OWNERSHIP, LOCATION SPECIFIC AND INTERNALIZATION DETERMINANTS AND FOREIGN DIRECT INVESTMENT INFLOWS

A CASE OF SELECTED FIRMS IN UGANDA

By

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DECLARATION

I hereby declare that to the best of my knowledge and belief , this research study is original and has never been published and / or submitted for any other degree award to any other University before.

Sign ……...…… **Date** ……..

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SUPERVISOR'S APPROVAL

This Dissertation has been submitted with the approval of the University supervisors.

…… ……

Dr. Nkote Nabeta **Dr. Kayongo Isaac**

DEDICATION

This research is dedicated to my Children Dennis Ssebugwawo Kigongo, Davis Ssebugwawo Wasswa, and Dalton Ssebugwawo Kaggwa, who persevered my absence and late home coming so as to accomplish my Masters Degree Studies.

In God, We TRUST

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LIST OF ACRONYMS

ANOVA	-	Analysis of Variance
BOU	-	Bank of Uganda
DCs	-	Developed Countries
ES	-	Efficient Seeking
FDI	-	Foreign Direct Investment
FSA	-	Farm Specific Advantages
GDP	-	Gross Domestic Product
GNP	-	Gross Net Product
HFDI	-	Horizontal Foreign Direct Investment
IMF	-	International Monetary Fund
LDCs	-	Least Developing Countries
OLI	-	Ownership, Location, Internalization Determinants
MNCs	-	Multinational Companies
MNEs	-	Multinational Enterprises
MS	-	Market Seeking
MUBS	-	Makerere University Business School
No.	-	Number
PEAP	-	Poverty Eradication Action Plan
PP	-	Page
RRS	-	Risk Reduction Seeking
SPSS	-	Statistical Package for Social Scientists
TNC	-	Transnational Corporations
UBOS	-	Uganda Bureau of Statistics
UIA	-	Uganda Investment Authority
UNACTAD	-	United Nations Cooperation on Trade and Development
VFDI	-	Vertical/Efficiency Foreign Direct Investment
Vol.	-	Volume
WB	-	World Bank

ABSTRACT

This study was initiated to investigate the determinants of foreign direct investment inflows to Uganda. The researcher was inspired to investigate the influences of foreign direct investment in Uganda following an increase in foreign direct investments to Uganda. While foreign companies investing in Uganda had grown from 52 in 1996 to 657 companies by 2006, and from a value of 160 in 1996 to 280 million dollars by 2006, representing an average growth rate of 50% per annum, the growth rate over the same period in other East African countries was however significantly lower than that of Uganda, yet they have similar environment. The researcher was thence desirous to find out those factors that influence this significant increased foreign direct investment flow into Uganda.

The study employed cross - sectional research design that used qualitative and quantitative methods in data collection. The study involved systematic collection of data from key decision makers, who identified those factors that led them into a decision to invest in Uganda, analyzing the collected data, making conclusions and recommendations and citing areas for further research.

Analysis and interpretation of the findings revealed that ownership specific, location specific and internalization significantly determined the amount of foreign direct investment inflow to Uganda, at 0.334, 0.608 and 0.485 respectively. From the regression analysis, it is revealed that of the three determinants, location specific factors significantly predict foreign direct investment inflow decisions by 0.669. The combined coefficient for all the three variables (R Square) is 0.448. The study therefore concludes that ownership specific, location specific and internalization determinants significantly explain foreign direct investment inflows to Uganda.

The researcher makes a number of recommendations to enhance FDI investment that include: policy makers should focus on location specific factors that create a competitive advantage for Uganda to boost further foreign investment, policy makers should advocate for infrastructure development, and the need to re-examine the investment policy to reduce on the number of unrealized licenced projects.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

The Ugandan Government has concentrated on widening the tax base of the Ugandan economy since the late 1980s. Over the years, the country had depended sorely on development partners supporting the government expenditure budget to an average of 60%. This kind of support however, has never been sustainable as it comes with conditions that usually are not in the interest of the populace.

To reduce on this dependence, the government introduced strategies to improve on the economic performance. These include improvement and expansion of agricultural sector, through introduction of non-traditional crops; improvement of the tourism sector; introduction of the Poverty Eradication Action Plan (PEAP) in 1997; and introduction and enactment of the Investment Act, (1991) which culminated in the setting up of the Uganda Investment Authority in 1993. Its mandate is to market Uganda in the international world with a view to attract investors. This is done to ensure an increase in the amount of foreign direct investment inflow. By doing this, Uganda would be able to widen the tax base hence improving its revenue collection to finance the government budget.

According to data obtained from Bank of Uganda, foreign direct investment inflows to Uganda has been growing at an average of 50% per annum, over the past 10 years. Over the years, the country has seen a tremendous increase in the numbers of foreign companies being licenced to invest in the country. By 2006, the number of foreign companies registering to invest in Uganda had reached 657 from 52 companies in 1996. In a similar way, the gross annual investment had increased from 160 million dollars in 1996 to 280 million dollars by 2006. The empirical data on foreign direct investment inflows to other East African States however, show a growth rate significantly lower

than that of Uganda. The high rate of increase in foreign direct investment in Uganda compared to other East African countries created the desire to investigate those factors that influence foreign direct investment in Uganda. While a lot of theory exists regarding the determinants of foreign direct investment flow decisions, not many studies in this area have been undertaken in Uganda. It is therefore ideal to test whether the theoretical determinants of foreign direct investment apply in the Ugandan context.

1.2 Statement of the Problem

The enactment of the Investment Act in 1991 came as a result of the desire to attract foreign direct investment to Uganda. The Act created the Uganda Investment Authority (UIA) as a one stop centre to coordinate all investment related activities This led to a smooth process of licensing foreign companies desirous of investing in Uganda. While the creation of UIA followed the creation of similar authorities in the two other East African states, the rate of growth in FDI inflows to Uganda is significantly higher than those of other East African countries. The significantly higher rate of growth in FDI inflows to Uganda compared to other East African counties with similar environment caused the desire to investigate those factors that could have influenced this significant high growth.

1.3 Purpose of Study

The study examined the relationship between Ownership Specific, Location Specific, Internalization determinants and Foreign Direct Investment inflows to Uganda.

1.4 Objectives of the Study

The study was guided by the following objectives:

(i) To determine the relationship between ownership determinants and FDI inflows to Uganda.

(ii) To determine the relationship between Location specific determinants and FDI inflows to Uganda.

(iii) To determine the relationship between Internalization determinants and FDI inflows to Uganda.

(iv) To determine to what extent ownership, location specific, and internalization determinants affect FDI inflows to Uganda.

1.5 Research Questions

(i) What are the key determinants of foreign investment in Uganda?

(ii) How do ownership determinants influence foreign direct investment inflows to Uganda?

(iii) How do location specific determinants influence foreign direct investment inflows to Uganda?

(iv) How do Internalization determinants influence foreign direct investment inflows to Uganda?

(v) To what extent do Ownership specific, Location specific and Internalization determinants explain foreign investment inflows to Uganda?

1.6 Scope of the Study

Subject Scope

The study sought to establish how ownership specific, country specific, and internalization advantages affect foreign direct investment inflows to Uganda.

Geographical Scope

The research was carried out on actualized licenced foreign investments in the districts of Kampala, Mukono, Wakiso and Jinja.

Time Scope

The study focused on foreign companies that were licenced to invest in Uganda during the year 2006.

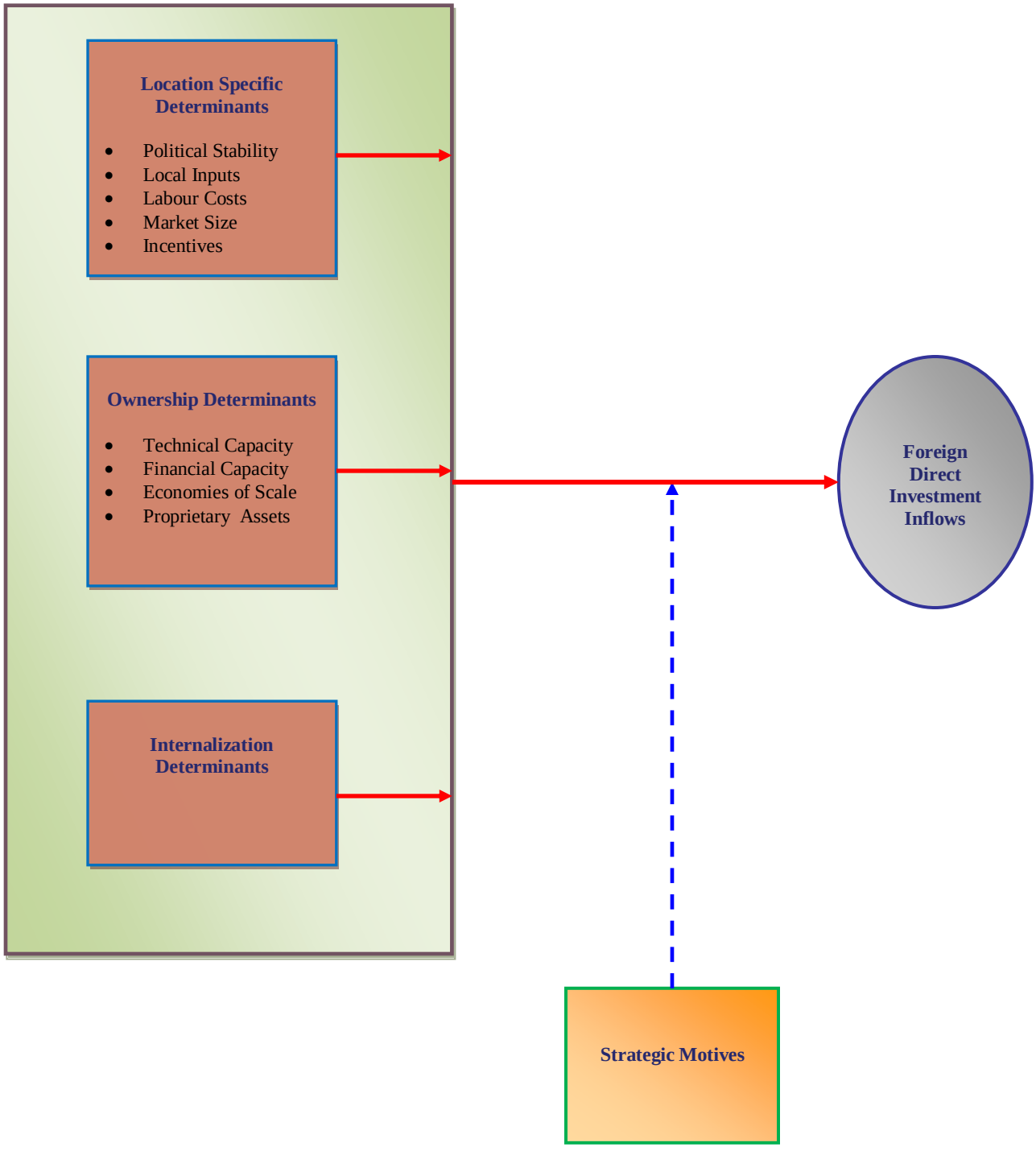
1.7 Significance of the Study

The findings of this study will be significant to both academicians and policy makers in a number of ways: first, it will add to the knowledge base of the researchers in this field of study and secondly it will serve as a guide to policy makers in identifying some of the areas that should be emphasized in the process of attracting foreign direct investment inflows to Uganda.

1.8 Conceptual Framework

According to the scheme proposed by the eclectic paradigm, there are three groups of factors affecting foreign direct investment. In consequence, the model proposed is composed of three groups of factors (ownership specific, location specific and internalization factors) which are essentially those determining the decision to enter foreign markets. It is argued that these factors affect the "why", "how" and "where" decisions of investment. According to Galan and Gonzalez-Benito, (2001), the ownership factors influence the "why" decisions; Internalization advantages influence the "how" decisions while location specific advantages influence the "where" decisions. It should be noted that the three decisions are interconnected and are not made separately, so that each group of factors would influence the whole decision process.

FIGURE 1: CONCEPTUAL FRAMEWORK



Adopted with modification from. Dunning 1993, Cuervo & Pheng, (2003)

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

There has been increasing interest by academicians to research on the determinants of foreign direct investment inflow to countries or regions as a whole. The first theoretical studies on the determinants of FDI were undertaken by Adam Smith, Stuart Mill and Torrens in 1933. Since various research studies have been carried out with different theories and frameworks being used by different researchers. This has often resulted into controversy, by generating contradicting conclusions regarding the determinants of FDI.

There had never been efforts to bring together the various theories until 1979 when Dunning while looking at what could be called microeconomic factors, stated that ownership of dissimilar assets may be considered as one of the factors responsible for the existence of multinational firms. Dunning called it a paradigm in the sense that it brings together conflicting theories, with no single outcome. Thus he called the OLI (**O**wnership, **L**ocation, **I**nternalization) paradigm. This was the first rigorous attempt to understand from an integrative and general point of view the main set of determinants that drive MNE firms from a specific home country to undertake FDI in different groups of host country.

2.2 Foreign Direct Investment

Foreign Direct Investment is the long-term investment in an enterprise resident in an economy other than that in which the investor is based. Griffin and Pustay defined FDI as an acquisition of foreign assets for the purpose of control. Foreign Direct Investment can be a Greenfield investment (new facilities or expansion of existing facilities) in the form of mergers and acquisition; horizontal

where investment is made in the same industry abroad as the firm operates in locally; or vertical which is either backward or forward linked.

2.3 OLI Paradigm

The OLI paradigm originated from the integrative study carried out by Dunning in 1979. This study is seen to have examined microeconomic factors stating that ownership of dissimilar assets may be considered as one of the factors responsible for the existence of multinational firms. He called it the OLI paradigm in that it brings together conflicting theories, with no single outcome. This paradigm brought together the three theories as OLI (**O**wnership, **L**ocation, **I**nternalization). He noted that foreign firms hold advantages over domestic firms in a given sector as a result of privileged ownership of tangible or intangible assets that are only available to firms of that nationality. Given these assets, the firm will decide either to internalize its ownership advantage assets or sell it if it holds an internalizing advantage. With the ownership and internalizing advantages in existence, the firm will choose to produce in the host country if there are sufficient locational advantages, to justify production in that country and not any other.

According to Dunning (1999), the flow of foreign direct investment into a country is explained by the three groups of advantages: Ownership advantages, specific to the company and related to the accumulation of intangible assets, technological capacities or product innovations; Locational advantages, which refer to institutional and productive factors present in a particular geographical area, and Internalization advantages, which stem from the capacity of the firm to manage and coordinate activities internally. The degree of possession of various ownership specific variables will influence the degree of ownership chosen in foreign direct investment, while location specific factors are essential in determining the location of investment and ownership strategies chosen. Internalization advantages will depend on the cost of transactional market failures.

Many scholars like Ikechi and Sivakumar (2004), argued that ownership specific and internalization variables are inseparable and hence should be considered as one. However, there are many others including Dunning in subsequent studies that treated the two as separate. According to Galan & Gonzalez, (2001) the two are different as they explain decisions at different levels of investment. Ownership advantages explain why firms decide to invest abroad, while internalization advantages determine how the firm is to carry out the investment. Location advantages determine where the investment is to be located. Many scholars like Hubert and Pain (2002), Janicki and Phanindra, (2004), have had research conclusions that foreign direct investment takes place if the three advantages in OLI come together.

2.4 Ownership Determinants

Ownership advantages also called firm specific advantages, refers to competitiveness or monopolistic advantages that helps a foreign firm overcome the disadvantages of competing with local firms. These include the firm's capabilities, organizational culture, specialized assets, large size, reputation and business experience (Ikechi and Sivakumar, 2004).

There are three basic types of ownership advantages. One looks at knowledge/technology and broadly defined to include all forms of innovative activities undertaken by the firm in the past. Such innovative activities often results in proprietary assets which generates a competitive edge over other similar companies. The second looks at economies of large size that exploit advantages of common governance, such as economies of learning, broader access to financial capital, international diversification of assets and risks, and expertise. The third looks at monopolistic advantages that accrue to an international entity in the form of privileged access to input and output markets through patent rights, and ownership of scarce natural resources (Buckely and Casson,

1998). Ownership advantages broadly include Technical Capacity, Proprietary assets, Economies of scale and Good financial base (Girod and Rugman, 2005; Forsans and Reilley, 2003)

Studies by different scholars like Chang, (1995) and Chen, (2004), have come up with several constructs that form ownership advantages. In most of the studies, common constructs have been Technical capacity in terms of ownership of proprietary assets, firm size in terms of its ability to wield muscle in foreign markets, the firm's financial base in terms of its ability to generate the required capital locally or in the foreign market, the firms industrial experience in producing unique products using unique methods and processes, and the firm's international experiences in the international market (Chen, 2002; Coskun, 1996).

2.4.1 Technical Capacity

The extent of the firm's industry experience can influence its ownership choices. The more experienced the firm is in a certain business sector, the less it will need to have a partner in its investments. Consequently, when a firm establishes a subsidiary in a business with which it is well acquainted, the firm will most likely go single handedly and won't require a local partner for purposes of penetrating a foreign market (Gulati and Zaheer, 2000).

According to Golan and Gonzalez (1999) technical knowhow may be in the form of productive technology or in the human resources of the firm. Even in situations where productive technology is capital based, the element of human skills and experience cannot be overlooked. Human skills cannot be copied unless if the firm loses those staff. Skilled manpower is quite important in any foreign investment decision. These are the people the firm will deploy in new foreign investments to man them. These help to ensure that similar standards are maintained across all the productive facilities (Hao, 1999). Even in instances where the entity is involved in service delivery, the firm

will need experienced staff to ensure there is uniformity and corporate identity in service delivery across all the firm's establishments. It is also noted that technical knowhow is difficult to duplicate as it is resident in the firm's employees, hence creating a unique competitive advantage.

The transitional cost theory and the Internalization theory both explain further the importance of technical knowhow in foreign investment (Garibaldi and Sajey, 2001). The theories have a view that firms with managerial skills are motivated to expand geographically in new markets. The managerial skills create a competitive edge in the new markets for the new investment over similar firms in the same business (Gopinath and Echeveria, 2004). This was confirmed by Black and Rose (2002) when they found a direct link between FDI and managerial ability enhanced by their international exposure.

2.4.2 Proprietary Assets

Proprietary assets often reside in a firm's products, processes or managerial technology and is often a unique competitive advantage. To be a competitive advantage, technology innovations must be held proprietary (Jansen, 2003). A technology is proprietary through a patent, trademark, brand image, copyright, or trade secrets which often come as a result of intensive research and development (Jalilian, 1996).

The need to protect a proprietary asset which is a competitive advantage will discourage a firm from using the collaborative mode of operation. Many studies have been conducted by scholars regarding the influence of proprietary assets to decisions by investors to expropriate their capital in foreign markets. Studies like that of Javier and Pheng, (1992); Gatignon and Anderson, (2003), found a positive relationship between proprietary assets and FDI. These findings were a further confirmation of the explanations provided for FDI inflow under the internalization and eclectic

theories. These studies established that where the firm is intensively involved in research and development, the resultant innovations will be protected through patents. These patents generate competitive advantage, both locally and internationally (Julian, 2001).

Subsequent research like that of Dimitrios (2003), further confirmed this relationship. In his research on macro determinants of outward foreign direct investment, he found a direct relationship of 10% significant level between technology and foreign investment decisions. Lin and Yeu (2005), further confirmed earlier studies as well. However, Luiz noted that the Sub-Saharan Africa had little foreign investment inflow partly because it lacked high technological development which results from low investment in research and development.

Professor Hoskisson, (2007), in support of the relevance of proprietary assets in determining foreign investment, challenged the conventional argument of investment decisions being determined largely by the size of the markets targeted by the company. His study concluded that for foreign investment to take place, the level of technology development in the host country plays a major role, not only for investment decisions, but also in determining where the firm is to locate the investment. According to Kinoshita and Mody, (2001), this argument is in direct reference to the fact that firms will invest in areas where they already had access to advanced technical knowledge. In other words, they go to countries to exploit the market and to learn especially if those countries have a strong base of research and development intensity.

2.4.3 Economies of Scale

Economies of scale is a practical concept that is important for explaining international trade and the number of firms in the market. This is summarized to be focusing on massive production using common facilities. Mazzarol and Choo, (2003), explain that this comes as a result of the profit motive that is often the major reason investments are undertaken.

An increase in the firm's production levels leads to a reduction in the average unit production in the long run. In the context of foreign investment, economies of scale are enjoyed because the firm is expanding its scale of operation. These come as a result of bulk purchase of inputs, increased specialization, financial gains like accessing cheaper sources of finance, and single marketing policy. All these reduce the overall unit production costs in the longrun.

Economies of scale are however not only looked at in terms of volume of production, but also for mitigating risks, for risk averse firms (Buckely and Casson, 1999). This is done by maximizing expected utility from profit (*lower profit with lower risk is usually better for a firm than higher profits with high risk*). Foreign firms therefore in making foreign investment decisions, compare expected utility of profits from the investment considered, with the cost of this investment while examining investment decisions.

2.4.4 Financial Capacity

The theory of firms with a good strong financial capacity is not well researched in the literature of foreign direct investment. However, capital is very essential in any investment as it is used to measure its viability (Coskun, 2001). The initial outlay load and working capital requirements in the early stages of the project creates a huge financial requirement that only firms with a good financial base can undertake such big investments. Multinational firms usually have the ability to source for additional resources either internally within the company (and its subsidiaries) or externally on the stock markets (equity) or financing institutions (debt financing).

While there has not been recent studies on the influence of capital on foreign investment, earlier studies like that of Hymer, (1960); Williamson, (1979); elude to the point that FDIs are best

engaged in by firms that can afford to overcome the additional costs associated with such investment.

2.5 Location Specific Determinants

Location Specific advantages also called country specific advantages are heavily cited in the literature as having an effect on the business potential and risks associated with individual locations. The location theory explains why certain economic activities are undertaken in certain places (Thisse, 1996). This theory holds that an international firm makes direct investment in an area to attain certain location advantages which do not exist in other regions.

Location specific advantages are classified under three motives of investment: market seeking investments undertaken to sustain existing markets as they exploit new markets; resource or asset seeking investments made purposely to acquire resources not available in the host country; and rationalized or efficient seeking investments made specifically to benefit from common governance of geographically dispersed activities in the presence of economies of scale and scope.

Two theories have been advanced to explain location specific determinants of FDI. The first theory is factor endowment, which argues that FDIs are drawn to countries with lower wages and abundant natural resources. The second theory is the new trade theory which argues that economies of scale are the driving force of FDI, with agglomeration effects often playing a crucial role (Jalilian, 1996; Kinoshita and Mody, (2001). Cheng et al (2000) did not differ from this theory when he concluded that location choice is dependent on the level of profitability, meaning an investor will choose the best profitable location, since factor input is a major determinant of profit. Asiedu, (2002) reasoned that local demand factors also make a major contribution in location choice. Mazzarrol and Choo

(2003) findings cannot be ignored when they got overwhelming evidence that location specific advantages contributed greatly to the location of foreign investment.

Various studies (Mazzarrol and Choo, 2003; Kinoshita and Mody, 2001; Asiedu, 2002) have highlighted constructs under this variable to include labour costs and its quality, market size and potential, material inputs/ natural resources, incentives and stability. According to Lin and Yeu (2005), these are better categorized into three: Economic advantages, social advantages and political advantages. Economic advantages include quantities and qualities of factors of production, size and scope of the market, and transport and communication costs. Social advantages include language, general attitude towards foreigners, and overall stance towards free enterprise. Political advantages include general and specific government policies, international production and intrafirm trade. Javier and Pheng, (2003) concluded that the most important of the three for FDI flow are however economic considerations. In general, location specific determinants can be grouped as market size and its growth prospects, labour costs, input costs, political stability, and incentives.

2.5.1 Market Size and its Growth Prospects

Market size and its growth prospects is another very important determinant of foreign investment flow. Market size is in relation to the size and income of its population and as well as the market growth prospects. New markets enable firms to stay competition and allow growth within the industry as well as achieve scale and scope economies.

Studies carried out in this area have established a correlation between FDI and the size of the market *(proxied by the size of GDP*). Many studies have found the GDP growth rate to be a significant explanatory variable of foreign investment decisions. The size of Chinese market for example explain in large the massive FDI Flows it has attracted since the early 1980s (Chakrabarti,

2003; Woodward, 1992; Bjorvatn and Eckel, 2004). Zhang, (2000); and Wei and Liu, (2001) confirmed earlier conclusions made by Liu et al, (1997) that the larger the market size, the more FDI is likely to be received. Crowning it all, Isabel, 2005 found a positive correlation between market size and FDI.

Therefore, where there is a large market and large possibilities of growth, reflected by a growing population and income, such markets are expected to attract large foreign investment inflows (Resimini, 2000; and Janicki and Wunnava, 2004).

2.5.2 Labour Costs

Because of the profit motive, labour costs have been extensively researched in the study of FDI. It has been found to be logical that foreign firms take advantage of low labour costs by investing in developing countries where such costs are low. There is however another argument that other costs involved like the transportation costs and low productivity often exceed the cost of labour in these developing countries (Miller, 1993). This thus creates negative decisions towards investment decisions into these countries.

Various studies in this area allude to the fact that production locations are likely to be located in low wages countries. Cushman, (2001) revealed that a rise in the wages in a host country could tremendously discourage FDI flows. Earlier studies by Swain and Wang, (1995) found a positive correlation between cheap labour in China and FDI flow. Zhang, (2000) hypothesized that the level of human capital influenced the geographical distribution and actual investment into China. It is however also noted that in the same year, Zhang while researching on American multinational investments into China, concluded that they were never influenced by labour cost factors while taking investment decisions into that country. Nourbakhsh et al, (2001) stressed the importance of

developing countries to raise local skills as a means of attracting FDIs. Loursen and Salter, (2004); Costa and Telxeira, (2005); and Costa and Telxeira, (2006) affirmed this theory. Therefore, where there is cheaper skilled labour, FDI is expected to flow in with MNEs making massive investment as they strive to bring down the cost of production so as to enjoy the economies of scale.

2.5.3 Local Inputs

Research has widely concluded that the most important determinants for any investment decision are economic considerations. These are grouped into three clusters: (i) resource seeking; (ii) market seeking; and (iii) efficiency seeking. Therefore availability of natural resources, creative assets and good physical infrastructure promotes resource seeking foreign investments. Investment decisions will be influenced by the level of profitability to be generated from an investment location. Profitability is heavily influenced by the cost of inputs. Inputs include raw materials, human resources, transport costs, macro stability, and utility costs. These are direct inputs to a product or service. Among all these, the most pronounced among the factor inputs are natural endowment. Countries endowed with abundant virgin natural resources that can easily be exploited, will attract high inflow of foreign investment, than the one with no resources.

Zhang and Yuk (1998), noted that export oriented foreign direct investments are attributed to low cost inputs as their determining factor. Such investments tend to be efficient seeking by exploring the low cost of imports. This however is directly affected by the transportation costs. Biswas, (2002), did not contradict Zhang (1998), when he concluded that although low wages attract investments, it is not necessarily the crucial factor for investment.

Despite this however, many earlier studies like that of Zhang, (2000); Schneider and Frey, (1995) had conclusions to the effect that factor inputs are a very strong determinant of export oriented FDI. On the other hand, market oriented FDIs are generally influenced by the domestic market size, the

source of raw materials and proximity to resource supply and target market. Its therefore right to conclude that market oriented FDIs are likely to be resource seeking.

2.5.4 Political Stability

It is well established that institutions are a significant determinant of FDI in developing countries (Blonigen, 2005). Political stability has been noted to have a negative and statistically significant impact on domestic investment in developing countries (Janeba W. J, 2002). Corruption commonly associated with poor governance increases the cost of production and discourages domestic investment (Wei and Wu, 2001).

Literature in the international business presents an interesting puzzle regarding the effect of political instability and political risk on FDI. The research shows that multinational executives take into account political stability in making investment decisions although investor's decisions are often affected by rational expectations and uncertainty. Most available research seems to conclude that political stability significantly promote FDI inflows. This is premised on the fact that political stability increases the probability of a country to be selected as an investment location (Loree and Guisinger, 1995).

Contrary to this however, Li and Resnick, (2003) concluded that political instability did not have statistically significant effect on FDI inflows, but regime durability encourages long term FDI Inflows. This is the same conclusions reached by Sethi and Phelan, (2003). Globerman and Shapiro, (2003) did not differ in their conclusion that political instability and violence does not influence a country's probability of receipt of FDI inflow, but reduces the amount of FDI inflow a country receives.

Although it has been argued that political instability in the host country could discourage the inflow of FDI, and most of the empirical studies support this argument, some empirical evidence suggest that political factors play an insignificant role in a firm's decision to invest abroad. Swain and Wang, 1997; Zhang, 2002; Altomonte and Guagliano, 2003)

Investors are always concerned of the safety of their investment and their own safety. This therefore points to the desire to operate in a secure environment. Despite all this however, Investors would still invest in volatile countries as long as they anticipate a recovery of their investment in the shortest time possible. As long as the returns from those countries are high enough to match the set risk levels, investors will go ahead and undertake the investment. There are also other provisions within the international agreements that guarantee investments in volatile regions. This said however, it is hypothesized that where there is stability in the country, there will be full guarantee of security of investment. Democracy will be ushered in leading to a reduction in corruption levels, bureaucracy and overall improvement of the investment environment. This leads to increased foreign direct investment.

2.5.5 Incentives

Tax incentives have often been used by governments to influence business locations, and start ups or even to rescue existing businesses from bankruptcy. The effectiveness of the incentives as a strategy however, may not be long-term, as the behaviors of investors seem to suggest that the relocate their investments to new areas soon as the incentives provided expire.

Benacek et al (2002) findings were in line with the earlier studies of Lankas and Venables, 1997 who concluded that incentives and more so tax incentives were not considered important for foreign investment. Investors are not only interested in fiscal incentives but also other non fiscal incentives

like macroeconomic, legal, social, and political stability of a country. Similarly in context, studies like that of Javier and Pheng (2003) concluded that incentives were costly and ineffective.

Other studies however, like that of Jansen (2003) agreed with earlier hypothesis when he concluded that incentives influenced the location of many Greek textile companies in Bulgaria. In the same vein, the OECD report, earlier in 1997 had concluded that transitional economies use incentives to attract and motivate investment. Bjorvatn and Eckel (2004) noted that while investment decisions are based on economic fundamentals, incentives only affect location decisions, especially when candidate countries have similar potential. Janicki and Phanindra (2004) looked at barriers of FDI flow and found incentives effective in encouraging FDI inflow.

The traditional location theory cannot be ignored while looking at incentives. The theory classifies incentives into two: one, those incentives targeted at cost savings, which pursue a production cost edge in the host country. These mainly focused on producing locally and exporting; two, those incentives targeting companies aiming at expanding their market presence through increased penetration in the local markets. Such companies focus on local production and local sales. The incentives under this must be those that put emphasis on market size, market growth and consumption ability.

To crown it all, the available literature seem to conclude that incentives have a direct influence in the short term but becomes irrelevant in the long-run. This is because incentives are usually short lived and investors targeting incentives are likely to make short term investments.

2.6 Internalization Determinants

Buckley and Casson, (1998); defined internalization as the process of establishing a market inside the company and substituting the internal market into an external market. This is premised on the theory that firms aspire to develop their own internal markets whenever transactions can be made at a lower cost within the firm. (Agarwal and Ramaswami, 1992). This theory holds that it is critical for a firm to constantly upgrade proprietary information and control the human capital that discovers it.

The theory stems from the fact that multinational companies invest heavily in the development of intangible assets with a view to generate returns overtime. These intangible assets generate productive capacity, which capacity, firms use to maximize return on investment through diversification. The expansion of a firm's investment across international markets generates challenges which lead to market imperfections. Challenges may include barriers to entry, prohibitive taxes, tariffs, foreign exchange controls, subsidies, etc. In order for the firm to mitigate the imperfection, through arbitrage, firms use internal markets to generate high after tax and tariff free profits, than any local company can do. This creates a competitive advantage for the foreign firm.

As far as the rationale for foreign investment in terms of cost minimization is concerned, Internalization theory provides it. Internalization is based on Coase (1937), which was expanded further by Buckley and Casson (1998); Kinoshita (2001), and Grossman and Hart, 1986. The internalization models postulate that, because of various imperfections which exist in markets, an international firm in possession of proprietory assets or skills, such as management, technology, research and development, etc is able to increase the return on its investment by carrying out transactions for such assets internally through intrafirm transfer. Internalization would include

charging professional fees by the parent company, transferring staff from the parent company to run the subsidiary at a fee, charging for the technology, transferring products at full cost, thus lowering the profitability of the subsidiary but creating a tax free transfer. (Kongut, 1985; Janeba, 2002). Internalisation is also used by the firms to generate for themselves global market trend information, intended to minimize political risk (Globerman and Shapiro, 2003; Janeba, 2002). This is used as a tool to maximizing the returns on investment and the global market share of the firm.

2.7 Strategic Motives

Strategic motives reflect the strategic direction the firm would wish to undertake in the short and longrun. It embeds the strategies that have been developed by the firm to steer itself forward. For example, a firm may have decided to embrace an expansive strategy by acquiring other companies in the foreign market. Where this has been adopted, all actions will be geared in this direction.

The choice of a location will depend on the choice of a host group of countries to host the cross boarder investment. Under the Investment Development Path Paradigm, firms can choose between Developed Countries (DCs) or Least Developed Countries (LDCs). Evidently, the choice of one or other group of host countries would be driven by the major objectives or motives being followed by managers of these firms. They may be seeking natural resources, seeking strategic assets, or seeking new markets (Narula and Dunning, 2000, Ikechi and Sivakumar, 2004).

The most prominent of the strategic motives is the desire to diversify investments to mitigate risk (Dennis and Laincz, 2005). Altomonte and Guagliano (2003) hypothesised that FDI create value for international firms via the operational flexibility it gives. It is argued that having a network across the globe allows a firm to exploit advantageous market conditions when and where the opportunities arise. Tax arbitrage is another strategic motive that influences FDI decisions. Hines

and Harris, (1990); Harris et al, (1991), proved that tax arbitrage opportunities were behind foreign investments undertaken by several companies sampled in the research.

The desire to access cheap sources of capital in the host country is another strategic motive. Vishny, (2003) using the cheap capital hypothesis, stated that if an entire domestic market is overhauled, firms will engage in FDI in non-overhauled markets rather than pursue further domestic mergers and acquisition activity. On the other hand, the cheap assets hypothesis states that FDI is not driven by home market valuations but the desire to buy cheap foreign assets, which again is a strategic intention.

Dunning (1993) suggested that the motivation for foreign market expansion may influence ownership selection processes, despite perceptions of the OLI variables. Strategic motivations can include market-seeking (MS), efficiency-seeking (ES) and risk-reduction seeking (RRS). Some preliminary evidence on the influence of motivational factors can be found in a few previous ownership related studies (Erramilli and Rao, 2007; Kim and Hwang, 2007).

Strategic motives emanate from firm specific resources; they refer to marketing options open to a firm because of its resources as well as constraints that the firm faces because of lack of certain resources. A firm may adopt a collaborative mode of entry, such as joint venture, in order to enhance its capabilities or to develop new capabilities (Goshal, 2003; Kogut, 1998). Also a firm can use collaborative mode of operation to gain new knowledge where the firm lacks the requisite level of knowledge and cannot develop such knowledge within an acceptable period of time. Hence, strategic considerations play an important role in the selection of entry mode in foreign markets.

2.8 Relationship between Ownership, Location and Internalization Determinants

It is widely agreed that foreign direct investment takes place when three sets of determining factors exist simultaneously (Dunning, 1993; Rugman, 1998), Ownership advantages, Internalization advantages and Location advantages. Ownership advantages (*of property rights and intangible assets*) arise from the firm's ability to co-ordinate complementary activities, such as manufacturing and distribution and the ability to exploit differencies between countries. Internalization advantages arise from exploiting imperfection in external markets. These include the reduction of uncertainty and transaction costs in order to generate knowledge more efficiently; and the reduction of state generated imperfections such as tariffs, foreign exchange controls and subsidies. Location specific advantages arise from differences in the country natural endowments, transport costs, macroeconomic stability, cultural factors and government regulations (Narula and Dunning, 2000; Erramilli and Rao, 2007)

It is argued that where ownership advantages exist only, firms will rely on exports, licencing, or the sale of patents to service a foreign market. Where internalization advantages exist, foreign direct investment becomes the preferred mode of servicing foreign markets, but only if location specific advantages are present. (Swain and Wang 19950; Liu et al, 1997; Zhang, 2000; Wei and Liu, 2001; and Zhang, 2002).

2.8.1 Relationship between Ownership Determinants and Foreign Direct Investment

There has been extensive research in this area of study, this being the most researched on variable among the three OLI variables. Ownership determinants are specific to the investing firm and are related to the extent to which it possesses a set of internal resources and capabilities that its competitors lack.

Several studies including that of Qian, (2000) point that successful foreign investment depends on the firm's possession of intangible assets and other ownership advantages provided by the host country in the local environment. Dennis and Laincz, (2005) like other earlier studies in this area, found compelling evidence that ownership advantages contributes positively to foreign investment decisions. In their study, Tavares and Teixeira, (2006) concurs that the degree of possession of various ownership specific variables influence the degree of ownership chosen under foreign direct investment.

It is therefore suffice to conclude that where firms possess ownership specific advantages, they will be compelled to seek new markets to take advantage of these assets. Investments in new markets will lead to an increase in the overall profitability of the entity.

2.8.2 Relationship between Location Specific Determinants and Foreign Direct Investment

Numerous studies have been conducted on locations and how they affect investment decisions. Various studies like Gastananga et al (2005); Chakrabarti, 2003; Goshal, (2003), and Agarwal, (1992) all found location variables positively explaining foreign investment decisions. Asiedu, (2002) concluded that location factors were a primary influence in Australian direct investment in China. Jiang, (2002), revealed that location factors were a dominant determinant of foreign direct investment in pharmaceutical industry in China. Janicki and Wunnava (2004) and Resmini (2000) confirmed the relationship between foreign direct investment and market size a major construct in location factors. They conclude that the opportunity to expand into new markets entices investors to consider full investment into the host economies.

We therefore hypothesize that where locations are endowed with natural resources, cheap (unskilled or semi skilled) labour, creative assets, and physical infrastructure enhanced by a large and growing market, will lead to increased inflow of foreign investment.

2.8.3 Relationship between Internalization Determinants and Foreign Direct Investment

The literature on Internalisation theory is clearly well developed; however, empirical support for the theory is lacking or weak. This weakness in empirical support led Buckley (2003) to claim: "Tests of the theory (Internalisation) …. need to be more precise and rigorous" Kinoshita (2001) points out that firms in their pursuit of growth options face choices between foreign, domestic and industrial diversification. Firms weigh up and pick the most attractive investment option. Grossman and Hart (2004) also adopted this argument in their research and found a positive relationship between FDI and Internalisation. Globerman and Shapiro (2003) and Janeba, (2002) argued and concluded that having a global network allows an international firm to exploit advantageous market conditions when and where the opportunities arise. Such global presence gives firms first hand, timely market information that is easily turned to its advantage. Issues of tax arbitrage are highly pronounced in this area and creates leverage of profitability.

2.8.4 Relationship between Ownership, Location and Internalization Determinants and Foreign Direct Investment

A lot of theory exists regarding the determinants of Foreign Direct Investment. This literature however, has generated a lot of controversy due to use of different frameworks. According to Mora et al (2001), while answering questions why foreign direct investment emerge, and why particular countries succeed, they found that foreign investment emerge to supply a market directly (*Horizontal oriented*); and to reduce production costs (*vertical or efficiency oriented*). They went further to answer the two questions by identifying location specific advantages as the reason why particular countries succeed in foreign direct investment.

Earlier research by the famous Dunning, (2002), found FDI in developing countries has shifted from market seeking and resource-seeking FDI to efficiency-seeking FDI. This is the reason why there is a noticed trend of production plants relocating from high cost to low cost production areas. In the research done by Shatz and Venables (2000), two main reasons were identified as the reason why a firm may want to undertake foreign direct investment: to better serve the local market whose main motivation is to economize on tariffs and transport costs. The second is to have access to low cost inputs whose motivation is to economize on production factors resulting in maximization of profits. Most of the world's foreign direct investment is horizontal in nature. Markusen (2002) argued that there are two factors that are for foreign direct investment. The size of the market and the marginal cost of production. Feenstra, (2004), findings did not deviate from the earlier conclusions of Markusen

Various studies have come to conclude that the OLI paradigm offers a perspective of determining the entry mode strategy of a firm in foreign markets. With the three deterministic sets of variables: ownership, Location and Internalisation advantages, taking into account firm specific and market specific factors that influence perceptions of risk and the related potential return on investment, they have been found to be predictive of an investment decision in a foreign market. The support of this finding has been growing since the early days of Dunning todate. Most scientific research in this area has found a strong positive relation between the OLI factors and foreign investment decisions.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the research methods and the instruments used by the researcher to carry out the research. It provides a description of the research design, data collection and analysis procedures.

3.2 Research Design

The research was a quantitative cross sectional study using descriptive and analytical methods.

3.3 Population of Study

The population comprised of 230 investment projects licenced by Uganda Investment Authority in 2006 in the districts of Kampala, Wakiso, Mukono and Jinja.

3.4 Sample Size

According to Gay and Diehl, (1992), a sample for a descriptive research should be 10% of the population, but where it is small, then 20% may be required. In correlation studies, atleast 30 subjects are required to establish a relationship. In line with this recommendation, the sample was purposively selected by the researcher to cover 48 licenced foreign firms that had actualized their investment in the four districts. Two individuals at top management level were purposively selected as respondents to this research.

3.5 Data Sources

- ***Primary Data***

Primary data was collected from investors using structured questionnaires on the level of their investment, the determinants of their investment decisions, the focus market of the their investment and ease on entry in the market.

- ***Secondary Data***

Data on the licenced foreign companies and expected level of investment, location of the investment and the field of investment was acquired from the Uganda Investment Authority. More relevant qualitative data was also collated from publications made by Uganda Investment Authority, Uganda Bureau of Statistics, Bank of Uganda, World Investment Authority, International Monetary Fund and World Bank.

3.6 Data Collection Instruments

According to Robson (1993), a survey is commonly applied to research designed to collect data from a specific population or sample from that population. Questionnaires are commonly used as survey instruments because of the distinct advantages they yield (Leary, 1995). The researcher therefore chose a descriptive research methodology and designed a questionnaire to collect the required data. The questionnaire was divided into two sections. The first section was intended to provide demographic information that would provide a clear understanding of the sample attributes. The second section was intended to provide data on the measurement of the research variables.

3.7 Reliability Tests

In order to ensure that the questionnaires were accurately measuring the variables and the concepts, I tested the reliability and validity of the constructs using the Cronbach Alpha Coefficient and factor analysis. The alpha must be above 0.50 to indicate a proper reliability, in terms of consistence and stability of the constructs. The test for all the constructs generated coefficients higher than 0.50.

This shows that there was agreeable internal consistence of the constructs in the data collection instrument.

	Determinants	Anchor	Alpha	
	Ownership Determinants:			
	Technical Capacity	5 points	0.836	
	Proprietary Assets	5 points	0.779	
	Economies of Scale	5 points	0.814	
	Financing Capacity	5 points	0.653	
	Location Specific:			
	Market Size	5 points	0.912	
	Labour Costs	5 points	0.615	
	Local Inputs	5 points	0.800	
	Political Stability	5 points	0.611	
	Incentives	5 points	0.616	
	Internalization	5 points	0.718	

Table 3.1 - Reliability test on Constructs

3.8 Measurement of Variables

Each of the three variables was measured differently. Ownership determinant include technical capacity, proprietary assets; financial resources base and economies of scale (Dunning, 1996). Location specific determinant include incentives, labour costs, local inputs, size of the host market and growth prospects, and political stability (Mazzarol, 2003). Internalization determinant include experience in foreign market, need to follow traditional customers, operate and control strategic resources internally, avoid tariffs, and minimize risk in concentrating production stability (Zhang, 1998).

3.9 Data Analysis

The statistical package for social scientists (SPSS) computer program was used to analyse data. The package enabled a number of variables to be analysed simultaneously. Information on the sample characteristic was generated using frequencies. The relationship between the dependent and independent variables was tested using Spearman's rank correlation coefficient.

CHAPTER FOUR: PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

In this chapter, are the results and the interpretation of the findings from the survey conducted by the researcher. The presentation is guided by the research objectives and the statistics are thus a reflection of the respondents view on the research questions.

At the beginning of the chapter are the sample attributes that were deemed relevant during the study to provide background information. These attributes include the Field of Investment, Nature of Business, Composition of Ownership, Location of Parent Company, Source of Investment Information and Level of Investment.

Spearman's rank Correlations are presented later in the chapter to test for the relationships; a regression model was also used to determine the magnitude to which Ownership Specific, Location Specific and Internalization factors explain foreign direct investment inflow to Uganda. In the last section, the analysis of Variance (ANOVA) results are presented to rank the various attributes of respondents by the study variable.

4.2 Sample Attributes

In order to establish the relationship between ownership, location and internalization factors and FDI inflow to Uganda, it was deemed necessary to collect background information that gives proper attributes of the sample. This background information provided qualitative information to the researcher, which is vital in formulating conclusions. The findings on the background information are presented in table 4.2 to table 4.7 below.

4.2.1 Field of Investment

This research covered the sectors where foreign direct investment had been recorded. These include the service sector, the manufacturing sector, infrastructure and exploitation of Natural resources.

Table 4.2 - Field of Investment

	Frequency	Valid Percentage
Service	34	34.8%
Manufacturing	60	63.0%
Infrastructure	2	2.2%
Total	**96**	**100%**

Source: Primary Data

From table 4.2 above, it is seen that 63% of the FDIs were invested in the Manufacturing sector, 34.8 % in Service sector while 2.2% indicated that they had invested in the development of Infrastructure.

4.2.2 Nature of Business

There are three major types of investment in Uganda that attracted foreign direct investment during the period. These are new investments (*green field*), Purchase of existing projects, and undertaking joint Venture investments. This research desired to establish how foreign direct investment is distributed among the three types of investments.

Table 4.3 – Nature of Business

	Frequency	Valid Percentage
Green Field Investment	70	72.8%
Purchase of existing Investment	22	22.8%
Joint Venture	4	4.3%
Total	**96**	**100%**

Source: Primary Data

From table 4.3 above, 72.8% of the investment was for new investments (*green fields*), 22.8 % of the investment was for already existing projects and which were actually bought off by foreign Investors, while 4.3 % of the investment was for Joint ventures.

4.2.3 Composition of Ownership

We created four groups of foreign ownership for purposes of undertaking this research. These were 25% ownership, 50% ownership, 75% Ownership and over 75% Ownership.

Table 4.4 – Composition of Ownership

	Frequency	Valid Percentage
25%	3	2.2%
50%	10	10.9%
75 %	10	10.9%
Over 75 %	73	76.0%
Total	**96**	**100%**

Source: Primary Data

From table 4.4 above, it is noted that of the 92 firms sampled, 76% of them indicated that they are over 75% foreign owned, 10.9% of the firms are 75% foreign owned, 10.9% of the firms are 50% foreign owned while 2.2% of the firms are 25% foreign owned.

4.2.4 Location of Parent Company

The researcher was interested in knowing the source of the foreign direct investment into Uganda. This research clustered the source of foreign investment into six groups namely Africa, Asia, Europe, Australia, Middle East and America. Table 4.5 indicates the sources of these investments according to the said groups.

Table 4.5 - Location of Parent Company

	Frequency	Valid Percentage
Asia	57	58.70
Africa	27	28.20
Europe	7	7.60
Middle East	3	3.26
America	2	2.17
Total	**96**	**100.0**

Source: Primary Data

From table 4.5 above, it is noted that 58.7% of the companies originated from Asia, 28.2% from Africa, 7.6% from Europe, 3.26% from Middle East, while 2.17% indicated their origin to be America.

4.2.5 Source of Investment Information

The researcher was also interested in knowing how the investors got to know Uganda as an investment destination. This was intended to provide qualitative data on the effectiveness of the currents investment strategies used by government.

Table 4.6 – Source of Investment Information

	Frequency	Valid Percentage
Presidential Promotions	2	2.2%
Trade Promotions	21	21.7%
Uganda Investment Authority	31	32.6%
Business Friends	42	43.5%
Total	**96**	**100.0%**

Source: Primary Data

From table 4.6 above, it was noted that 43.5% of the companies got investment information from friend, 32.6% from Uganda Investment Authority, and 21.7% from trade promotions while only 2.2% got investment information through presidential promotions. It is quite interesting to note that most of the investments were attracted through business friends.

4.2.6 Level of Investment

The researcher was also interested in collecting data on the level of investment from foreign investors. This was to be compared with the figures provided by Uganda investment authority, which figures represent the expected investment.

Table 4.7 – Level of Investment

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Level of Investment	45	100,000	30,000,000	3,110,222	5,046,794	470,134,040,404

Source: Primary Data

Table 4.7 indicate that out of the 48 companies, 3 (*three*) did not indicate their level of investment. Of the remaining 45 companies, the minimum amount of investment was US$ 100,000 while the maximum was US$ 30,000,000. The model derived a mean of US$ 3,110,222; a standard deviation of US$ 5,046,794.40; and a variance of US$ 470,134,040,404. The variance indicates that there is a very big disparity between the lowest investment and the highest investment.

4.3 Factor Analysis

Factor analysis was used to describe variability among the three observed variables in a linear combination. This information was used to estimate how much variability is due to common factors. The findings of this analysis are presented in table 4.8 to table 4.11 below.

Table 4.8 – Rotated Component Matrix for Ownership Determinants

	Component			
	1	2	3	4
Technical staff highly experienced	.746			
Employees promoted based on experience	.735			
Technical staff from parent Company	.684			
Technological capacity influenced investment in Uganda	.621			
Employees promoted based on qualification	.538			
Investment decision based on technical Capacity	.533			
Production/service process based on a lot expertise	.514			
Production/service process based on technical Capacity	.505			
Production process require experienced staff		.796		
Financial base key in investment		.702		
Production process require knowledgeable staff		.640		
Experience in production methods crucial		.586		
Production process require skilled staff		.575		
Research and development costs		-.536		
Technical staff highly knowledgeable		.502		
Unique production methods crucial			.756	
Unique products drove company to invest			.707	
Economies of Scale crucial			.562	
Patented technology suitable for Uganda				.868
Company uses patented technology				.611
EIGEN VALUE	**4.707**	**4.396**	**2.816**	**2.749**
% OF VARIANCE	**17.434**	**16.280**	**10.429**	**10.181**

1- Technical capacity 2-Finance 3-Economies of scale 4- Proprietary Assets

Source: Primary Data

Four factors with Eigen values greater than 1 and item loadings above 0.4 were extracted explaining 54.2% of ownership. Technical capacity (1) explained 17.4%, Financing capacity (2) explained 16.3%, Economies of scale (3) explained 10.4% and Proprietary Assets (4) explained 10.2% of the total variance of ownership determinant. This implies that technical capacity, financing capacity, Economies of scale and Proprietary assets are the most important dimensions of ownership determinant that influences foreign direct investment decisions.

Table 4.9 - Rotated Component Matrix for location Specific Determinants

	Component				
	1	2	3	4	5
Government allows un limited profit repatriation	.856				
Goods for local market	.790				
Investment in Uganda based on predictable policies	.742				
Local production reduces tariffs	.732				
Ugandan labour trainable	.690				
Investment in Uganda based on regional stability	.622				
Locally produced increase access	.573				
Goods for export	.521				
Easy to get qualified workers	.520				
Investment in Uganda based on strong political support	.520				
Local Inputs cheaper		.851			
Company Uses Local inputs		.850			
Local Inputs of good quality		.803			
Supply of inputs reliable		.650			
Inputs strategically located		.634			
Local production improves customer service			.769		
Investment based on strong political leadership			.758		
Ugandan Labour highly productive			.710		
Ugandan workers highly qualified			.653		
Ugandan Labour efficient			.611		
Inputs easy to transport			.503		
Government provided Guarantee				.829	
Government provided soft loans				.782	
Government provided industrial machinery				.628	
Goods with local specifications				.576	
Company accessed Local Resources				.551	
There are restrictions to access local resources					.671
Government provided financial Incentives					.641
Incentives Appropriate					.556
Uganda strategically located for target market					.532
EIGEN VALUE	**6.074**	**4.175**	**3.990**	**3.511**	**2.708**
% OF VARIANCE	**16.873**	**11.596**	**11.082**	**9.754**	**7.522**

1- Political Stability 2- Local Input 3- Labour Costs 4- Incentives 5- Market

Source: Primary data

Results from table 4.9 above show that five factors with Eigen values greater than 1 and items with factor loadings above 0.40 explained 56.8% of location specific determinant with respective % variances of Political stability 16.9%, Local inputs 11.6%, Labour 11% , Incentives 9.8% and Market 7.5%. This implies that political stability, labour, local inputs, incentives and market are the most important dimensions of location specific determinant that influences foreign direct investment decisions.

Table 4.10 - Rotated Component Matrix for Internalization Determinants

		Component
		1
	Company customers addicted	.728
	Company products unique	.669
	Company influential in host market	.658
	Parent to control host market	.611
	Company with vast experience	.565
	Parent company has bi financial muscle	.526
	EIGEN VALUE	**3.445**
	% OF VARIANCE	**19.136**

Source: Primary Data

Results from table 4.10 above indicate 9 items that measured internalization with 19 % of variance explaining internalization.

Table 4.11 – Rotated Component Matrix for all Determinants

	Components		
	1	2	3
Funding from parent company	.785		
Financial base key in investment	.743		
Supply of inputs reliable	.737		
Ugandan labour trainable	.698		

Investment decision based on technical know how	.686		
Investment in Uganda based on predictable policies	.684		
Goods for local market	.680		
Parent company has big financial muscle	.659		
Government allows un limited profit repatriation	.641		
Exchange fluctuation in Uganda	.625		
Local Inputs cheaper	.622		
Local production reduces tariffs	.610		
Investment in Uganda based on regional stability	.603		
Locally manufactured goods preferred	.562		
Local Inputs of good quality	.550		
Inputs strategically located	.541		
Experience in production methods crucial	.508		
Company Uses Local inputs	.504		
Company customers addicted		.732	
Company products unique		.664	
Investment in Uganda based on strong political leadership		.641	
Unique production methods crucial		.633	
Ugandan Labor highly productive		.599	
There are restrictions to access local resources		-.595	
Local production improves customer service		.582	
Ugandan workers highly qualified		.577	
Locally produced increase access		.546	
Ugandan labor efficient		.517	
Production process require experienced staff		.504	
Government provided Guarantee			.756
Production/service process based on technical know how			.704
Government provided industrial machinery			.686
Company uses patented technology			.626
Technical staff from parent company			.616
Government provided soft loans			.614
Production/service process based on alot expertise			.597
Investment in Uganda based on strong political support			-.588
Management of the company known to leaders			.583
Company negotiated policy changes			.576
New technologies suitable for investment			.531
Employees promoted based on experience			.500
EIGEN VALUE	**11.692**	**8.720**	**8.153**
% OF VARIANCE	**14.615**	**10.900**	**10.191**

Source: Primary Data

The key determinants to FDI are Location specific determinants, internalization and ownership as explained by 36% of total variance.

4.4 Correlation of Study Variables

The Spearman's rank correlation was used to examine the nature of relationships between the dependent and independent variables in the study. This was because of the categorical measurement of the study variables which are on ordinal scales. The study was designed to establish the relationship between Ownership specific, Location specific and Internalization determinants and FDI inflow to Uganda. The findings of the study are presented in Table 4.12 below.

Table 4.12 – Zero Order Correlations of Study Variables

	1	2	3	4	5	6	7	8	9	10	11	12	13
FDI **(1)**	1												
Technical Capacity **(2)**	.256	1											
Financial Capacity **(3)**	-.060	.552**	1										
Economies of Scale **(4)**	.623	.557	.723	1									
Proprietary Assets **(5)**	.259	.356	.623	.578	1								
Ownership (6)	**.334***	.875**	.723**	.720**	.691**	1							
Political Stability **(7)**	.287	.186	.442**	-.391**	-.124	.056	1						
Local Input **(8)**	-.050	.280	.538**	.390	.421	.434	.599**	1					
Labour Costs **(9)**	.003	.438**	.661**	.647**	.418**	.597**	.518**	.545	1				
Market Size**(10)**	.294	.063	.096	.154	.224	.386	.467**	.561**	.290*	1			
Incentives **(11)**	.413**	.366*	.114	.273	.398	.298	.250	.197	.130	.291	1		
Location (12)	**.608****	.355	.566**	.359	.301	.497	.851**	.799**	.746**	.553**	.509**	1	
Internalization (13)	**.485****	.352**	.285*	.267*	.366	.367*	.476**	.430**	.456**	.758**	.538**	.646**	1

** Correlation is significant at the .01 level (2-tailed) * Correlation is significant at the .05 level (2-tailed) (other figures are not statistically significant)

Source: Primary Data

4.4.1 The Relationship between Ownership Determinants and FDI

The first objective was to test the relationship between ownership specific determinants and foreign direct investment inflow to Uganda. Our findings in table 4.12 above show that there is significant positive relationship between ownership determinants and foreign direct investment ($r = 0.334$, P-value <0.05). Among the constructs of ownership determinants, technical capacity, economies of scale and proprietary assets had a positive relationship with FDI ($r = 0.256$, p-value >0.05, $r = 0.623$, p-value >0.05 and $r = 0.259$, p-value >0.05 respectively), financing had a weak negative relationship with FDI ($r = -0.60$, p-value >0.05). This implies that ownership determinants significantly affect FDI. It also means that foreign companies investing in Uganda are influenced by existence of internal unique capacities in the mother company. This influence is at the level of 33.4%.

4.4.2 The Relationship between Location Specific Determinants and FDI

The second objective was to test the relationship between Location specific determinants and foreign direct investment inflow to Uganda. Our findings in table 4.12 above show that there is significant positive relationship between Location specific determinants and foreign direct investment. ($r = 0.608$, P-value <0.01). Among the constructs, political stability, market size and incentives returned significant positive relationship with FDI ($r = 0.287$, p-value <0.01, $r = 0.294$, p-value <0.01, and $r = 0.413$, p-value <0.01 respectively). This implies that political stability, market size and incentives are crucial determinants of FDI. On the other hand, Local inputs and Labour costs returned weak negative relationship with FDI($r = -0.050$, p-value>0.05 and $r = -0.003$, p-value>0.05 respectively). This implies that local inputs and labour costs do not significantly affect FDI. In general, location specific determinants are crucial in determining foreign direct investment inflows to Uganda at a level of 60.8%.

4.4.3 The Relationship between Internalization Determinants and FDI

The third objective was to test the relationship between Internalization determinants and foreign direct investment inflow to Uganda. Our findings in table 4.12 above show that there is significant positive relationship between Internalization and the decision to invest. (r = 0.485, P-value <0.01). This implies that internalization positively affects foreign direct investment to Uganda. This means that foreign companies investing in Uganda look at the internal advantages that will accrue to the company by expanding its operations while taking the decision to invest. This affects the decision to invest by 48.5%.

Overall, among the three determinants, results show that location specific determinants highly affected the decision to invest in Uganda, followed by Internalization determinants and lastly by Ownership Specific determinants.

4.5 The Regression Model

We carried out a regression model to analyse the extent to which the decision to invest can best be predicted by Ownership specific, location specific and Internalization determinants. The results of the regression model are presented and shown in Table 4.16 below.

Table 4.13 – The Regression Model

	Un standardised Coefficients		**Standardised Coefficients**	**t**	**Sig**		
Model	B	Std. Error	Beta				
(Constant)	-2.762	.897		-3.077	.004	R	.669[a]
						R Square	.448
Location	1.501	.317	.744	4.735	.000	Adjusted R Square	.410
						F	11.890
						Sig	0.000[a]

[a] Dependent Variable: Decision to Invest

The results presented in table 4.13 above indicate that the determinants are linearly related to FDI (f=11.890, F=0.000). The results further show that the standardized beta coefficients for ownership specific and internalization determinants were insignificant in the prediction of foreign direct investment. Location specific variables significantly and highly predict 41% of foreign direct investment. It is noted that the combined coefficient of the three independent variables is 0.448 (*R Square 0.448*). The model also shows that location specific variables significantly and highly predict foreign direct investment (*F= 11.890, Sig = 0.000*). Foreign direct investment was predicted by location specific variables at 0.410 (*Adjusted R Square = 0.410*). Ownership and Internalization determinants did not significantly affect FDI.

CHAPTER FIVE: DISCUSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This research was designed to study the relationship that exists between Ownership Specific, Location Specific, Internalization determinants and FDI inflows to Uganda. The variables under this study included ownership specific, location specific, internalization determinants and foreign direct investment inflow. In this chapter, the findings presented in chapter four are interpreted, discussed, with conclusions and recommendations drawn. The first section of this chapter deals with the interpretation and discussion of findings, the second section deals with the conclusions and lastly the third section presents the recommendations and areas of further research.

5.2 Ownership Specific Determinants and Foreign Direct Investment Inflow

The findings of this study shows that ownership variables have a significant positive relationship with foreign direct investment inflow to Uganda. This means that investor's decisions to invest in Uganda to a greater extent (0.334) depended on the existence of technical capacity, unique technology and financing capacity, as major constructs of ownership specific determinants. This finding is consistent with findings of earlier studies like that of Golan and Gonzalez- Benito (2001). Their study concluded that ownership advantages mostly explain why firms invest abroad. In the same way, Chandprapalert (2000) showed empirical evidence to support the importance of ownership advantages, in FDI decisions. Ignacio et al, (1999), concluded that existence of ownership specific factors were the main determinant of foreign direct investment. This means that where the firm has huge technical capacity in terms of experience and unique technology, and a large financial base, it has greater ability to undertake investment in foreign markets. Such investment comes with greater economies of scale that directly influence the level of profitability.

5.3 Location Specific Determinants and Foreign Direct Investment Inflow

The Pearson correlation test on the relationship between location specific factors and foreign direct investment inflow to Uganda revealed that there was a significant positive relationship between the two variables of 0.608. This implies that Uganda's location specific advantages significantly determined foreign investment decisions. These findings are consistent with those of Mazzarrol and Choo (2003) and Fumming (2002) whose two studies concluded that locational factors were of greater importance in any FDI investment. Cheng et al (2000) had concluded that the location choice was dependant on the level of profitability, meaning investors will choose the best profitable locations, with factor input being a major ingredient of profitability. Asiedu (2002) pointed out the importance of local demand factors in any FDI decision. The perception of an investor on the conditions of the target location will greatly influence the decision he takes to invest or not to invest in that location. It is worth noting that while incentives are an important ingredient in the location choice decision, they are of less importance in the longrun to an investor. This is supported by the finding of Benacek et al (2002) and Buss (2001)

5.4 Internalisation Determinants and Foreign Direct Investment Inflow

The study indicated a significant positive relationship between internalization factors and FDI inflow by 0.485. This means that the foreign companies will tend to undertake new investments in new markets to create internal markets. This route is used as a way of reducing the transactional costs, foreign exchange risks, circumvent financial restrictions and unfavourable tax regimes. This is generally done to internalise production arbitrage and leverage opportunities. Our findings are consistent with the findings of Janeba, (2002), Buckley, (1998), Kongut, (1985) and Frey et al, (1985). This is consistent with the literature review, where Qian (2000) concluded that in an effort to reduce on the costs, firms will pursue and exploit an internal market thus creating the ability to avoid restrictions and unfavourable competition.

5.5 Conclusion

From the findings of this study, it has been noted that the three variables of ownership specific, location specific and internalization determinants significantly affect FDI inflows to Uganda. The study indicates that investors focus more on location specific factors that include: local inputs, incentives, labour and political stability. These influence the investment decisions up to 0.608. Location specific determinants are followed by ownership specific determinants at 0.334 and internalisation at 0.485. Although in the regression model, internalization generated a negative coefficient meaning that it negatively affects investment, this could be explained by looking at the source of investment which to a greatest extent came from Asian countries. Some of the Asian firms are not necessarily big or conglomerates in those countries and hence could possibly not have invested here because of the need for the internalization effects. Looking at the study results further, it is noted that the three factors can explain the foreign investment inflow up to 0.669. This means that there are other factors that investors look at to decide on investing in Uganda. Consistent with research of this nature, there will always be other secondary considerations on any long term decisions like investing in a foreign market.

5.6 Recommendations

There has been increased foreign focus on investing in the Ugandan economy in the past 10 years. This increase is attributed to the creation of the Uganda Investment Authority as a one stop centre to coordinate investment activities. It has been noted further during the study, that the percentage increase in the number of companies does not match the increase in the investment value. The study reveals that ownership specific and internalization determinants are insignificant in predicting FDI inflows, while location specific determinants significantly determine the decision to invest in

Uganda by 41%. In order to attract increased FDI inflows, policy makers need to focus their efforts on the location advantages Uganda has. The following commendations are being made:

(i) Policy makers should focus on the competitive advantages Uganda has in terms of being located centrally in the East African market. Uganda seem to have competitive advantage in terms of rich natural resources, competitive labour costs, incentives, centrally located in a growing regional market, a growing young population, made strides in opening up the regional market, and political will and stability. With Investors more focused on the location advantages Uganda has, the government should consider further development of these as a way of boosting foreign investment.

(ii) Policy makers should advocate for infrastructure improvement like the rail network, the road network, communication infrastructure, and improved financial sector. These go a long way to improve the rating of a given location, thus attracting more foreign investment.

(iii) Policy makers need to re-examine the investment policy to provide a limited grace period within which investment should be made after which if no investment is made, the license is revoked. This could reduce the number of unrealized licenced projects, whose intended investment may be to access quicker resources in the economy.

5.7 Limitations of the Study

Most of the research undertaken on foreign direct investment use longitudinal approaches. This study however followed a cross-sectional approach to study the determinants of foreign direct investment flows to Uganda. It is noted that such studies could also be undertaken using

longitudinal approaches and could yield better results. Until such other research is undertaken, the findings of this study may not be conclusive.

Secondly, the study concentrated on areas mostly in the central region due to failure to identify a reasonable number of FDI firms in other parts of the country. The central region is reasonably developed and hence the conclusions made have been generalized. The results could be different when foreign firms investing in upcountry areas are brought under the study.

Another limitation is the unit of measurement in the study. Erramilli and Rao (1993) noted that the unit of measurement is the individual entries and not the firm itself. To obtain a representative sample, the sample frame should contain all entry decisions made by firms during the period of study. This study used a sample of those foreign firms that invested in Uganda as obtained from UIA. Following the recommendations of Erramilli and Rao (1993), the conclusions made under this study may not be conclusive.

Lastly, Tallman, 1991, noted that the eclectic model does not provide a unified perspective in the explanation and prediction of entry mode choices. While we may conclude that the three factors are the determinants of FDI, there may be other factors that were not included in the study.

5.8 Areas for further Research

(1) Future research on the determinants of foreign direct investment should use the longitudinal approaches to provide additional information on the key determinants of foreign investment in Uganda. The study should focus on all foreign companies licenced by the Uganda Investment Authority in line with the recommendations of Erramilli and Rao (1993).

(2) This research has identified that foreign direct investment in Uganda can be predicted by the three determinants by about 41%. This means that there are other factors at 59% level that influence foreign direct investment inflows to Uganda. Future research should be carryout in this area.

(3) Since this research concentrated in the central region, further research could be undertaken on the determinants of foreign direct investment in Uganda but focusing on areas outside the central region.

(4) There is need to carry out research on the impact and effectiveness of the various promotional modes used by the government of Uganda. This will create information to the authorities on the most effective promotional methods for Uganda. It will also eliminate the current information gap existing on investment opportunities in Uganda.

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APPENDIX 1

RESEARCH QUESTIONNAIRE

RESEARCH QUESTIONNAIRE FOR INVESTORS

MAKERERE UNIVERSITY

DETERMINANTS OF FOREIGN DIRECT INVESTMENT FLOW IN UGANDA

Guidelines:

(a) Tick where Appropriate.
(b) Provide more details where needed.
(c) Information provided will be treated as confidential and only used for academic purposes.
(d) Kindly complete all the questions.

GENERAL BUSINESS INFORMATION

(1) Name of Business

Address

(2) Business Location (District)

(3) Field of investment

☐ *Service* ☐ *Manufacturing* ☐ *Infrastructure* ☐ *Natural Resources*

(4) Form of Business

☐ Sole Proprietorship ☐ Partnership ☐ Company ☐ Co-operative

(5) Level of investment (*In US Dollars*)

(6) Nature of Business invested:

◯ Green field (New) Project
◯ Purchase of Existing Project
◯ Joint Venture

(7) When did the investment begin (*Year*) _____

(8) The business is foreign owned at

◯ 25% ◯ 50% ◯ 75% ◯ Over 75%

(9) The company is a subsidiary of another foreign company

	Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
Subsidiary of another Company				

(10) The parent company is located

		Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
i	Africa				
ii	Asia				
iii	Europe				
iv	Middle East				
v	Australia				
vi	United States of America				
vii	Other Countries in America				

INVESTMENT

(11) Where you involved in the decision to invest in Uganda?

Yes ◯ No ◯

(12) We got to know Uganda investment opportunities through

		Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
i	Presidential Promotions				
ii	Trade Promotions				
iii	Uganda Investment authority				
iv	Business Friends				
v	Over the Internet				

OWNERSHIP SPECIFIC DETERMINANTS

(13) *Technical Capacity*

	Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
The company promotes its employees based on Experience				
The company promotes its employees based on Skills				
The company promotes its employees based on Performance				
The company promotes its employees based on Qualification				
The Production/ service processes requires a lot of expertise				
The Production/ service processes requires a lot Skills				
The Production/ service processes requires a lot of technical know how				
The company draws its technical staff from Parent company				
The company's technical staff are highly experienced				
The company's technical staff are knowledgeable				
The company's Production processes require skilled staff				
The company's Production processes require experienced staff				
The company's Production processes require knowledgeable staff				
The company uses the patented technologies in Production				
The Patented Technologies are suitable for Uganda production				
The Company uses the new technologies in its new investments				

(14) Research and development costs are estimated at

1 – 20% ◯ 20 – 40% ◯ 40 – 60% ◯ 60 – 80% ◯ over 80% ◯

of overall costs.

(15) Financing

	Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
The company's funding was provided by parent company				
The company's Funding was sourced from host country				
The company's funding was drawn from home and host country governments				
Good financial base was key to investing in Uganda				
The company can easily secure funding in the Home Market				
The company can easily secure funding in the host market				
The company's leverage rating is high				

(16) Proprietary Assets

	Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
Technological capacity enabled us to invest in Uganda				
Differentiated products drove the firm to invest in Uganda				
Experience in production methods was crucial for investing in Uganda				
Our unique production methods created opportunities for investment in Uganda				

(17) Economies of Scale

	Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
Ugandan Market enjoy Imported products				
Most company products on the host market are imported				
Company products were on the host market before this investment				
Economies of scale were influential to investing in Uganda				

LOCATION SPECIFIC DETERMINANTS

(18) Local Inputs

	Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
Company production process uses local inputs				
Local inputs are cheaper than imported				
Local inputs are of good quality				
Supply of local inputs is reliable				
Local inputs warrant long term investments				
Local inputs are strategically near the production area				
Local inputs easily transported to the production plant				

(19) Market Size

	Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
Goods are produced for the local Market				
Goods are produced for the regional Market				
Goods are produced for export elsewhere				
Goods are produced with local specifications				
The local market prefer locally manufactured goods				
Producing in Uganda reduces tariffs				
Producing in Uganda makes your products easily accessed				
Producing in Uganda enables you to better serve your Customer				
Uganda is strategically located for the target market				

(20) Incentives

	Strongly positive	*Positive*	*No effect*	*Negative*	*Strongly Negative*
Government provided financial incentives for FDI					
Government provided Tax holiday for FDI					
Government provided Guarantees for FDI					
Government provided soft loans for FDI					
Government provided industrial land for FDI					
Government provided unlimited profit repatriation for FDI					
Government provided industrial machinery for FDI					
Incentive appropriate for FDI					
The company accessed local resources in the host country					
There are restrictions for companies outside the country to access local resources					

(21) Labour

	Strongly positive	*Positive*	*No effect*	*Negative*	*Strongly Negative*
It is very easy to locate qualified workers in Uganda					
The Ugandan workers are highly qualified					
Uganda has an efficient labour force					
The Ugandan labour force is trainable					
The Ugandan labour force is highly productive					
The Ugandan labour force has a good working culture					

(22) Political Stability

	Strongly positive	*Positive*	*No effect*	*Negative*	*Strongly Negative*
Investment in Uganda was dependent on its predictable policies					
Investment in Uganda was based on strong political leadership					
There is strong political support to foreign investors					
The regional stability is crucial to investment in Uganda					

(23) **INTERNALIZATION DETERMINANTS**

	Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
The company exported its products to Uganda prior to investment				
The company is big enough in the home market				
The company has leverage to negotiate a change in policy in host country				
The home country can influence a change in policy in favour of the company				
Management is known to leaders in the host economy				
The company negotiated policy changes in its favour				
The company has vast experience in the area of investment				
The company has a bigger clientele addicted to its products				
The company products has unique tests and features				
There are financial restrictions in the domestic market				
The company is influential in the host market				
The parent company needed to control the host market				
The parent company needed to control strategic asset patents				
The parent company charges management fees from its subsidiaries				
The parent company wanted to minimize the risk of concentrating production in one area				
There is exchange rate fluctuations in Uganda				
The parent company has a big financial muscle				
The company is enjoying economies of scale				

(24) Entering Ugandan market was

		Strongly Agree	*Agree*	*Disagree*	*Strongly Disagree*
i	Very easy to enter the Ugandan market				
ii	Somehow difficult to enter the Ugandan market				
iii	Required very little time for you to secure a license				
iv	Has many bureaucracies in securing a licence				

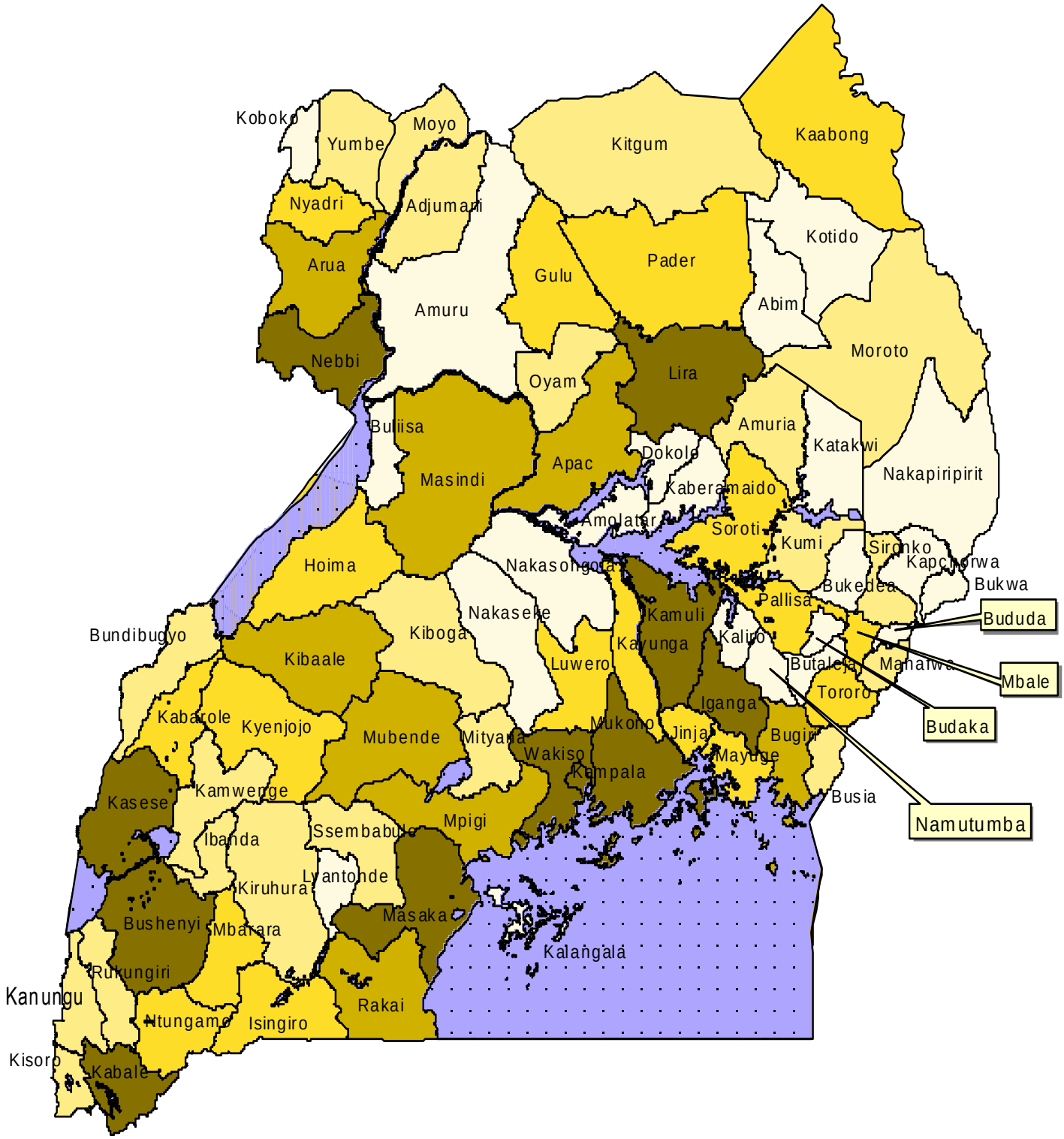
(25) What can Uganda do to support and help grow our international business?

_____

_____

Thank you for your Cooperation

APPENDIX 2 - MAP OF CURRENT DISTRICTS IN UGANDA



APPENDIX 3 - LIST OF FIRMS PARTICIPATING IN THIS RESEARCH

NO.	PROJECT NAME	SECTOR	TO INVEST ($)
01	ABACUS PARENTERAL DRUGS LTD	MANUFACTURE OF INTRAVENOUS FLUIDS	12,013,000
02	BEST J.K. INTERNATIONAL (U) LTD	MANUFACTURE OF SHOES	670,000
03	BJ OVERSEAS LTD	DISTRIBUTION OF PETROLEUM PRODUCTS	4,690,000
04	CHONG QING CHINESE RETAURANT LTD	HOTEL CONSTRUCTION	265,000
05	DAI FENG COMPANY LTD	MANUFACTURE OF LEATHER PRODUCTS	470,000
06	DARBAAR (U) LTD	FRUIT JUICE PROCESSING	549,000
07	DEANKAN STAINLESS STEEL EQUIPMENT (E.A)	MANUFACTURE & MARKETING OF STAINLESS STEEL	676,000
08	DIMAX ENTERPRISES LTD	MANUFACTURE OF SHOES	499,000
09	HENGCHANG PLASTIC (U) LTD	MANUFACTURE OF PLASTIC PRODUCTS	3,000,000
10	HONG HAI INTERNATIONAL COMPANY LTD	EXTRACTION OF FISH AND PROCESSING OF FISH PRODUCTS	4,952,000
11	HUMURA RESORTS (U) LTD	CONSTRUCTION OF A HOTEL	4,000,000
12	JAI INVESTMENTS LTD	METAL & METAL FABRICATION	3,420,000
13	JIN ENTERPRISES U LTD	MOTOR VEHICLE FABRICATION	2,000,000
14	KING ALBERT DISTILLERS	PRODUCTION OF LINE SPIRITS	100,000
15	KLAD INTERNATIONAL LTD	POWER GENERATION	8,000,000
16	KRISHNA CONSTRUCTION CO. LTD	CIVIL CONSTRUCTION	824,000
17	KRISTENSEN PETERSEN & CO. LTD	LEISURE TOURISM	236,000
18	MT. ELGON SEED CO. LTD	SEED PROCESSING	2,000,000
19	RELIANCE TRADING CO. LTD	GAS PRODUCTION	339,000
20	RIFT VALLEY RAILWAYS (U) LTD	TRANSPORT SERVICES BY RAIL	9,166,000
21	SAI INTERNATIONAL (U) LTD	MANUFACTURING	300,000
22	SAMEER AFRICA (U) LTD	CONSTRUCTION OF A WAREHOUSE FACILITY	945,000
23	SAMEER AGRICULTURE & LIVESTOCK LTD	MILK COLLECTION AND PROCESSING	8,250,000
24	SHOBUJ INVESTMENTS LTD	REAL ESTATE CONSTRUCTION	2,017,000
25	SPENCON -SECURE (JVC) LIMITED	RICE GROWING	350,000
26	STARRY AFRICA CO.LTD	ASSEMBLING OF MOTOR CYCLES	200,000
27	STEMEI INVESTMENT & DEVELOPMENT CO. (U) LTD	MANUFACTURE OF PLASTICS	4,000,000
28	SUN PHARMACEUTICAL LTD	MANUFACTURE OF PHARMACEUTICAL PRODUCTS	865,000

29	TOKYO WAY COMPANY LTD	AGRICULTURE	1,090,000
30	WAINWRIGHT INTERNATIONAL TREATMENT CENTER LTD	MEDICAL TREATMENT CENTER	538,000
31	UCHUMI SUPERMARKET	TRADING	8,200,000
32	YAHYA INVESTMENTS LTD	MANUFACTURE OF SHOES & OTHER LEATHER PRODUCTS	2,000,000
33	YUASA INVESTMENTS LTD	MOTOR VEHICLE FABRICATION	1,235,000
34	ZHONGDA INTERNATIONAL CHINA LTD	MANUFACTURE OF ALUMINIUM DOORS & WINDOWS	100,000
35	KESINGTON CONSTRUETIONALE	REAL ESTATE DEVELOPMENT	4,000,000
36	JACOBSON INTERNATIONAL	POWER GENERATION	30,000,000
37	ZEIN INTERNATIONAL	TELECOMMUNICATIONS	29,500,000
38	WARID COMMUNICATIONS	TELECOMMUNICATIONS	30,000,000
39	MTN COMMUNICATIONS	TELECOMMUNICATIONS	30,000,000
40	GAME (U) LTD	TRADING	10,000,000
41	SORPRITE UGANDA LTD	TRADING	6,000,000
42	WU'S INDUSTRY LTD	MANUFACTURING	2,200,000
43	TIRUPATI DEVELOPMENT (U) LTD	REAL ESTATE	15,000,000
44	LABURNAM COURTS LTD	REAL ESTATE DEVELOPMENT	13,554,000
45	MUSHLEHTEX ENTERPRISES LTD	REAL ESTATE	30,000,000
46	ZHE SHANG INVESTMENTS LTD	AGRICUTURAL INFRASTRUCTURE	5,300,000
47	CHINA MACHINERY LTD	MANUFACTURING / SERVICE	4,500,000
48	ELGON SEED COMPANY	MANUFACTURING/ SERVICE	2,500,000

APPENDIX 4 – DETAILS OF THE SAMPLE SIZE

APPENDIX 5 – LETTER OF REFERENCE FROM MUBS