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Research Article

FOREIGN DIRECT INVESTIMENT AND SOCIO-ECONOMIC DEVELOPMENT OF RWANDA

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Abstract

Many developing economies have endeavored to encourage foreign Direct Investment (FI) in a bid to facilitate economic growth. Rwanda 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 genocide of 1994, foreign investors still find Rwanda a favorable place for investment. The methodology employed based on descriptive research using both qualitative and quantitative types of data and both primary and secondary data were used in this research to come up coherent and justifiable data, various instruments in research were also used such as questionnaires, interviews and documentary review to gain more information from different sources. This has been enhanced by the government's efforts to attract investors through many favorable investment policies. Foreign Investment usually has significant effects on any economy and this research presents a case study of the impact of Foreign Investments companies in Rwanda with an emphasis on social economic development. It presents answers to the questions of; what the level of FI is in Rwanda, 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 impact of FDI in the Rwandan labor market as the gathered information varies, thus questioning the validity of the data, and the fact that there is still a need for 5 million jobs to be created, implying that FI is not the sole solution for economic development through employment generation. The study indicated a strong positive correlation between FDI and socio-economic development of Rwanda ranging from employment creation, Infrastructure development, business development, Export growth and tax base enlargement. Furthermore this study suggests that a range of factors need to be taken into consideration to understand the impact of FDI on the Rwandan 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.

Keywords: Foreign Direct Investment, and Socio-economic development.

1. INTRODUCTION

1.1 Background of the study

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. World Bank (1996) conceptualized Foreign Direct Investment (FDI) as investment that is made to acquire a lasting management interest (usually 10% of voting stock) in an enterprise and operating in a country other than that of the investors define according to residency) the investors purpose being an effective voice in the management of earning either long term capital or short term capital as shown in the nations balance of payments account statement (Macaulay, 2012). Broadly, foreign direct investment includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans. In a narrow sense, foreign investment refers just to building new facilities. Todaro, (1977) believed that FDI encourages the inflow of technology and skills and fills the gap between domestically available supplies of savings, foreign exchange and government revenue. It also encourages the inflow of technology and skills.

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Onu, (2012) asserted that the contributions of foreign investment to Japan after the World War II and in South Korea after the Korean War has tremendously assisted the economic growth of these countries by providing the local economy with a source of foreign skill, technology, management expertise and human resource development through international training and collaboration. The role of FDI in the growth of selected African countries was investigated by Mwaba (2000). From results derived in the study, the author concluded that though openness of a country's economy may be a necessary step to enhancing growth, it is not sufficient for achieving positive growth rate. Rather, friendly trade restriction and lower import and export tariffs would enhance a positive net international trade and economic growth.

"Nowadays world trade is a very complicated phenomenon because it is not just an economic but also a social and political matter" Implementing a right trade policy will enhance the economic welfare and growth of the economy. A wrong policy, however, could spell disaster (Wong and Heiduk 2015:1). Several studies have analyzed the impact of foreign direct investment (FI) inflows on economic growth rates of different sets of countries over time. On one hand, it is assumed that FI flows would have spillover effects on the host countries, such as enhancing job creation, capital accumulation, and knowledge transfer. In this regard, Crespo and Fontoura (2007) summarized five main channels of technological diffusion linked to FDI flows: demonstration or

imitation, labor mobility, exportation, competition, and backward and forward linkages with domestic firms. These five channels, according to Crespo and Fontoura (2007), match, respectively, the following situations:

- The efforts of domestic firms to adopt successful technology used by multinational enterprises (MNEs);
- The recruitment by domestic firms of workers with MNE experience who are able to use different technologies;
- The access to large distribution networks and the related gain due to a better knowledge of consumer tastes in foreign markets
- A more efficient use of existing resources and technology, or the incorporation for domestic firms of new technologies in the production process to compete with MNEs

Foreign 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 and 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 and 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).

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 8 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 and 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. Rwanda 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 Statement of the Problem

For Rwanda to meet social economic development there must be an eye on: A number of Balance on current account (Balance of payments), Inflation and Exchange rate on Foreign Direct Investment. Foreign Investments have impact on Gross Domestic Product (GDP). Econometric models must be developed to investigate the relationships between the aforementioned variables and foreign investments in the social economic development of Rwanda. Based on the data analysis it will be discovered that foreign investments have positive and significant impact on current account balance in Balance of payment. While inflation will reduce as a result of foreign companies boost to the local economy. The exchange rate has positive effect on foreign investment. Therefore it is recommended that for Rwanda to attract the desired level of FDI, it must introduce sound economic policies and make the country investor friendly. There must be political stability, sound economic management and well developed infrastructure and a culture of customer care and doing business ethics.

1.3 Objectives of the study

1.3.1 General Objective

The purpose of this study is to address a theoretical review of Foreign Direct Investment issues related to socio-economic development in Rwanda

1.3.2 Specific objectives

1. To evaluate the effects of Foreign Direct Investment on economic development in Rwanda.
2. To find out the role of Foreign Direct Investment on social development in Rwanda.
3. To find out the challenges underlying the flow of Foreign Direct Investment in Rwanda.
4. To examine the possible available strategies of combating the challenges of hindering the free flow of Foreign Direct Investment in Rwanda

1.4 Research questions

1. What are the effects of Foreign Direct Investment on economic development in Rwanda?
2. What is the role of Foreign Direct Investment on social development in Rwanda?
3. What are the challenges underlying the flow of Foreign Direct Investment in Rwanda?

4. Account for and examine the possible available strategies of combating the challenges of hindering the free flow of Foreign Direct Investment in Rwanda?

1.5 The hypothesis of the study

The research shall seek the validity or otherwise of the following research hypotheses constructed within the framework of the research questions (and hence the research objectives): The hypothesis are categorized into two; The Null hypothesis and Alternative hypothesis

Null Hypothesis (H0): There is no significant relationship between Foreign Direct Investment and socio-economic development of Rwanda.

Alternative Hypothesis (H1): There is positive and significant relationship between Foreign direct Investment and Socio-economic development of Rwanda

2. LITERATURE REVIEW

2.1 Definition of Concepts

In this study, the following concepts were defined; Foreign Direct Investment, economic development and social development.

2.1.1 Foreign Direct Investment

Foreign Direct Investments (FI) - 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 and 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 and Plummer, 2005).

2.1.2 Development

Todaro (2000) summarizes development as a multi-dimensional process involving major changes in structure, attitudes and institutions as well as the acceleration of economic growth, the reduction of inequality and eradication of poverty. The word development has got many meanings depending on the context in which it's being used eg according to the Cambridge International Dictionary of English (1995, pg 377)

Development is defined as "growing and becoming more advanced". On the other hand, development is highly valued or positive chain in a specific direction interpreted by persons, community/society or a country as a desired goal.

Thus, according to JAMES, (1973:4), asserts that

"Development means the process of general improvement in the level of living together with the decreasing income distribution, and the capacity to sustain continuous improvement over time, the components of socio-economic wellbeing are substance of development…"

2.1.3 Economic development

Economic development is the process by which emerging economies become advanced economies. In other words, the process by which countries with low living standards become nations with high living standards. Economic development also refers to the process by which the overall health, well-being, and academic level the general population improves.

According to Arora, 2002 … While economic growth is simply an increase in aggregate output, economic development is concerned with quality improvements, the introduction of new goods and services, risk mitigation and the dynamics of innovation and entrepreneurship. Economic development is about positioning the economy on a higher growth trajectory. Of the two, economic development is less uniquely a function of market forces; it is the product of long-term investments in the generation of new ideas, knowledge transfer, and infrastructure, and it depends on functioning social and economic institutions and on cooperation between the public sector and private enterprise. Economic development requires collective action and large-scale, long-horizon investment. Economic development addresses the fundamental conditions necessary for the microeconomic functioning of the economy. It is within the purview of government.

2.2 Theoretical Framework

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 FI not only comes from, but goes to high-income capital rich countries, that have led to what they are referring to off -shoring.

2.2.1 Classical and neoclassical trade theory

The economists like Ricardo, J. S. Mill, Marshall and Pigou developed the, classical theory of interest which is also known as the capital theory of interest or the saving-investment theory of interest or the real theory of interest. According to this theory, interest is a real phenomenon and the rate of interest is determined exclusively by the real factors, i.e., the supply of and demand for capital under perfect competition. The supply of capital is governed by thrift (i.e. saving) or time preference and the demand for capital is influenced by the productivity of capital.

Within the classical and neoclassical school of thought one focuses on three theories which have been influential in the development of the theoretical framework for international trade. One starts out with the Ricardian model and the doctrine of comparative advantage. Second, presentation of the Heckscher-Ohlin model and the factor price equalization theorem which builds upon the Ricardian model, but adds additional factors of production. A common feature of these trade models is that they employ a *static* framework in the

sense that free trade will increase the *level* of income. The third theory is the new trade theory‖ which adopts a *dynamic* framework that also relates to the *growth* effects (Kaufmann et al,. 2007)

2.2.2 The Ricardian Model

In the Ricardian model, labor is assumed to be the only factor of production. Labor productivity is thus the measure of a country's technological level, expressed in the amount of labor needed in the production of a good. As Ricardo states, labor is ―…the ultimate price which is paid for everything (Ricardo and Fogarty 2005:253). Labor was believed to be immobile, but a major advantage with international trade was the distributional effect that arose from specialization and division of labor. Ricardo argued that under a system of free trade, each country would devote its capital and labor in the most efficient and beneficial way.

The most important contribution of Ricardo to the development of international trade theory is, as we have seen above, the comprehension of *relative prices* to determine the patterns of trade. However, this theory is exposed to delimitations of how the economy functions today, as it builds a model upon a one-factor economy. In the subsequent section, the neoclassical trade theory Heckscher-Ohlin model (H-O model) will be presented and includes an additional factor to the trade model (Routledge and Robert, 2011). Therefore, international trade is inevitable where foreign direct investment has emerged and promoted and in this case of the current study in Rwanda foreign direct investment has boosted the level of international trade thereby increasing exports level in Rwanda.

2.2.3 The new trade theory

In the late 2010s, a group of theorists within the neoclassical school of thought challenged the static equilibrium models employed in international trade theory. These theorists constitute the new trade theory here presented by the work of Paul Krugman. A hallmark of this direction is the emphasize put on *dynamic* effects of economies, implying that an economy can obtain long-term growth effects due to increasing returns. This is an independent cause of international specialization and trade, and must therefore be added as a new factor for why trade arises between countries (Krugman 2013).

Ricardo and Fogarty (2005) argued that underlying differences between countries is only one reason for why trade takes place. Countries also trade because of the advantages created by specialization caused by increasing returns in one sector not related to comparative advantage. Intra-industry trade is a common feature in world trade. For instance, France exports wines to South Africa and at the same time import wine from the same country, which would not fit into a model based on comparative advantage. However, the patterns of intra-industry trade are in themselves unpredictable. This happens because of product differentiation in order to offer consumers a wider range of wines. Due to advantages of large-scale production it leads to a random division of labor among countries. Thus, new trade theory concentrates more on resource allocation rather than the production of goods as an explanation for the gains from trade (Fouchet, 2010).

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 and Yarbrough (2002) discuss recent theoretical models of economic geography that attempt to explain the spatial location of FI. 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.

2.3 Related Empirical Literature

From Ricardo's basic trade theory of comparative advantage to the debate of import substitution versus export led growth, great efforts have been made to find an adequate answer to the relationship between openness to trade liberalization and growth of private sector. Many studies suggest that performance of more outward-oriented economies is superior to countries pursuing more inward-looking trade practices (Santos-Paulino 2015). However, there is little persuasive evidence for this. Some research do not find this relationship to be robust, yet other studies even find this relationship to be negative (Rodrik *et al.,* 2016). In this chapter I present a selection of influential empirical studies on the subject. These studies are chosen on the basis that they are widely referred to in the subsequent literature dealing with trade liberalization and growth of private sector, and are all carried out within a quantitative and qualitative approach approach. The selection includes the following: Levine and Renelt (2013), Sachs and Warner (1995), Edwards (1997), Frankel and Romer (2009), Greenaway *et al.,* (2011), Rodrik *et al.,* (2016) and Melchior (2007). When I review these studies, I get a good overview of what we know today about the direction and strength of the relationship between liberalization of trade and growth, as well as the influence of other determinants. The variables which form the basis of my own analysis later in this thesis, are included on the foundation that they are identified as key variables in the studies being subject of this chapter.

2.3.1 Determinants of Foreign Investments (FDI)

Many factors have been considered in the literature as determinants of FI. 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 FI modeling. The availability of good infrastructure, above all reliable power supply, transportation, water and

communication, is a significant factor determining the level of FI (Barnet and Brooks, 2006). When emergent economies struggle for FI, the economy that is adequately equipped to minimize infrastructure drawbacks will attract a larger quantity of FI (Sethi *et al.,* 2003).
Multinational Enterprises are often attracted to developing countries by the abundance of lowpriced man power. For instance Urata (2004) contends that minimal wages, negligible inflation, underrated exchange tariffs are important determinants of cost-saving FI. Low labor costs can attract investment in labor intensive activities and thus stimulate vertical FI. Khadaroo and 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 FI decision-makings. 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 FI. Low labor costs can attract investment in labor intensive activities and thus stimulate vertical FI. Khadaroo and 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 FI 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 FI to a host country. Kinoshita and Campos (2002) uses one lag stock of FI 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.

2.3.2 Historical development of attitudes towards Foreign Investments

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 and Rogoff, 2009). This is mainly because there are few situations in many years that companies from the less developed economies expand their investment to developed nations.
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, 2014).

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, 2013). 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, 2009). 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 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 30 establish subsidiary firms in the newly found markets (Buckley and Casson, 2009. 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, 2009).

2.3.3 Foreign 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 18 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, 2004).

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, 2014). 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.

2.3.4 FDI and Economic Development

According to Klein, M. (2001) Most of the studies on trade and growth show that there is a positive relationship between the two. Nonetheless, a question that is just as interesting is: Do we see convergence in income levels among countries? On theoretical grounds, Heckscher and Ohlin, (2015) presented the factor price equalization theorem, which implies convergence in income levels among the countries involved in trade. When the idea is applied to developing countries, this theorem suggests that they will eventually catch up with developed countries and consequently grow with a faster pace.

One plausible explanation may be that developing countries should be able to close the income gap over time due to the advantages of backwardness (Sachs and Warner 2009). This implies that poorer countries can import capital and technology from the wealthier countries. However, Myrdal (2007) strongly criticized neoclassical theory on this point by emphasizing the increasing inequalities between developing and developed countries that has instead occurred. In the following section I present the findings of the convergence hypothesis conducted in the more recent empirical studies included in this chapter.

Economic development is an all-encompassing concept. It centers on economic and social progress, but also entails many different aspects that are not easily quantified, such as political freedom, social justice, and environmental soundness. Without a doubt, all these matters combine to contribute to an overall high standard of living. However, empirical evidence has amply demonstrated that all these varied elements of economic development correlate with economic growth. That is, as a general rule, countries with faster economic growth have more rapid improvement in health and education outcomes, progressively freer political system, increasingly more equitable distribution of wealth, and enhanced capacity for environmental management.

Therefore, while economic growth does not bring about automatically other aspects of social, institutional and environmental improvements, without economic growth, there is limited prospects for such achievements. 8. In this context, the paper examines the role of FDI in economic development as a key ingredient for successful and sustainable economic

growth and as part of a mechanism to social development. This section of the paper aims to highlight the most important channels through which FDI makes a significant and irreplaceable impact on the economic development of the host countries. At the same time, it is important to recognize that, like all things, FDI is not all good no bad. A separate discussion is devoted to the potential negative impacts of FDI flows on host economies. Just what is it that makes such rapid progress possible? Economic studies offer many potential explanations. According to one recent growth theory, long term economic growth can be explained as the combination of growth in its sources, i.e. the increases in factor inputs (capital and labor) and in total factor productivity (TFP), which reflects technological advances and other efficiency improvements in resource utilization.2 In this "endogenous" growth framework, FDI has shown its ability to contribute significantly to all three components of growth: FDI increases capital stock, boosts human capital accumulation (though usually unmeasured in labor stock), and speeds up technological advances in host countries. Nevertheless, the most direct impacts of FDI on host economies are through its role in the accumulation of investment. From the Golden Age investment boom after World War II to the East Asian economic miracles in the 1980s, there is ample evidence to demonstrate that investment is a key ingredient to sustained growth. Over the last two decades in particular, FDI has come to play a growing role in most developing countries' total investment. However, striking as the rise in the importance of FDI may seem in host countries' resource flows, FDI is only part of the total financing by foreign investors in host countries. At the same time that foreign companies mobilize resources within their own corporate systems, their affiliates can also raise funds through bonds, loans, and equity issuances. To the extent that these sources are in the international capital markets, they increase the total inflows of foreign financial resources for development. Indeed, as data for United States transnational corporations suggest, the flows of external resources to host countries due to the presence of foreign enterprises often double FDI flows alone.

Aaron, and B. Hadjimichael (2001) In traditional economic thinking, productivity growth measures the contribution of exogenous technological changes to economic growth. However, new understandings of the growth process, especially with the advent of the endogenous growth theory, call for caution in such an interpretation. Depending on the nature of the technology (labor or capital saving), the structure of the economy, and the ease of substitution between factors of production, technological change may be either more or less than TFP growth. At the same time, the importance of the "soft" side of technological advance – organizational structure, managerial practices, tacit knowledge, etc. – is increasingly recognized as an integral part of the whole technological upgrade process, contributing to the overall productivity growth. Whatever its precise level of contribution to economic growth, the importance of technological and organizational advance has long been firmly established. In the long pre-Industrial Revolution period, a long term growth rate of 0.2 percent per year was considered remarkable. The technological breakthrough in late 18th century Britain doubled the growth potential, but it was still lackluster compared to the 8 percent annual growth seen in the high performing East Asian economies in recent decades. Just like the fast growth in postwar Europe, such rapid economic growth of the developing countries in the second half of the 20th century owed much to the reduction in barriers to the emulation of technical and organizational innovations from the world's leading countries. Indeed, rather than re-inventing what had already existed elsewhere, those developing countries that were able to import and imitate the best practice from more advanced economies enjoyed unprecedented economic growth. For developing world at large, the rapid and efficient transfer and adoption of "best practice" across borders becomes the very essence of economic development. Best practice may be transmitted across borders by various mechanisms. Foreign buyers of exports may provide the demand for upgrading, as well as some level of technical assistance to domestic firms. Imported capital goods may embody improved technology. Technology licensing allows countries to acquire innovations. Expatriates transmit knowledge. Yet, arguably the most effective means of transferring best practice is FDI as foreign investment tends to package and integrate elements from all of the above mechanisms.6 In fact, the most important benefit of FDI is that it provides, along with financial resources, access to the whole range of technological, organizational and skill assets, as well as the markets of the parent company. With few exceptions, the vast majority of the fast-growing economies relied heavily on FDI to jump start and sustain their rapid economic transformation.7 19. FDI transmits best practice in two ways: internal transfers of technology and skills to the foreign affiliates in the host country, and technological diffusion to a broad section of companies and institutions within the host country. Although the internal transfers of best practice benefit principally the affiliates, to the extent that foreign-owned firms outperform domestic counterparts, their presence still constitutes a valuable asset to the host country.8 First of all, many of the technologies are based on expensive R&D integral to branded products that firms generally will not sell to unrelated parties. Direct investments are thus the only mechanism for the host country to obtain the latest technologies and expand its productive base. Secondly, because foreign affiliates are generally at the forefront to introduce new management and organizational techniques, quality control standards, and marketing methods, they tend to absorb best practice more quickly than local firms. Thanks to their lower learning failures, the affiliates may serve as a test ground of these new approaches in the host country. Finally, for many developing countries, being incorporated into a global company's international production network is the easiest way for them to gain access to regional or global markets. 20. Nevertheless, the ultimate impact of FDI on domestic economic growth depends on the diffusion of best practice through the local economy at large. This diffusion process takes place through four main channels: backward linkages with local suppliers (sourcing), forward linkages with local producers and distributors, horizontal linkages

2.4.5 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, 2012). 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 and 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, and 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, in 1994 regime in Rwanda was a major setback to foreign companies, which feared to invest in Rwanda the a result of bad government of the time, genocide and the investors were forced to leave the country for their safety. This led to unprecedented losses that in turn largely affected employment among the Rwandan population. During and after the genocide regime, sanctions were imposed by many international organizations on Rwandan'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. 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 startup 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).

2.3.6 Foreign Investment and employment

Proponents of FI generally argue that it generates employment. However, Sornarajah (2004) points out that FI do not always lead to meaningful employment creation. Rather, it is sometimes accompanied by massive layoffs especially in the privatization of public companies. According to Miberg (2012) cautions that the portion of FI that expands employment is considered to be 1 /4 while 1 /3 rd is considered to contract employment. Even though FI 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 FI might therefore be questionable (Günter and Andreas, 2008). Nevertheless, Spar (2003) observes that in an ideal situation, FI 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 and 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 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 Rwanda employing on a 10 to one ratio of foreign firms to local firms.

2.3.7 Difficulties and Challenges 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. 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 Rwanda during the genocide in 1994 in Rwanda, tyrannical rule of Idi Amin in Uganda 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. 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 28 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.

2.3.8 Rwanda's FDI and export promotion

The main export earnings come from few commodities, namely, tea, coffee, Tin Ores, Niobium and Tantalum and Tungsten ores which, for the period 1997 - 2007 generated over 80% of the export earnings. All these commodity exports are resource-based and the country struggles to enter the global value addition chain due to limited or lack of a strong manufacturing sector. Dependence on commodities exports has resulted in an export decrease over the years due to international price volatilities. The service sector has been growing at a faster rate and is now an important contributor to the economy. But services exports are also limited to few sectors, especially tourism (Rodrik *et al.,* 2012). Rwanda's merchandise exports have also increased significantly over the recent past, rising to $268 million in 2008 from $98 million in 2004. At the same time as this impressive growth in exports, imports to Rwanda have grown faster, from $276 million in 2004 to $881 million in 2008. The ratio of exports to imports has therefore remained virtually unchanged at around 30-35 per cent in the past six years. Rwanda's trade deficit (goods and services) in 2008 was therefore $748 million and growing representing 14.2 per cent of Rwanda's GDP, down from 16.5 per cent in 2004. Rwanda's main commodity imports are motor vehicles, petroleum oils, computers and other machinery, electrical machinery, pharmaceutical products, iron, steel, cement salt, animal vegetable fats and oils, worn clothing and other made up textile articles, wheat or mesh flour, articles of iron or steel, sugar and sugar confectionery, medical appliances, plastics, paper and paperboard, cereals/maize seed/rice and furniture (Santos-Paulino, 2015). Strengthening the participation of Rwanda in international trade will be a medium to long term process. Rwanda's current weak trade performance is largely attributable to its weak supply side capacity. It is therefore clear that Government should undertake more work on strengthening the productive capacity of the country and its trade-related infrastructure, while continuing to focus on the demand side in terms of securing more favorable market access conditions for its exports, particularly in addressing non-tariff obstacles (Gilpin, 2011). Being landlocked constitutes a major impediment for Rwanda"s trade development. Costs for trading are higher because of long land-transport routes and the high import and export freight service costs in the region. The high trading cost endures dependence on poor infrastructure and administrative procedures with neighboring countries Kenya and Tanzania. In addition, the condition of the roads and regional railways are inadequate for the export of goods since the many delays slow down transportation (IGC Report, 2017).

3. RESEARCH METHODOLOGY

3.1 Research design

According to Kerlinger F. (2011), a research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions. The plan is the complete scheme or program of the research. In order to achieve the successful objectives of this study, a descriptive research design was employed. According to Larry B. (2012), a descriptive study is an intensive description and analysis of single individual, organization or events based on information obtained from a variety of sources such as interviews, documents, test results and archival records. This research design is adopted because the researcher is targeting to study a variety of entities of communication investments such as airtel-tigo in Rwanda.

3.2 Population of the study

According to Grinnell (1990) a "population is a total of persons or objects with which the study is concerned". According to Carl et.al, (1991), population refers to the total group of people from whom the information is needed. A population is defined as all members of any well-defined class of people, events, or objects about which the generalization is made. It is the entire set of relevant units of analysis, or data (Nachmias and Nachmias, 1996:179). For example in a study where Rwandan adolescents constitute the population of interest, you could define this population as all Rwandan boys and girls within the age range of 12-21 Because of our inability to access every element of a population, what we do is to gather information from a 'sample' and then apply our findings to a broader population. The population of Airtel-Tigo is 2200 members of which 120 will be chosen for distribution of questionnaires as the sample size. However, some members in National Bank of Rwanda were sampled for more information on FDI in Rwanda and economic development.

3.3 Sampling techniques

3.3. 1 Simple random sampling

Simple random sampling was used to select the respondents. Simple random sampling as defined by Baker (1988:148) refers to the situation whereby each individual case in the population theoretically has a chance of being selected for the sample. The simple random sampling technique was used to select respondents especially the staff and agents.

3.3.2 Stratified Sampling

In statistics, stratified sampling is a method of sampling from a population which can be partitioned into subpopulations. Stratified sampling example, In statistical surveys, when subpopulations within an overall population vary, it could be advantageous to sample each subpopulation (stratum) independently. Stratification is the process of dividing members of the population into homogeneous subgroups before sampling. The strata should define a partition of the population. That is, it should be collectively exhaustive and mutually exclusive: every element in the population must be assigned to one and only one stratum. Then simple random sampling or systematic sampling is applied within each stratum. The objective is to improve the precision of the sample by reducing sampling error. It can produce a weighted mean that has less variability than the arithmetic mean of a simple random sample of the population.

3.3.3 Purposive Sampling

According to (Newing, 2011). Purposive sampling (also known as judgment, selective or subjective sampling) is a sampling technique in which researcher relies on his or her own judgment when choosing members of population to participate in the study. A purposive sample is a non-probability sample that is selected based on characteristics of a population and the objective of the study. Purposive sampling is different from convenience sampling and is also known as judgmental, selective, or subjective sampling. This technique was used to select some employees of Airtel depending on specific information regarding their departments.

3.3 Sample size determination

A sample is a portion of the population selected to achieve the objectives of the study. This study adopted random sampling procedure and used the following formula of Dagnel, to select the sample size (n) of population as quoted by HODALI A. E (2012:35-36)

$$n = \frac{z^2 \times p \times q \times N}{d^2(N-1) + z^2 \times p \times q}$$

(Dagnel, 2006: 213)

Where: n= sample size,
N= size of population (PSF members),
Z= Normal distribution coefficient,
q= probability of failure,
d= margin error,
p= probability of success.

The margin error varies between 5% and 10%. We used the margin error of 10%, then the confidence level of 90%, our probability of success is p=0.5, failure probability of q=0.5, as Z 0.25=1.65

For this case, the population size of 1200 members of Airtel-Tigo Rwanda in Kigali were sampled and 120 sample size was selected accordingly

3.4 Data collection methods

3.4.1 Questionnaires

A questionnaire is defined as a list of carefully structured questions, chosen after testing, with the view of eliciting reliable responses from a chosen sample. The aim of a questionnaire is to find out what a selected group of participants do, think or feel (Meyer et al., 2004:42-45). A self-administered questionnaire was designed by the researcher. The total number of 80 questionnaires were used to gather information from the target population. A Structured questionnaire with a set of close ended questions (Yes/No questions and multiple choice questions) and Open-ended questions (Completely Unstructured questions) to be asked to the target population was used.

3.4.2 Interview

An interview is a conversation where questions asked and answers are given. In common parlance, the word "interview" refers to a one-on-one conversation between an interviewer and an interviewee (Carl *et al.,* 1991). In this study, interviews were used to gather opinions concerning the effects of FDI on Socio-economic development of Rwanda from both Airtel Rwanda and all bodies concern with FDI.

3.5.3. Documentation

The term documentation is generally used for the gathering and recording of information, especially to establish or provide evidence of facts or testimony. In order to get more accurate information concerning the research subject, it is very important to carry out documentation with the purpose of being aware of what information exists about the topic (Neal and Christopher, 1991). Therefore, documentation was used as a mean to access recently compiled or published information on informal saving groups which helped to have a good literature review. Not only to get informed literature, documentation was helpful to make a good discussion of results by comparing the results from previous research against those generated by the present study; which therefore helped to draw reliable conclusions and recommendations.

3.5.4. Observation

Observation is used as a research method in two distinct ways structured and unstructured (Pretzlik, 1994). In positivistic research, structured observation is a discrete activity whose purpose is to record physical and verbal behavior. Observation schedules are predetermined using categorization developed from known theory. In contrast, unstructured observation is used to understand and interpret cultural behavior. Observation is valuable because it informs about the influence of the physical environment. Observation also captures the whole social setting in which people function, by recording the

context in which they work (Mulhall, 1997). While conducting a research, it is of vital importance to check whether the responses from respondents match with the real situation. However, observation is always needed to have a real picture of what is talked from the interview against what is observed. During this study, observation was used as a means of checking whether the respondents' responses are relevant to the real situation.

3.6 Data analysis and Interpretation

Before the data were analyzed, the researcher recorded all interviews, observations, documents, journal entries and field notes. The process of recording allows the researcher to become acquainted with the data (Riesman, 1993).

3.6.1. Data processing

According to Causley *et al.* (2007) argue that data collection is not an end itself, unless the data can be processed, analyzed and converted into information in a format that can be helpful to the user. Once the set of data is collected, it must be carefully processed to get meaningful results. The data were processed through editing, coding and tabulation.

3.6.1.1. Editing

By definition, data editing is the activity aimed at detecting and correcting errors (logical inconsistencies) in data (Mulhall, 1997). Data editing was helpful to improve data quality though errors containing in data was removed. Data editing and coding was done using Statistical Package for Social Sciences (SPSS).

3.6.1.2. Coding

A systematic way in which to condense extensive data sets into smaller analyzable units through the creation of categories and concepts derived from the data (Pretzlik,1994). Data coding is also the process by which verbal data are converted into variables and categories of variables using numbers, so that the data can be entered into computers for analysis Variable was given a particular code referred to as smaller analyzable units (for example 1, 2, 3...) which allow easy analysis of data, SPSS was helpful in data coding.

3.6.1.3. Tabulation

Gilbert and Churchill Jr (1992:51**)** tabulation refers to the orderly arrangement of data in table or other summary format achieved by counting the frequency of responses to each question. Tabulation is the final step in analyzing data. Tabulation is the putting together of data into some kind of statistical tables. Data tabulation was done after editing and coding. Tabulation is either done by computer (by Microsoft word for word processing, excel and SPPS for windows to make tables and graphics.

3.6.2. Data analysis

Content analyses were used to compare and analyze the state of respondents before and after being members of PSF Nyagatare, and then discover the causes and relationship in order to come with useful conclusions and suggestions. Mean as descriptive statistics for measuring central tendency of distribution was evaluated based on the following intervals and equivalences;

5. Strongly agree [4.21-5.00] = Very high
4. Agree [3.41-4.20] = High
3. Not sure [2.61-3-40] = Moderate
2. Disagree [1.81-2.60] = Low
1. Strongly disagree [1.00-1.80] Very low

3.6.2.1 Description of descriptive statistics

5. $4.3 \leq \mu \leq 5.0$: Very high mean, i.e. strong evidence of the existence of the fact

4. $3.5 \leq \mu \leq 4.2$: High mean, i.e. the fact appears more

3. $2.7 \leq \mu \leq 3.4$: Neutrality

2. $1.9 \leq \mu \leq 2.6$: Low mean, i.e. the fact appears less

1. $1.0 \leq \mu \leq 1.8$: Very low mean i.e. the fact is not apparent

The standard deviation helps to measure how far or near from the mean. The Spearman's correlation coefficient is a statistical measure of the strength of a monotonic relationship between paired data.

4. FINDINGS AND CONCLUSIONS OF THE STUDY

4.1 Summary of findings

Rwanda's official policy desires to transform her economy away from over-dependence on agricultural and an import dependent economy to a diversified and export oriented economy by means of attaining an enviable level of structural transformation, with liberal being an integral component. Price volatility which is a characteristic of the international market for primary agricultural products has made over-reliance on this sector risky. Periods of low agricultural prices have repeatedly led to deficits in the budget and spending cuts by the government. Furthermore, during such times dwindling foreign exchange earnings become insufficient in sustaining the high level of imports. The manufacturing sector provides the base on which reduction in dependence of primary sector can be built by Rwanda. On this note a paramount note of shifting to service sector has been considered quite important by the government of Rwanda hence inspiring the policy of foreign direct investment in the country where by a specific chamber in Rwanda Development Board was introduced to basically attract foreign investors to come and invest in Rwanda and it is in this line that Airtel-Tigo Rwanda has established itself in the country. The study set out to evaluate the effect of foreign direct investment on socio-economic development of Rwanda where Airtel was taken as a case study for the foreign direct investments in the country. For data analysis, the statistical package for social sciences (SPSS) package was used and the descriptive statistics was used for the computation of the mean and the standard deviation for each question asked to 80 respondents selected among others however, other boards and ministries related to foreign investments were also interviewed for further information.

4.1.1 The effects of foreign direct investment on socio-economic development of Rwanda

The findings for the first objective shows the overall of 3.03 and standard deviation of .547 indicating that foreign direct

investment plays an important role on the socio-economic development of Rwanda during the period of study. According to IMF, 2002. In this era of increasingly globalized world economy, FDI is a particularly significant driving force behind the interdependence of national economies. Even though most of the FDI flows has always concentrated in the developed countries, its importance is undeniable for developing countries as well. As shown in chapter four previously while the aggregate wealth of the Rwanda nearly quadrupled and its total trade volumes rose more than five folds, FDI flows into Rwanda grew by over 18 times. Through private direct investments, the country is participating more than ever before in the global production network. This is a clear picture showing the role of FDI on socio-economic development in Rwanda.

4.1.2 Effectiveness of foreign direct investment in economic development of Rwanda

The findings for the second objective indicated the mean 4.15 and .481 standard deviation as high mean. That means that the effectiveness of foreign direct investment on economic development implemented and followed by Rwanda is manifested through employment opportunities in the country, the glooming of business environment, tax base increase and also emergency of small and medium entreprises in the country as a result of these factors mentioned above. However, empirical evidence has amply demonstrated that all these varied elements of economic development correlate with economic growth. That is, as a general rule, countries with faster economic growth have more rapid improvement in health and education outcomes, progressively freer political system, increasingly more equitable distribution of wealth, and enhanced capacity for environmental management. FDI has shown its ability to contribute significantly to all three components of growth: FDI increases capital stock, boosts human capital accumulation (though usually unmeasured in labor stock), and speeds up technological advances in host countries. Nevertheless, the most direct impacts of FDI on host economies are through its role in the accumulation of investment (Crafts, 2000).

Employment and Labor Standard

Increasing gainful and secure employment has always ranked high as a policy objective for developing countries. It is a principal means to achieve an equitable distribution of income and higher standard of welfare for the majority of the population. Because of the special features of foreign investments – they tend to be larger in size, with greater technological sophistication, facing more competitive pressures in their product markets, and having more room of maneuver in their operations as compared to domestic enterprises – FDI often plays a unique role in employment creation and upgrading of the host countries. There are three basic mechanisms for FDI to generate employment in the recipient countries. First, foreign affiliates employ people in their domestic operations. Second, through backward and forward linkages, employment is created in enterprises that are suppliers, subcontractors, or service providers to them. Third, as FDI-related industries expand and the local economy grows, employment is also created in sectors and activities that are not even indirectly linked to the original FDI. As asserted by Brimble, P. and J. Sherman (1998). Indirect employment created by foreign affiliates, by contrast, can be large where the interaction between FDI and the local economy is intense. Based on a series of eight case studies in both developed and developing countries, one study estimated that when only the indirect employment generated by backward and forward linkages was considered, 1.6 jobs were created indirectly for each job created directly by a foreign affiliate.

4.1.3 Challenges underlying foreign direct investments in Rwanda

The third objective indicated challenges hindering foreign direct investment including poor infrastructures, competition, poor quality products and transport cots. The overall mean of 4.23 and .513 of standard deviation, showing that they really exist and need preventing correcting measures. These findings shows that even though foreign direct investment promote socio-economic development in Rwanda, but there are challenges such as poor infrastructures, competition, lack of funds and high transport cost that still challenging and require preventive measures or to be solved. This matches with the findings of Seker (2011) on the challenges of foreign investment and different ways of solving. Notwithstanding the empirical evidence that FDI usually results in proportionally more investment than what can be counted for by FDI alone, there is the lingering concern that foreign investments may take away the investment opportunities of domestic firms, thereby driving them out of business. Such a situation may occur in either financial markets or product markets. If the foreign investor finances the project by borrowing from the host country financial market under conditions of scarce resources, domestic interest rates may rise as a result, which may make borrowing unaffordable for some domestic firms. Precisely to prevent this from happening, Rwanda has come with generally liberal policies towards FDI, has softened the legislation laws of foreign investor with conducive policies and systems.

4.1.4 Strategies of combating the challenges of foreign direct investment

The fourth objective was about curbing challenges hindering FDI performance to boost socio-economic development in Rwanda, the findings revealed the overall mean of 4.25 and .527 standard deviation, i.e. a high mean, implying that the given solutions i.e. improve services, using non-price competition, improving quality products and language familiarization can be used to solve efficiently the mentioned challenges. The findings from this chapter should be taken as a support for the general proposition that the position in the liberal trade system is an important determinant of economic destiny of nations. The degree to which countries specialize in improving their liberal relation does have significant on private sector. The fact that this effect is important and persistent is further supported by both the short run and long run empirical results.

4.2 Conclusion

Many scholars and authors are in the debate regarding the effects of foreign direct investment on the socio-economic development of host countries. There are various findings conclude that there is no positive effect while others do not find significant empirical evidences. For Adams (1997). The

benefits of FDI tend to be maximized when foreign investors operate on an even and competitive playing field. To this end, governments need to provide a business environment where competition, free entry, consumer choice and free exit determine who gains and who loses. Foreign and domestic investors need to be treated equally as much as possible.24 As amply demonstrated in economic literature, exposure to effective competition on an even playing field is the most important incentive for foreign and domestic companies to upgrade technology and management practices, while free entry is the key to establishing effective linkages between foreign investors and domestic suppliers and distributors that help diffuse best practice in the host economy

The study has recognized that there is positive effect of foreign direct investment on the socio-economic development of Rwanda by increase in production or business of services across different sub-sectors. This is because the tax base on produced or exported goods and services enhanced total factor productivity and motivate people working harder to meet local and foreign markets. The study revealed a strong relationship between foreign investment in terms of improving productivity in service sector of Airtel through reduction of production cost and availability of heterogeneous products at feasible price for example communication has rampantly increased which has on the other hand promoted other economic sectors.

The study established that foreign investment leads to a more competitive domestic market through its effect in curtailing prices and excess profits of domestic private firms. Thus, trade liberalization increases competitiveness of private sector and hard working. The study revealed that the benefits from the foreign investment are higher than the challenges, so that the preventive measures could be used to alleviate the effects underlined. A liberal and competitive investment climate creates the basis for FDI to enter and raise the potential for productivity growth in the host economy, but improvements will only occur if the domestic actors are capable of responding to the new incentives. As discussed in the previous sections, the most serious deterrent to wider diffusion of best practice is a lack of indigenous capabilities to take advantage of the opportunities. The key policy measures are thus to improve the education and infrastructure so as to increase the domestic absorptive capacity of the fruits of FDI in Rwanda. Based on the results obtained, the conclusion is that foreign direct investment raises the performance of socio-economic development of host countries and in this case to Rwanda in particular district. Also the results confirm the importance of liberal trade on export leading to improved export performance. These findings are robust to the estimation techniques used and consistent with other studies showing a positive relationship between the two variables.

4.3 Areas for Further Research

- The study has presented to evaluate the effect of foreign direct investment on socio-economic development in Rwanda, a case study of Airtel-Tigo. Hence, a study assessing the contribution of other complementary policy instruments to productivity of foreign direct investment is needed.
- A research probing why productivity does not influence the foreign direct investment to growth of exports in Rwanda can be carried out. This can be done in order to examine the nature of goods produced by domestic private sector in comparison to the demand in foreign markets.
- Also, a study could be undertaken to investigate effective instruments in improving foreign direct investment sector productivity. This will provide further details on optimal means of enhancing productivity of private firms towards increasing firms‟ exports.

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