labor force making people more productive and domestic organizations expanding their production capacity thereby increasing employment opportunities (Yarbrough & Yarbrough, 2002). Moreover, the transferable skills enable Ugandan’s to take up senior positions that would otherwise have been occupied by expatriates.

Figure 14: Spill-over Effects of FDI in Uganda



Source: Author

The sources of foreign investment include the UK, Canada, Kenya, India, South Africa and China. The British, being former colonial masters to Uganda have continued to maintain their presence in the economy in terms of FDI. The Ugandan government has continued to shield UK foreign companies to maintain the beneficial ties. Britain has enhanced development through encouraging various international financial institutions such as the IMF and the World Bank. However, other players from other countries are needed to cater for the great need for economic development. This is the reason why even developing countries such as South Africa and even regional counterparts such as Kenya have found Uganda to be a haven for FDI (Uganda Export Promotion Board, 2010).

Chinese companies joined the market with dynamism in 2010, which is attributed to the marked developments in China necessitating the search for new markets abroad. The diversity of companies investing in Uganda in terms of country of origin is an indicator of the interest that the Ugandan market has generated globally (Barnet and Brooks, 2006).

In spite of the many positive effects of FDI on employment in Uganda, there is a challenge in terms of the kind of jobs created through FDI in the country. The study revealed that many of those employed in the foreign companies are illiterate or have attained not more than secondary education. This is an indication of the type of jobs created for Ugandan's through FDI. It means that companies offer jobs that do not require skills, which correspond to low wages. The quality of labor and the standards of living are still deplorable leading one to think if FDI has indeed raised the standard of the employment in spite of the 1:10 employment ratio. The issue is alarming since technological advancement in organizations is expected to necessitate hiring of skilled labor. The situation is an indicator of the high number of working poor in contemporary organizations. This is because the foreign firms are tending towards hiring illiterate employees for informal jobs that are poorly paid. The difference between the unemployed and the working poor is small and most of the time they fall in the same category based on their position on the poverty line (Oya, 2010).

For example, casual laborers employed in the foreign flower and tourism firms sampled have no permanent engagement. They work during the peak seasons and are laid off during low seasons. Apart from low and insufficient compensation for their labor, they are not entitled to employment benefits, and they also do not enjoy job security. Employment in some of the companies is therefore a paradox in regards to the meaning of job creation through FDI. Workers in some instances are in actual sense exploited and impoverished as investors strive to keep the overhead costs down (Obwona & Egesa, 2004.

On the other hand the low average onset age for employment for both male and female workers is an indicator of child labor. Child labor participation for girls is higher than that of boys, which could be attributed to the society's attitude for education of girls. Generally, the aspect of labor participation in terms of age and education in foreign companies portrays a negative reflection of jobs created through FDI (Oya, 2010). This raises the issue of reliability of the data gathered in the course of secondary research as there are conflicting views and perspectives that have been observed by the different researchers; of the benefits of FDI in creating employment in general and in the African countries in particular and with specific reference to Uganda. Valid primary data becomes important as it can reflect the first hand information on the effects of FDI on employment in Uganda. This can be gathered through survey questionnaires, face-to-face interviews, in-depth interviews, etc. in the specific industries like agriculture, manufacturing, etc. where direct and indirect employment is created.

5.2 Further research

It would require more primary research to investigate whether some of the findings mentioned above in the literature section are valid in Uganda. For example Kumar (2001) and Robert (1997) argue that foreign enterprises significantly boost compensation in the host economy since they pay higher wages. A possible approach could therefore be to study whether or not foreign companies in Uganda pay higher wages.

5.3 Chapter summary

This chapter presents a critical outlook regarding the effects of FDI on employment in Uganda. Many positive effects of FDI on employment in Uganda have been discussed, but the negative effects of FDI on employment such as child labor and low paid jobs that do not require skills have not been left out. However, data gathered through secondary research during the course of this research is found to be less reliable in measuring the effects of FDI on employment in Uganda and needs to be validated against quantitative and qualitative information gathered through primary research.

6.0 Conclusion

Uganda is among the developing economies that are rich in unexploited natural resources. These are the major motivators for foreign investors. The government has made concerted efforts to sell Uganda's image abroad to encourage FDI in the country with the hope of facilitating economic development as well as generating new employment opportunities for the ever increasing labor force. Good foreign relations with neighboring countries such as Kenya and the other East African economies have enabled Uganda to overcome the bottlenecks of being land-locked. Policies on foreign investment have enhanced FDI especially with the establishment of the Uganda Investment Authority.

Foreign investors have a variety of economies to select for establishment of business. The government of Uganda therefore strives to outdo its counterparts in the East African region by applying tax and non-tax motivators, which has kept the economy ahead in terms of FDI. Developments of infrastructure, tax holidays, as well as manufacturing under bond among other privileges have had a positive impact on FDI, leading to increased employment opportunities.

Direct and indirect employment opportunities have resulted from FDI in Uganda. The spillover effects of FDI have enhanced development of domestic firms thereby generating more employment opportunities. Almost half of Uganda's working population is dependent on the presence of foreign firms in the economy.

FDI also has a negative side by virtue of the nature of employment opportunities created. The fact that a greater number of unskilled people are employed by foreign companies in contrast to the domestic firms indicates the thriving foreign business at the expense of the people. Moreover, the presence of child labor has a negative impact on the future of Uganda's labor force.

It is recommendable that the government offers incentives focused on encouraging rural development. FDI is currently concentrated on major towns, especially in manufacturing which employs majority of the workforce. Rural infrastructure needs to be developed to attract foreign investors. This would help in minimizing rural-urban migration, which is hampering provision of basic services in Uganda's towns. Moreover, creation of employment in the rural areas would spread the spill-over effects all over the economy leading to balanced economic growth.

The challenges posed by FDI to the economy's workforce need to be addressed through providing checks and balances on employers. The government needs to establish measures to protect employees from exploitation. It is important to delineate a minimum wage to ensure that workers are not impoverished in disguise. Child labor should also be discouraged and stern action needs to be undertaken towards investors employing children.
As previously mentioned data gathered through this research is found to be less reliable in measuring the effects of FDI on employment in Uganda and needs to be validated against quantitative and qualitative information gathered through extensive primary research.

One may argue that not all the literature reviewed in this study is required to answer the research questions, but it will hopefully make the reader gain a deeper understanding on why some countries are more attractive than others in attracting foreign capital. This becomes particularly important in Uganda since a large percentage of the country's population is directly or indirectly dependent on the presence of foreign companies for employment opportunities. For example, the country is struggling with both political instability and terrorism. These are factors that could possibly limit the presence of foreign companies in the country. Kampala and other major Ugandan towns witnessed strikes and protests following the 2011 presidential election. Furthermore, Al Shabaab terrorists detonated two bombs in Kampala in July 2010 that killed more than 80 people and injured hundreds of people.

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Appendix A: Informed consent

Informed Consent: Participants 18 years of age and older

This sample cover letter may be used as a general guide to fulfill the requirements of informed consent. Items in bold typeface or underlined must be written to describe specific elements of the research study.

Dear ______________ ,

My name is __________ and I am a student at the University of Agder working on my master's thesis. I am conducting a research study entitled: THE EFFECTS OF FOREIGN DIRECT INVESTMENT ON EMPLOYMENT IN UGANDA

The purpose of this study is to examine what role FDI plays in Uganda's economic development, and more specifically investigate to what extent foreign capital inflows affect employment in Uganda, through direct employment and indirect through linkages/spillovers to domestically owned firms. Data will be collected by issuing questionnaires to the participants with questions regarding their human resources. Information to be collected includes; age, education level and nationality of the employees as well as the number employed in each firm sampled. Data will be analyzed to determine the effect of Foreign Direct Investment on employment in the country.
Your participation will involve filling in the questionnaire. Your participation in this study is voluntary. If you choose not to participate or to withdraw from the study at any time, you can do so without penalty or loss of benefit to yourself. The results of the research study may be published but your identity will remain confidential and your name will not be disclosed to any outside party.

In this research, there are no foreseeable risks to you.

Although there may be no direct benefit to you, a possible benefit of your participation is of adding more information to the research field about Foreign Direct Investment in Uganda

If you have any questions concerning the research study, please call me at: +   and email: ________

As a participant in this study, you should understand the following:

1. You may decline to participate or withdraw from participation at any time without consequences.
2. Your identity will be kept confidential.
3. _________, the researcher, has thoroughly explained the parameters of the research study and all of your questions and concerns have been addressed.
4. If the interviews are recorded, you must grant permission for the researcher, _________, to digitally record the interview. You understand that the information from the recorded interviews may be transcribed. The researcher will structure a coding process to assure that anonymity of your name is protected.
5. Data will be stored in a secure and locked area. The data will be held for a period of three years, and then destroyed.
6. The research results will be used for publication.

"By signing this form you acknowledge that you understand the nature of the study, the potential risks to you as a participant, and the means by which your identity will be kept confidential. Your signature on this form also indicates that you are 18 years old or older and that you give your permission to voluntarily serve as a participant in the study described."

Signature of the interviewee _____________________________ Date _____________

Signature of the researcher ______________________________ Date _____________

Appendix B: Questionnaire

Questionnaire for Research Project

THE EFFECTS OF FOREIGN DIRECT INVESTMENT ON EMPLOYMENT IN UGANDA

Thank you for participating in this research survey. It is requested that you do not put your name or any contact information on the survey to ensure that your responses confidentiality of the responses.

What does the organization specialize in?...

Which is the investor’s parent country?...

What is your level within Organization? Tick the appropriate box

□ Supervisor □ Manager □ Executive

How many of your employees are in each of the following age bracket. Please indicate in the respective box

Under 18 ☐ 18-35 ☐ 35-60 ☐ ;0 and Over ☐

How many of your employees are in each of the following education bracket?. Please indicate in the respective box

No primary education ☐ ?rimary education ☐ ondary education ☐

Trade/technical/certificate ☐ 3achelor’s degree ☐ ster’s degree ☐ ral degree ☐

How many employees are male? ☐ How many are females? ☐

How many years has the business been in operation in the country? ☐

What is your business worth in US dollars? ☐

What are the incentives offered to the organization by the Ugandan government?

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…………………………………………………………………………………………………

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What are the salary scales of employees in the organization?

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……………………………………………………………………..

Are the salary scales determined by the education level? Yes ☐ No ☐

If No, what are the determinants of salary scales in the organization?

…………………………………………………………………….

…………………………………………………………………….

……………………………………………………………………..

How many employees are employed; On permanent terms? ☐

On contract terms ☐

On temporary/Casual terms ☐

Thank you very much for your assistance in my research project. Your opinions are highly appreciated.