

## CONTRIBUTION OF FOREIGN DIRECT INVESTMENT TO SOCIO ECONOMIC DEVELOPMENT IN GASABO DISTRICT, RWANDA

Gakwerere K. Samuel\*, & Bizimana J. Claude

*Independent Institute of Lay Adventists of Kigali, P.O. Box 6392, Kigali, Rwanda*

*\*e-mail: [gakwereresamuel@gmail.com](mailto:gakwereresamuel@gmail.com)*

### Abstract

*This study focused on the contribution of FDI to socioeconomic development that continues to slowly speeding up in Gasabo district, Rwanda. It used a descriptive research design. A sample of 100 individuals was randomly drawn from 583,841 people of Gasabo district. This sample size was calculated following Cochran formula with a confidence level of 90% and 10% as margin error. Nominal, and scale primary data were collected using a self-administered questionnaire (schedule) whose reliability was tested and a cronbach alpha of 0.8235 was found. Documentary technique was used to collect secondary data from different sources. Data were processed and analyzed using SPSS as a tool. Through descriptive statistics and Spearman correlation coefficient ( $\rho$ ) calculation as relevant techniques the study revealed that attributes of FDI in Gasabo district were in the order of bringing capital and technology, promoting competition, improving skills in management, promoting exportation, and job creation. Also it showed that FDI was seen as a catalyst in reducing unemployment and thus increasing the level of personal income from which social indicators were nicely reached in Gasabo district. Therefore FDI was found having a significant positive but very week correlation (a Spearman correlation coefficient of 0.209(i.e. 20.9%) the reason why the study recommended to continually attracting more foreign direct investments (FDIs) in Gasabo district, Rwanda.*

**Keywords:** Foreign Direct Investment (FDI), socioeconomic development, district.

### Introduction

According to the IMF (2008), Foreign Direct Investment, commonly known as FDI, refers to investment made to acquire

lasting or long-term interest in enterprises operating outside of economy of investor. Referring to Tulus (2006) developing

countries in Asia, Africa and Latin America have come increasingly to see foreign direct investment (FDI) as a source of economic development, modernization, income growth, employment and poverty reduction. Also Tulus (2006) says that this is apparently reflected by their currently pursued economic policies which is explicitly intended to improve conditions to attract FDI and to maximize benefits of the presence of FDI in their domestic economy. From 1960 onwards there have been voices in favor and against FDI. Some argued that FDI leads to economic growth and productivity increases in economy as a whole, but others stressed on the risks associated with FDI. FDI used to be viewed as unhelpful, negative and bringing in appropriate technology to developing countries. FDI is now seen as a beneficial and nearly all countries try to provide a welcoming climate for investments countries increasingly recognize that they can affect the attraction of FDI using both general economic policies and appropriate specific FDI policies. However at the sometime as country government have begun to realize the positive aspects of FDI a more nuanced view on FDI and development has now

emerged in the research community, which views the impact of FDI on economic growth as not only positive or negative, but that effects depend on the type of FDI, firm characteristics, economic conditions and policies (Zimny, 2004).

Bartels (2009) asserted that FDI plays a crucial role in industrial development of developed and developing countries alike and can help in boosting social and economy growth through foreign direct investment as a driving force of globalization and important engine of socio-economic growth.

According to the Durkheim (2011) economic development implies two things: Economic growth which leads to increase in production and generation of income and equitable distribution of this income among the population to improve large number of social factors of production such as land, labor, capital and organization. Developing as well as developed countries seek to attract FDI due to its many advantages for economic development. FDI can not only bring capital to an economy. But also transfer knowledge, technology and skills as well as generate employment and trade.

Rwanda has a very large informal sector and relatively small private sector, although this has grown reasonably fast in recent years. The events of 1994 contributed to rapid deterioration in production, as well as to destruction of communication and transport infrastructures. The export levels remain well as below the imports. Investments have been filling in gap left by the war rather than building on an already productive base, however this rebuilding phase is faster and processing of agricultural goods and an increasingly productive service sector (MINICOM, 2006).

Also MINICOM (2006) is clearly saying that there are still many barriers to growth. But this policy aims at identifying those barriers in area of trade and describes how the government intends to overcome them. The agriculture activity occupies more than 60% of the Rwandan households that depend on agriculture. A study conducted in 2000-2001 showed that 22.1% of inhabitants of Kigali city are involved in commercial activity while at national level; only 2.6% of Rwandans live of commercial activity. Building on the investment law of 2006, the GOR established Rwanda development board

(RDB) in 2008 to fast track development projects and to facilitate new investment. RDB consolidates several Agencies previously involved in promoting investment including the Rwanda investment and export promotion Agency, the Rwanda commercial registration service Agency, the human and institutional capacity development Agency, the Rwanda information and technology agency, and the Rwanda office of tourism and national parks (Affairs, bureau of economic and business development report, 2012).

Foreign direct investment (FDI) is often seen as a driver for economic and social development as it may bring capital, technology management know how, jobs and access to new markets. Policy –makers have therefore tended to emphasize the benefits that FDI can bring to host economies particularly in developing countries. Accordingly many governments have developed policies to encourage inward FDI (IRDP, 2008).

Referring to IRDP (2008) Rwanda is one of the most powerful countries in sub-Saharan Africa and a model of past conflict reconstruction. However, the country is also characterized by a poverty rate which is

quite high (56.9% of total population), a high population density and a high demographic growth. These features as well as recent population migrations have contributed to: deforestation, soil erosion, insufficient crop production leading to food insecurity (28% of the total population) and persisting extreme poverty (37% of the total population).

For Tumwine (2011) after the 1994 genocide of Tutsis, Rwanda was deeply destroyed and its future was simply unclear. The whole system was down; economic, social, security, justice and infrastructure. In order to overcome such situation the government of Rwanda has continued to create conducive investment climate for both local and foreign investors to create new employment. The government of Rwanda set an ambitious of targets in vision 2020 and one of the strategies to achieve objectives of vision 2020 is foreign direct investment (FDI).

Gasabo being one of three districts of Kigali City has around 10 health centers with around 162 staffs and around 3 hospitals. It is worth noting that the guideline given by the ministry of health of one health centre per sector has not been fulfilled. Hence,

medical infrastructure remains insufficient in relation to medical service delivery to community. The literacy percentage among men stands at 59% and against 41% among women. There are 88 primary schools (39 public and 49 private), i.e 50 public secondary schools (22 nine basic educations and 3 full secondary), 25 private secondary schools, and 6 Higher learning Institutions. Currently it has around 61 adult literacy centers for 1,769 individuals (NSIR, 2011). However, illiteracy is still more seen in rural than in urban areas of Gasabo district. The signs of poverty continue to be seen though Gasabo district knows a certain number of companies like UTEXRWA, RWACOM, KABUYE sugar works and SORWATOM. Because of the favorable climate of investment, Rwanda has attracted foreign companies and Gasabo district knows a sound number of Foreign Direct Investments such as AZAM, KCB, EQUITY BANK, MTN, TIGO and AIRTEL. The main purpose of this paper was to analyze the role of foreign direct investment on social and economic development of the people living in Gasabo

## 2. Method

The research employed a descriptive and correlation research. A descriptive study typically measures a variable or a set of variables as they exist naturally. The purpose of the descriptive is to describe variables as they exist. As the main purpose of this paper was to assess the contribution of FDI to socioeconomic development the correlation to evaluate the relationship between both variables was used. A sample of 100 individuals was randomly drawn from 583,841 people of Gasabo district. This sample size was calculated following Cochran formula with a confidence level of 90% and 10% as margin error. Nominal, and scale primary data were collected using observation, unstructured interview, and a self-administered questionnaire (schedule). The questionnaire was built around both variables. Its validity and reliability were tested and a cronbach alpha of 0.8235 was found. Documentary technique was used to scrutinize secondary data from different sources. Data were processed through editing, coding, classification and tabulation. The researcher used SPSS as tool to analyze the processed data. The analysis was done through descriptive statistics (frequency,

percentages, mean, and standard deviation), and Spearman correlation coefficient ( $\rho$ ) calculation as relevant techniques.

## 3. Results and Discussions

As the researcher used a self administered questionnaire which was built around research objectives, 100 schedules were collected and this translated a participation rate of 100%. The total participation of the respondents justified the reason why the research continued. The analysis followed sections as they were specified through questionnaires.

In respect to the respondents' profile, the study revealed that out of 100 people, 59(i.e. 59%) respondents were male while 41(i.e. 41%) were female. This meant that the sample constituted an advantage in the sense that the information was sexually balanced. The study revealed a greater percentage of 75% of the respondents being people of the age bracket of 21 up to 40 years. This age group was made by young and educated people able to judge the contribution of foreign direct investment. The sample was also built of 41 (i.e. 41%) respondents with secondary level of education, 40 (i.e. 40%) with university level, 8 (i.e. 8%) with no formal education level, 7(i.e. 7%) with

masters level, while the remaining 4(i.e.4 %) were of primary education level. Basing on these results, all population was represented. According to marital status most of the respondents 53 (i.e.53%) were found in the group of married, and 44 (i.e. 44%) in the 10%) were of public employment, 1(i.e.1%) was of handicraft, while 7(i.e.7%) were of diversified employments. This diversification of employments allowed welling assessing the contribution of FDI to socioeconomic development in Gasabo district.

group of widow (ers). It was better because these peoples had all information about social life experience. As for employment 49(i.e. 49%) respondents were of private sector, 23(i.e. 23%) were students, 10(i.e.

To the objective of identifying attributes of foreign direct investment as they were perceived in Gasabo District, the study revealed views of respondents as they are summarized in table 1 as follows:

**Table 1 Attributes of FDI in Gasabo district, Rwanda**

Attributes		Frequency	Percent
Creating Jobs	Yes	73	73.0
	No	27	27.0
	Total	100	100.0
Bringing Capital	Yes	100	100.0
	No	0	0.0
	Total	100	100.0
Technology	Yes	98	98.0
	No	2	2.0
	Total	100	100.0
Skills in Management	Yes	78	78.0
	No	22	22.0
	Total	100	100.0
Promoting Competition	Yes	95	95.0
	No	5	5.0
	Total	100	100.0
Promoting Exportation	Yes	76	76.0
	No	24	24.0
	Total	100	100.0
Boosting Income Tax	Yes	100	100.0
	No	0	0.0
	Total	100	100.0

**Source:** Primary data, 2014

From table 1 it is noted that out 100 respondents 73 (i.e. 73%) accepted that FDI was the source of job creation in Gasabo district, while 27(i.e.27%) denied. As the need assessment shows a big requirement of

job in Gasabo district a low number of local companies needed intervention of foreign companies This contributed in job creation and boosted revenues of surrounding population.

Again the total number of respondents (100%) confirmed the assertion that FDI brought enough capital to start up their businesses. A huge amount of money brought by FDI started up businesses. It required making physical investments into building factories, purchasing machinery and equipment. As some of those activities were performed by local people, they got money by salaries or selling some required products and thus increase income. Therefore, foreign companies brought sufficient capital because they used it to invest in long-term projects.

The inquiry continued on asking if the capital brought by FDI played role in job creation most of the respondents 85(i.e 85%)

accepted, while 15 (i.e 15%) denied. With money they got from working or selling to foreign companies, people were able to start their new or support their existing businesses. FDI is often seen as a driver of economic and social development.

FDI was also seen as promoter of new technology 98(i.e 98%) respondents accepted. They asserted that with the introduction of FDI in Gasabo district new technologies were started in diversified fields like banking, productions, and communication. New technologies went together with skills in management where 78 (78%) respondents accepted that FDI brought new skills in managing businesses, while 22 (i.e 22%) denied. That added value was got through trainings organized mostly by new and foreign companies. It is said that there was transfer of skills in management. Therefore, expenditure on training became initial investment and other sunk cost. As the remuneration of an expatriate almost always tends to be higher than that of local employee, FDI use more local people as soon as possible (Moosa, 2002).

In regard to FDI promoting competition in Gasabo district 95(i.e. 95%) respondents

accepted, while 5 (i.e. 5%) refused. The technologies from FDI generally may take the following forms: technology-embodied products such as machinery, equipment and tools technical skills such as management and organizational expertise, marketing, quality control and other production related skills; and process-related technologies. By the FDI the productivity is likely to rise and unit cost likely to decline. Also if FDI is export-promoting the products of subsidiary are destined for large world market.

To promoting exportation 76 (i.e.76%) respondents accepted, while 24(i.e.24%) rejected. Foreign companies can provide access to export markets, both for existing activities (switch from domestic to international markets) and for new activities. FDI in Rwanda encourage exportation through flow of wheat produced by AZAM, and through new technology brought by FDI increasing exportation in terms of coffee and tea.

That promotion was found to be the root of increasing income tax where 100 (i.e. 100%) respondents accepted that FDI in Gasabo District pay income tax to Rwanda Revenue Authority (RRA). Though providing tax exemptions and incentives is seen as a

central element of the Government's policy to encourage a competitive environment for economic growth and poverty reduction (MINECOFIN, 2011), job created, new technologies introduced, exportation promoted, and completion promoted by FDI are source of enough revenues to increase taxes.

To the objective of assessing opinions about the level of socioeconomic development of people in Gasabo District, the study revealed acceptances as they are given in table 2 .

In order to know whether FDI participated in reducing unemployment in Gasabo district out 100 respondents 97(i.e. 97%) accepted, while 3(i.e. 3%) denied. Attracting domestic and foreign direct investment (FDI) is seen as a corner stone for private sector to promote socioeconomic growth through creating employment, building skills in management, and increasing exports in agriculture, manufacturing and services. There was a problem of low income due to agricultural activities not well developed in rural areas (8 Sectors), and soils relatively not fertile. Crops like tomatoes, soya beans, sunflower, maize, coffee and legumes perform comparatively better than other crops due to various reasons notably

improved production techniques for tomatoes introduced by SORWATOM.

**Table 2 Perceptions on Social-economic Development of Gasabo District, Rwanda**

Opinions on whether FDI		Frequency	Percent
Reduces unemployment	Yes	97	97.0
	No	3	3.0
	Total	100	100.0
Increases Level of Personal Income	Yes	99	99.0
	No	1	1.0
	Total	100	100.0
Provides income allowing house building	Yes	57	57.0
	No	43	43.0
	Total	100	100.0
Participates in food production	Yes	89	89.0
	No	11	11.0
	Total	100	100.0
Contributes to Nutrition improvement	Yes	52	52.0
	No	48	48.0
	Total	100	100.0
Contributes in Education	Yes	97	97.0
	No	3	3.0
	Total	100	100.0
Facilitates health insurance payment	Yes	73	73.0
	No	27	27.0
	Total	100	100.0
Contributes in buying clothing improvement	Yes	93	93.0
	No	7	7.0
	Total	100	100.0

**Source:** Primary data, 2014

Gasabo District has trading centres scattered in all sector entities especially those located in urban area and intermediary centres which constitute points of attraction for economic activities, small industries and crafts four factories (UTEXRWA, RWACOM, Kabuye Sugar Works and SORWATOM). These activities increase production of Gasabo District.

From the increase of production the increase of personal income followed as 99(i.e. 99 %) respondents said that FDI contributed while 1(i.e. 1%) refused. By using technology brought by TIGO cash, MTN mobile money, and currently by Airtel mobile money people in Gasabo district is getting habit of easily circulating money for businesses that boosted the increase of personal income.

As the problem of dwelling was found (93% of the respondents confirmed its existence) due to old regrouping house, to no planned housing, and to lack of authorization to construct or renovate the old house, FDI was said to provide income that could allow people to get their own shelter (57% of the respondents) though it was very expensive in urban zones and additionally FDI employees were few compared to the whole population of Gasabo District.

The research found that before FDI started Gasabo district knew difficulties in education (57% confirmed) in terms of insufficient or poor state of education infrastructures, overpopulation in classes, existence of high number of poor students in secondary schools, poor promotion rate from secondary to university, long distance between school and domicile of student, insufficient scholastic materials in schools, poor motivation among teacher, and lack of access to the internet. With FDI Gasabo district knows modern infrastructures at all levels of education, no overloaded classes at some extent, increasing promotion rate from secondary to university level, reduced distance between school and student residency, easy access to internet as foreign

FDI was said to contribute in food production as 89 (i.e. 89%) respondents confirmed. Foreign companies like AZAM, and KABUYE Sugar works are sources of flour and sugar required in Rwandan market in general and in Gasabo district in particular. AZAM flour and sugar from KABUYE Sugar Works were used to produce different categories of bread and thus improve nutrition as stipulated by 52 (i.e.52%) respondents.

companies like TIGO, MTN, AIRTEL are operating in Gasabo district. Also this was supported by 97 (i.e.97%) respondents who accepted that with the revenue they got from FDI they were able to boost education in Gasabo district.

At a rate of 63% the population of Gasabo district accepted that there was a problem of health insurance before FDI intervened in their daily life. From the revenue they got due to working with local and foreign companies, the population of Gasabo district confirmed (73%) being able to pay for health insurance some with RSSB, SORAS, RADIANT, and other with insurance entities like (*Mutuelle de Santé*).

As 95% of the respondents ascertained that there was the problem of clothing in Gasabo

district before FDI intervention, 93% of those respondents stressed on FDI usefulness in terms of increasing revenues, creating businesses generating enough income, improving skills in management of all kind of assets like cash, and promoting facilities of easy money circulation among people. The income derived from FDI activities in Gasabo district was used to

solve daily needs like food, health, clothing, and beverage.

To the objective of analyzing relationship between foreign direct investment and socioeconomic development in Gasabo District the researcher calculated Spearman correlation coefficient and results are in table 3 as follows:

**Table 3 Correlation FDI- socio economic development**

			FDI	Socioeconomic development
Spearman's rho	FDI	Correlation Coefficient	1.000	.209*
		Sig. (2-tailed)	.	.037
		N	100	100
	Socio economic development	Correlation Coefficient	.209*	1.000
		Sig. (2-tailed)	.037	.
		N	100	100
*. Correlation is significant at the 0.05 level (2-tailed).				

**Legend:** [-1.00-0.00[: Negative correlation

[0.00-0.25[: Positive and very weak correlation

[0.25- 0.50[: positive and weak correlation

[0.50-0.75[: Positive and higher correlation

[0.75- 1.00[: Positive and very higher Correlation

Table 3 shows that the contribution of FDI to socio-economic development in Gasabo District was at 0.209(i.e. 20.9%). It was located in the interval of [0.00-0.25[thus it was qualified as positive and very weak correlation. Though it was weak it had significant relationship as the p-value of 0.037 is less than 0.05.

Again this result was supported by the agreements of respondents on the contribution of FDI to socioeconomic development in Gasabo district. Those agreements were measured using a 4 Likert-scale rating from disagree to agree through tend to agree and tend to disagree. The agreement's focal points were oriented on:

- Promoting development of local companies where 84% disagreed: as local companies are not good in technology, skills, knowledge, compared with FDI there was sound competition in wages/salaries, and in products/services offered by both parties. For funds side foreign companies may be better funded than local businesses.
- Reducing price of goods and services for which 88% agreed: the majority of respondents said that competition increased availability of products/services in the market, expansion of the product market, and reduced prices of products/services.
- Encouraging innovation to local companies where 58% disagreed: as foreign companies have more facilities than local ones they do not encourage innovation in production of goods and services to local companies.
- Continuing education using funds from FDI where 98% disagreed: though such percentage denied but it was possible that the capital brought by FDI contributed to the improvement of education because the revenue of population increased due to job created or job gotten from FDI's companies.
- Reducing unemployment for which 98% agreed: FDI created or offered means to create new jobs though the problem of unemployment continue to be seen in Gsabo district but it is reduced.
- And developing modern infrastructures where 91% agreed: buildings of AZAM factory at MASORO, and buildings of other foreign companies in Free Zone near NYANDUNGU valley are one of the infrastructures brought by FDI in Gasabo district, Rwanda.

#### **4. Conclusion**

The main objective of this descriptive study was to analyze the contribution of FDI to socioeconomic development in Gasabo district, Rwanda. After collecting data from 100 individuals chosen randomly drawn from 583,841 people of Gasabo district, they were processed and analyzed using SPSS as a tool.

The study revealed that due to the introduction of FDI in Gasabo district

people were accepting its attributes in the order of bringing capital (100%) and technology (98%), promoting competition (95%), improving skills in management (78%), promoting exportation (76%), and job creation (73%). Also it showed that FDI was considered as a channel in reducing unemployment (97%) and thus increasing the level of personal income (99%) from which social indicators were nicely reached in Gasabo district. Social indicators were accepted in the order of education (97%), clothing (93%), food production (89%), health insurance (73%), house building (57%), and nutrition improvement (52%). Finally the study found that FDI has a significant relationship with socioeconomic development in Gasabo district. A Spearman correlation coefficient of 0.209 (i.e. 20.9%) with a p-value of 0.037 were found. As the correlation was found to be significant but at a positive and very weak level the study recommended to continually attracting more foreign direct investments (FDIs) in Gasabo district, Rwanda.

### **Acknowledgements**

The study acknowledges the technical and financial supports from the University of Lay Adventists of Kigali (UNILAK).

### **References**

- Agosin M. & Mayer R. (2000). *Foreign Investment in development of nation*. Geneva: Grow-hill.  
Retrieved from [http://unctad.org/en/docs/dp\\_146.en.pdf](http://unctad.org/en/docs/dp_146.en.pdf) on 16 September 2015.
- Amazon. (2008). *Socioeconomic development*. Retrieved from [www.amazon.com/review/R3V7K79DO1X53](http://www.amazon.com/review/R3V7K79DO1X53)
- Banerjee A, & Duflo E. (2007). The Economic Lives of the poor, *Journal of Economic Perspectives*.
- Bartels F. (2009). *FDI Policy Instruments: Advantages and Disadvantages*. Crombrughe: United Nations Industrial Development Organization (UNIDO)
- Bizimana J.C. (2012). Contribution of foreign direct investment on socio-economic Development. Case study of GASABO District, Rwanda. Kigali: INILAK
- Economy Watch. (2010). *Rwanda Economy Central Banks companies and Investments Indian Business Management Institutes Industries and Business Personnel Finance UU Companies US credits Cards US Economy US Mortgage World Economy*.

Hans G. (2003). *Basic series economic growth and poverty alleviation*. 2<sup>nd</sup> Ed.

Geneva: Grow-hill

IMF. (2008). *Internation Finance Statistics year book*. New York: IMF

IRDP. (2008). *Creating Jobs for effective Poverty Reduction in Rwanda*. Kigali

Jayaraman B. (2005) *Foreign Direct Investment on Employment Opportunities*.

Panel Data Analysis

Kabelwa G. (2006). *Trade and Poverty in Tanzania*. Dar es Salaam: Economic and SocialResearch Foundation (ESRF).

LMIS. (2010). *Rwanda labour Market Information System, 2010 LMIS report on « employment and it projection in Rwanda.Gasabo District »*

Ministry of Health of Rwanda. (2012). *Mutual Health Insurance and the Contribution to Improvements in Child Health in Rwanda*. Rotterdam: Erasmus University

Moosa. I. (2002). *Foreign Direct Investment Theory, Edivance and Practive*. Britain:

Palgrave Geat Britain.

Mugire M. (2007). *The role of FDI in employment creation to Rwandans » case study of RIEPA*. Kigali: INILAK

President of Republic of Rwanda at the second *Rwanda investment Conference* held at International Hotel-Kigali on (New Times 7<sup>th</sup> march 2005).

Taylor & Francis. (2008). *Foreign Direct Investment and Emplyment Creatio: host country experience*. Legan : Department of Finance Univerty of Ghana Business School.

Tulus T.(2006). *Impact of Foreign Direct Investment On Poverty Reduction*. Jakarta-Indonesia: Center for Industrial Economic, University of Trisakti.

Tumwine J. (2011). *Economic for Rwanda: concepts, analysis and application*.

Fountain publishers.

UNTAD. (2006). *Foreign Direct Investment in African*. Washington and Geneva: United Nations.

Wisegeeek. (2013). *Socioeconomic development*.

Retrived from

[www.wisegeeek.com/what-is-socio-economic-development.htm](http://www.wisegeeek.com/what-is-socio-economic-development.htm).