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# EFFECT OF FOREIGN DIRECT INVESTMENTS ON ECONOMIC GROWTH IN RWANDA PERIOD OF 2010-2021

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**Abstract**

The research study investigates the effect of foreign direct investments on economic growth, A case study of Rwanda. The research focused on the level of foreign direct investments (FDI) in Rwanda, the level of economic growth in Rwanda and the relationship between foreign direct investments and economic growth in Rwanda. In addition, SPSS tool and E-views 11 were used to analyze data. The results show that FDI inflows in mining and quarrying sector was higher in year 2014, 2013 and 2010 than other years while in year 20202, 2012, 2019 was lower. The results showed that FDI inflows in finance and insurance sector was higher in year 2019, 2020, 2018 and 2016 compared to the other years. The results showed that GDP of Rwanda was periodically changed where in year 2021 national GDP was drastically increased at 10.9% than other years while in year 2020 GDP was heavily decreased to -3.4%. Decrease observed was caused by COVID-19 pandemic which was occurred in year 2020. The results in the figure 4.4 showed that GDP was higher in year 2019, 2015, 2018 and 2012 than other years but GDP was dramatically decreased in in year 2020. The same as for FDI inflows, the results indicated that FDI inflows was higher in year 2018, 2019, 2014, 2017, 2015. The results from regression analysis indicated that The results indicate that FDI inflows in mining and quarrying sector has significant contribution on economic growth ($_{\beta}1$=0.361, t=9.215 sig=0.000). This shows that 1 unit increase in FDI inflows in mining and quarrying sector leads to 0.361 unit in improving economic growth. FDI inflows in financial and insurance sector has significant contribution on economic growth ($_{\beta}2$=0.440, t=12.142, sig=0.000). This indicates that 1 unit increase in FDI inflows in financial and insurance sector lead to 0.440 unit in improving economic growth. FDI inflows in manufacturing sector has significant contribution on economic growth ($_{\beta}3$=0.412, t=8.423, sig=0.000). This indicates that 1 unit increase in FDI inflows in manufacturing sector leads to 0.412 unit in improving economic growth. FDI inflows in utilities sector has significant contribution on performance of financial institutions ($_{\beta}2$=0.335, t=5.003, sig=0.000).
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***Keywords:*** Foreign direct investments and Economic growth

**1. Introduction**

Globally, in academia one of the mostly discussed phenomena is how the economy of the country is affected by the presence of FDI. Study like Makiela & Quattara (2018) shows that foreign direct investment has the advantage to the economy of the receiving countries through technology transfer, human capital development, job creation, increased competitiveness, and it improves export and the country economy. Also, Ikiara (2015), argues that in developing country the significance of FDI is for providing technological know-how, capital, management and marketing skills, facilitating access to foreign markets and generating both technological and efficiency spillovers to local firms provided the right policy and business conditions are available. By facilitating access to the above, FDI is expected to improve the integration of the country's economy into the global economy, and further spurring economic growth through technological advancement.

United States of America, FDI's involved in the sectors of manufacturing, drinks and foods, telecommunication and financial services. The financial stability and the positive investment are the key factors that influenced the investment decisions and caused attractiveness for investments in the country. The country in terms of foreign direct investment inflows in United States of America was Canada. The sector which the foreign direct investments are mainly directed is the extraction of natural resources and specifically oil. Recently, there is an interest in the field of manufacturing also. The climate of uncertainty, the lack of transparency, the corruption, the weak judicial system and the inadequate rules are the aggravating factors for economic development and the exploitation of foreign direct investment. United States of America is famous for its natural resources and mainly in the sector of electricity (Ikiara (2015).

According to UNCTAD, the initial countries that came into play of foreign direct investment in the countries of Africa are the United States, Germany, United Kingdom and France. In the last decade, new home countries took a piece of the pie in the share of foreign direct investments from the traditional lands. There has been a significant contribution of total inflows from Netherlands, Italy, and Canada and in a certain degree from Norway, Spain, and Portugal. Upon further inspection, according to the Africa Investment Report (2016), Western Europe was keeping the lion's share as the top source region for capital investments in Africa accounted for $30.1bn in 2015. In spite of the 38% decrease of inflows in 2014, Western Europe leads the source regions having achieved a 45% market share. The United States is the top country dealing with the projects into Africa with a value of $6.8bn. The United Kingdom comes next as the second bountiful source country in terms of foreign direct investments projects with an increase of 50% in project numbers and 93% in capital investments. A major contribution of foreign direct investments inflows in 2015 comes from Italy with projects valued at 7.4bn in African territory. Concerning to Asian investors, India and China are the main countries.

African countries, especially in sub Saharan African countries due to the fact that Latin American and East Asian countries have fairly advanced development in comparison to sub Saharan African countries. Ahmad (2016) found that foreign direct investment contributes significantly in the human resource development, capital formation and organization and managerial skills of the people in an economy. By considering the results above the researchers have different outcomes for the recipient nation about how FDI affect its economy. Therefore, Agrawal and Khan (2011) investigated the impact of FDI on GDP Growth and report that "FDI promotes economic growth.

Most of these studies have used the method of "correlation, regression, or Granger's bivariate causality tests" Granger (2008) to find the relationship of these variables under the context of different countries. For example, (Tiwari & Mutascu, 2011) analyzed that FDI had a unidirectional effect on the growth rate of GDP and bidirectional effect between exports and the growth rate of GDP in Kenya. In another paper, Rahman (2015) found the long-run equilibrium relationship and unidirectional effect between the economic growth rate and inflow of foreign direct investment in Kenya. Although most researchers found that FDI can enhance economic growth, but others have indicated that it is actually unclear.

Rwanda, in the last two decades, the growth of Foreign Direct Investment (as well as Foreign Portfolio Investment) in Rwanda has been very impressive. Statistical records reveal, for instance, that FDI inflows increased from USD 382 million in 2018 to whopping USD 420 million in 2019, and stocks were estimated at USD 2.6 billion at the end of 2019 (UNCTAD, 2019). Additionally, in a report published by Rwanda Development Board (RDB) in 2019, the economy recorded 2.46 billion USD in Investment, which was a record high and of which 37% was in FDI. The main sectors targeted by investors are Mining, Construction, and real estate, Infrastructure, and Information and communication technologies, and according to Rwanda Development Board (RDB) report, the major investing countries are Portugal, the UK, India, and the UAE (RDB, 2019). The government of Rwanda has made a significant effort in attracting more FDI through different measures to improve the investment climate in the country. According to the National Institute of Statistics for Rwanda (NISR, 2020), Rwanda attracted $462 million in FDI inflows in 2018, representing five percent of GDP. Rwanda had a total of $3.2 billion of FDI stock in 2018, the latest year data is available. In 2020, the Rwanda Development Board (RDB) reported registering $1.3 billion in new investment commitments (a 48 percent decline from 2019, and an 89 percent decline from 2018, due to COVID-19), mainly in manufacturing, construction, and real estate. FDI accounted for 51 percent of registered projects. With $324.7 million committed in seven projects, the United States topped origination countries with

13.2 percent of the total investment commitments to Rwanda. Therefore, it is against this background, the study aims to analyze the effect of foreign direct investment on economic growth in Rwanda.

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. Therefore, FDI responds to economic development challenges including, particularly in the least developed countries, where educational and technological standards and weak financial markets low, FDI can hold back the benefits; FDI may help address social concerns by acting as a tool to alleviate poverty. Foreign direct investment has been argued to play a key role in accelerating growth in developing countries. Rwanda had made more efforts for attracting foreign direct investments as Rwanda has fully embarked on the principle of free market economy, the government of Rwanda embarked on a comprehensive liberalization of its economy, it initiated appropriate legislation reform and emphasized peace stability, it promotes free trade and pursued regional integration target as set out under cross border initiative CBI and Common Market for Eastern and Southern Africa COMESA, in keeping with its regional integrations commitments Rwanda has reduced its tariffs rates and eliminate all exports taxes and other non-tariff barriers. A part from above strategies, the Rwandan government was keeping on attracting the FDI by improving the human resource through education, training which constitute an important factor for the economic development (NBR, 2017).

The study conducted by Mwessiigye, P. (2018) indicated that FDI inflows from construction and mining sectors have positive influence on economic growth in Rwanda economy both in the long-run and short-run unlike FDI inflows in other sector of the economy. It was indicated that national GDP income was 8.86%in 2015, in 2016 was 5.97%; in 2017 was 3.98%; in 2018 was 8.58%; in 2019 was 9.46%; in 2020 was -3.36% and in 2021 was 10.88% while FDI inflow was 0.16$Bn in 2015, in 2016 was 0.28$Bn; in 2017 was 0.27$Bn; in 2018 was 0.37$Bn; in 2019 was 0.26$Bn; in 2020 was 0.10$Bn (NISR, 2021). It seems that FDI inflows in 2020 was drastically decreased due to COVID-19 issues, through this was made foreigner investors to not invest in such activity and was affected Rwanda GDP to shrink to -3.36%. Thus, there is need to take stock and examine whether the impact of FDI on economic growth in Rwanda is positive or negative. Therefore, far from reforms, and policy implemented recently, this study will critically contribute to the previews research and reveal the current aspect of FDI on Rwandan economy. Therefore, this allowed the researcher to carry out the investigation on the effect of foreign direct investments on economic growth by considering Rwanda as a study area.

The objectives of the paper are:

i. To assess the level of foreign direct investments (FDI) in Rwanda.
ii. To examine the level of economic growth in Rwanda
   To establish the relationship between foreign direct investments and economic growth in Rwanda

## Review of Literature

### Endogenous growth theory

Romer (2016) presented the endogenous growth theory and he is considered as one of the main contributor to this theory. Endogenous growth reveals how FDI plays an essential role to economic growth through labor training and skill acquisition not only through capital accumulation and technology transfer. According to this theory, technology transfer, expansion of the level of knowledge ascends through training and skills of labor. In the same way, through the introduction of alternative management practices and organizational arrangements, domestic firms can emulate from FDI. Thus, FDI may lead to output growth by increasing total factor productivity due to an observed distribution of technology and increased efficiency through better marketing, managerial structure, and superior technology (Blomstrom et al., 2018). Additionally, endogenous growth literature has shown country conditions that are relevant for FDI to have positive effects on growth such as the interdependencies between domestic and foreign investment, appropriate level of human capital, open trade regimes, and well developed financial markets.

### Harrod-Domar theory of growth

For most developing countries, investments come in different forms either foreign or local investment, one of the foreign means is the FDI which is a form of direct investment by foreign multinational companies (MNC) with headquarters in developed countries. This study is supported by the Harrod-Domar theory of growth which states that for any economy to grow a proportion of its GDP must be saved and invested. In other words, the capital-output ratio and savings available to a country determine the economic growth level. Specifically, in case there is no government intervention, the growth rate of the national income is positively/directly related to savings-and investment whereby higher savings rate increases growth, and inversely or negatively related to the capital-output ratio, whereby a capital increase reduces the GDP growth rate.

The main obstacle to growth according to the Harrod- Dormar's growth model is a low capital formation which brings about low savings-investment; however, the main criticism of this theory is that it is a necessary but not sufficient condition for growth. It is a kick-off requirement for growth, but not sufficient enough to drive growth (Uwubanmwen, A. E., &Ogiemudia, O. A. 2016).

**Overview of FDI**

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor(FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated (IMF, 2015).FDI may be undertaken by individuals as well as business entities. Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an enterprise, or capital received from an investing enterprise by a foreign direct investor. Foreign direct investment is a phenomenon resulting from globalization, which involves the integration of the domestic economic system with global markets (Sornarajah, 2016).

It is accomplished through opening up of the local economic sector as well as domestic capital for foreign investors to establish business, within the economy. Historically, technological advancement led to the emergence of better means of transport and communication. These in turn led to the movement of investors beyond political boundaries, especially during the post-colonial period (Pritchard, 2016). Even after nations acquired independence, globalization continued to influence trade between investors and foreign countries, whereby the less developed countries were supported by the developed nations to acquire materials and equipment to extract and utilize the available natural resources for economic development (Sacerdoti, 2017). However, the equipment needed the appropriate skills to ensure that less developed countries were able to utilize to their full potential. As economies expanded, trade grew and exchange of goods and services continued to advance. With the less developed economies possessing plenty of raw materials for industries abroad, foreign investment was inevitable, as industries from developed economies sought to establish in the less developed countries where raw materials were available (Sornarajah, 2016).

FDI is defined as a cross-border investment in which a resident in one economy (the direct investor) acquires a lasting interest in an enterprise in another economy (the direct investment enterprise). The lasting interest implies a long-term relationship between the direct investor and the direct investment enterprise and usually gives the direct investor an effective voice, or the potential for an effective voice, in the management of the direct investment enterprise. By convention, a direct investment is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad (Sornarajah, 2016).

The lasting interest in a direct investment enterprise typically involves the establishment of manufacturing facilities, bank premises, warehouses, and other permanent or long-term organizations abroad. This may involve the creation of a new establishment or investment (Greenfield investments), joint ventures, or the acquisition of an existing enterprise abroad (cross-border mergers and acquisitions). The investment can be incorporated or unincorporated and includes, by convention, ownership of land and buildings by individuals. Direct investment comprises not only the initial transaction establishing the FDI relationship between the direct investor and the direct investment enterprise, but all subsequent transactions between them and among affiliated enterprises. Thus, the direct investment relationship extends beyond the original direct investor and includes foreign subsidiaries and affiliates of the direct investor that are part of the "parent group." (Sornarajah, 2016).

**FDI inflows in mining and quarrying sector**

The mining and quarrying sector is the industry dedicated to the location and extraction of metal and mineral reserves around the world. Global reserves of metals and minerals are mined for profit and then used in jewelry-making, industrial applications, and investments. The sector has a significant number of companies located internationally and operates with large revenues. The mining and quarrying sector remains a key driver of sustainable economic development. Indeed, this sector contributes a lot to exports as well as having crucial inter-linkages with other sectors of the economy. FDI in the mining and quarrying sector is critical for carrying out mineral exploration, extraction, processing and marketing because countries lack enough capital and technological resources to finance such capital intensive large-scale projects (Chimuka , 2017).

**FDI inflows in financial and insurance sector**

The financial sector is a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers. This sector comprises a broad range of industries including banks, investment companies, insurance companies, and real estate firms (Will.K, 2021). The insurance sector is made up of companies that offer risk management in the form of insurance contracts. The basic concept of insurance is that one party, the insurer, will guarantee payment for an uncertain future event. Meanwhile, another party, the insured or the policyholder, pays a smaller premium to the insurer in exchange for that protection on that uncertain future occurrence (Brian.B, 2021). In recent decades, Financial sector has gained considerable attention from researchers, academicians, economists, and policymakers (Durusu-Ciftci et al., 2017). Many researchers have viewed FDI as a boon to an economy due to the technological diffusion it causes (Iamsiraroj, 2016).

FDI represents an intermediary force in financial systems due to their absorptive capacity (Yeboua, 2019). FDI draws capital to a host country and brings advanced technology and management experience, thereby further promoting technological progress and economic growth. In addition, investments from multinational companies generally create jobs for the residents of the host country. Nevertheless, existing studies have been less concerned with the influence of FDI on host country financial systems or the subsequent development of their financial sectors (Alfaro et al., 2010). Following points explain the major impact of foreign direct investment on insurance sector: FDI increases insurance penetration, increased capital flow, promotes employment creation and it is better exposure to technology and other services (Yeboua, 2019).

**FDI inflows in manufacturing sector**

Manufacturing sector is the creation or production of goods with the help of equipment, labor, machines, tools, and chemical or biological processing or formulation. It is the essence of secondary sector of the economy. The term may refer to a range of human activity, from handicraft to high-tech, but it is most commonly applied to industrial design, in which raw materials from the primary sector are transformed into finished goods on a large scale. Such goods may be sold to other manufacturers for the production of other more complex products (such as aircraft, household appliances, furniture, sports equipment or automobiles), or distributed via the tertiary industry to end users and consumers (usually through wholesalers, who in turn sell to retailers, who then sell them to individual customers) (Kenton.W, 2020).

The manufacturing sector of an economy plays a crucial role in the production of goods and services, the creation of job opportunities, and the transformation of developing economies to a developed economy. Today, the level of economic development of a country is most often reflected by the modernity and performance of its manufacturing sector. As such, many countries of the world strive to improve their manufacturing sectors either by investing more or attracting FDI, which is assumed to bring in new technologies, innovations, create more jobs and so on. Moussa et al. (2019) evaluated the impact of Foreign Direct Investment (FDI) on the productivity of manufacturing firms in Cameroon. Cobb Douglass type production function was estimated using the Generalized Least Squares method for 1,269 enterprises in 24 branches of the country's industrial sector for the period spanning from 2005 to 2011. The findings show that FDI has a negative impact on the productivity of manufacturing firms. A 1 % increase in the productivity of foreign companies led to a 4.4% reduction in that of domestic firms. Also, a 1% increase in multinational enterprises reduced the sales growth of domestic firms by 0.10%. In Nigeria, Obi-Nwosu et al. (2019) examined the role of foreign direct investment in the manufacturing capacity for the period of 1984–2017. Using multiple regression analysis (OLS) models, the study discovered that FDI was able to impact the manufacturing capacity significantly.

**FDI inflows in utilities sector**

The utilities sector includes companies such as electric, gas, or water utilities, or those that operate as producers or distributors of power. Utilities include large companies that offer multiple services such as electricity and natural gas or specialize in just one type of service, such as water. Some utilities rely on clean and renewable energy sources like wind turbines and solar panels to produce electricity (Chris.B, 2022). Kathuria et al. (2015) investigated the role of state-level institutional differences in attracting FDI in wind energy and found that the state-specific policy index for renewable wind energy is significant in attracting FDI. This study confirms that the institutional environment of a country is the key determinant in attracting FDI using panel data techniques on the wind energy policies of eight Indian states.

**Economic growth**

Shearer (2018) defines economic growth as an increase in the production and consumption of goods and services. Its measures entail increasing population and/or per capita consumption and an increasing gross domestic product (GDP). Economic growth literally refers to an economy that is expanding in size. Economic growth leads to economic development; it is a process whereby an economy's real national income as well as per capita income increases over a long period of time. Here, the process implies the impact of certain forces which operate over a long period and embody changes in dynamic elements. It contains changes in resource supplies, in the rate of capital formation, in demographic composition, in technology, skills and efficiency, in institutional and organizational set-up. It also implies respective changes in the structure of demand for goods, in the level and pattern of income distribution, in size and composition of population, in consumption habits and living standards, and in the pattern of social relationships and religious dogmas, ideas and institutions. Economic growth can be measured in nominal terms, which include inflation, or in real terms, which are adjusted for inflation. Economic development is a process whereby an economy's real national income as well as per capita income increases over a long period of time. Here, the process implies the impact of certain forces which operate over a long period and embody changes in dynamic elements. It contains changes in resource supplies, in the rate of capital formation, in demographic composition, in technology, skills and efficiency, in institutional and organizational set-up. It also implies respective changes in the structure of demand for goods, in the level and pattern of income distribution, in size and composition of population, in consumption habits and living standards, and in the pattern of social relationships and religious dogmas, ideas and institutions. In short, economic development is a process consisting of a long chain of interrelated changes in fundamental factors of supply and in the structure of demand, leading to a rise in the net national product of a country in the long run. The process of economic growth is a highly complex phenomenon and is influenced by numerous and varied factors such as political, social and cultural factors. As such economic analysis can provide only a partial explanation of this process. "Economic development has much to do with human endowments, social attitudes, political conditions and historical accidents. Capital is a necessary but not a sufficient condition of progress" Prof. Ragnar Nurkse. The supply of natural resources, the growth of scientific and technological knowledge-all these too have a strong bearing on the process of economic growth (De Mell0, 2017).

**3. Materials and Methods**

The research design refers to the overall strategy that chosen to integrate the different components of the study in a coherent and logical way, thereby, ensuring the researcher was effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data (UN, 2016).Research design is a plan and structure of investigation that is convinced to obtain answers to research questions. The method to be used in the research was descriptive research. It addresses what are the characteristics of the population or situation being studied (Shields, Patricia and Rangarjan, 2013). The effect of foreign direct investments on economic growth in Rwanda was analyzed through a quantitative research method which was entailed the generation of data in quantitative form which will then be subjected to rigorous quantitative analysis in a formal and rigid fashion.

The secondary data is the information that is got from written documents. The collection of secondary data involved reports, textbooks, journals, articles, the internet, etc. This research used purely secondary data. It was utilized annually time series data for the period of 2010-2021 and the variables considered time series are ratios that were extracted and computed from data provided by the National Institute of Statistics (NISR), RDB and National Bank of Rwanda (NBR).

Anyanwu (2014), defined data analysis as a set of the structured procedures, rules and intellectual operations used by a researcher to make an analysis and interpret the gathered data to successfully complete the research. Data Analysis is the process of systematically applying statistical and or logical techniques to describe, illustrate, condense and evaluate data. The analysis of data entails a number of closely related operations such as establishment of categories, the application of these categories to raw data through coding, tabulation and then drawing statistical inferences. The research used the Statistical Package for the Social Sciences (SPSS 20.0) to estimate the result of the correlation between the variables.

 

## 4. Results

### 4.1 The level of foreign direct investments (FDI) in Rwanda

This sub-section shows the FDI inflows from 2010 to 2020, data are presented in the below figures.

Fig 1: shows the FDI inflows from 2010 to 2020, data are presented in the below figures.

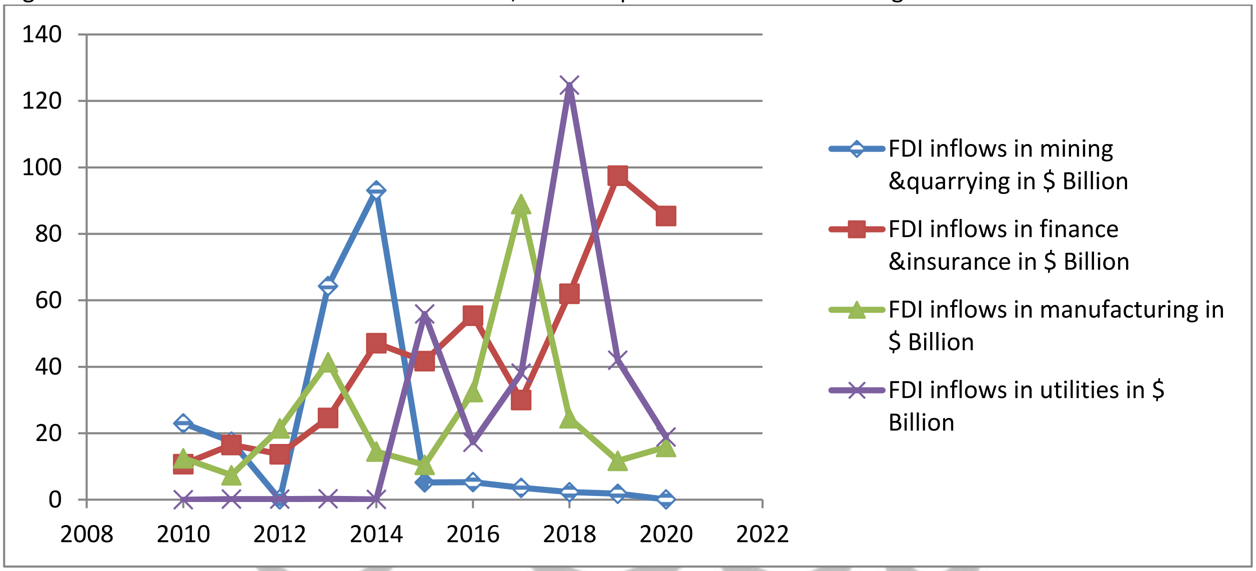


**Figure 4.1: FDI inflows by sector from 2010 to 2020**

**Source: NISR, 2021**

The findings revealed that FDI inflows in mining and quarrying sector was higher in year 2014, 2013 and 2010 than other years while in year 2020, 2012, 2019 was lower. The results showed that FDI inflows in finance and insurance sector was higher in year 2019, 2020, 2018 and 2016 compared to the other years. The findings show that FDI inflows in manufacturing sector were higher in year 2017, 2013 and 2016. The findings show that FDI inflows in utilities sector were higher in year 2018, 2015, 2019 and 2017 than other years.

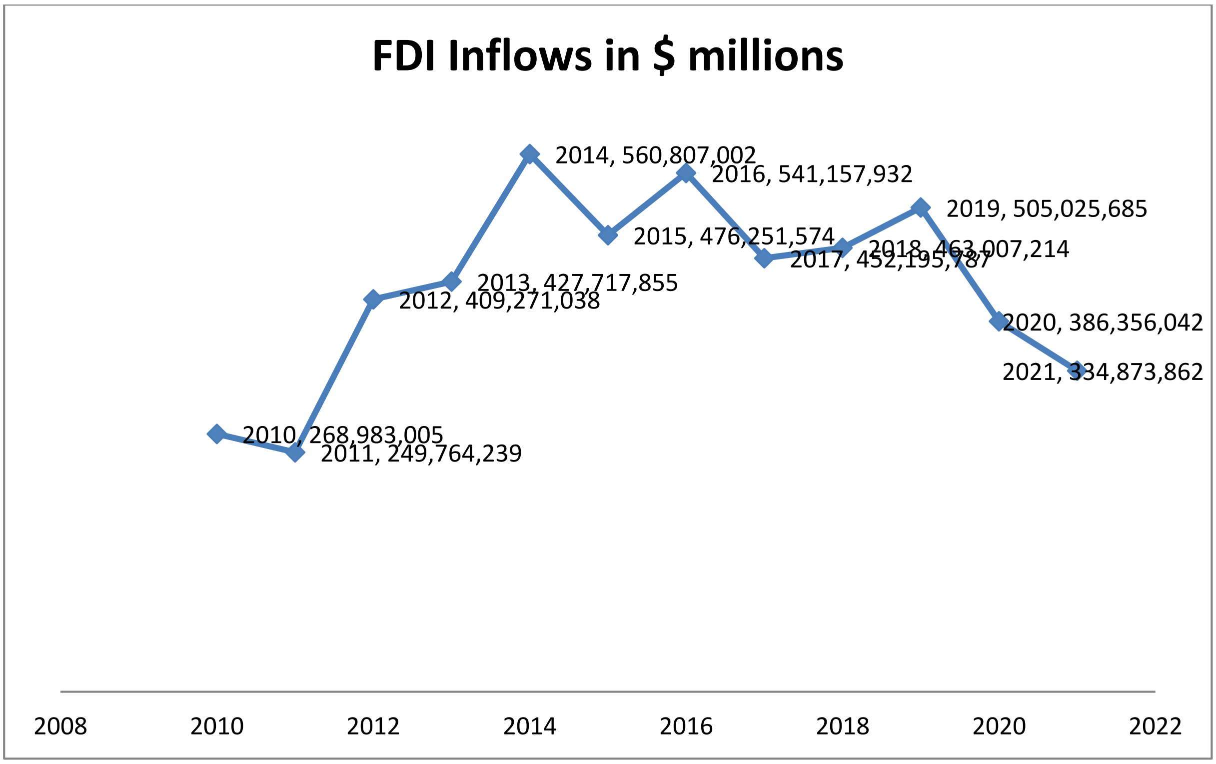


**Figure 4.2: FDI inflows from 2010 to 2020**

**Source: NISR, 2021**



The findings revealed that FDI inflows were higher in year 2014, 2016 and 2019 than other years but since 2010, 2011, 2012 and 2013 FDI inflows were lower associated with the FDI inflows were decreased in year 2020 and 2021. The decrease of FDI inflows in 2020 was resulted with COVID-19 pandemic which was dangerous in year 2020, this had impacted national GDP to decrease to negative.

**Level of economic growth in Rwanda**

**This sub-section shows the GDP trend from 2010 to 2020, data are presented in the below figures**

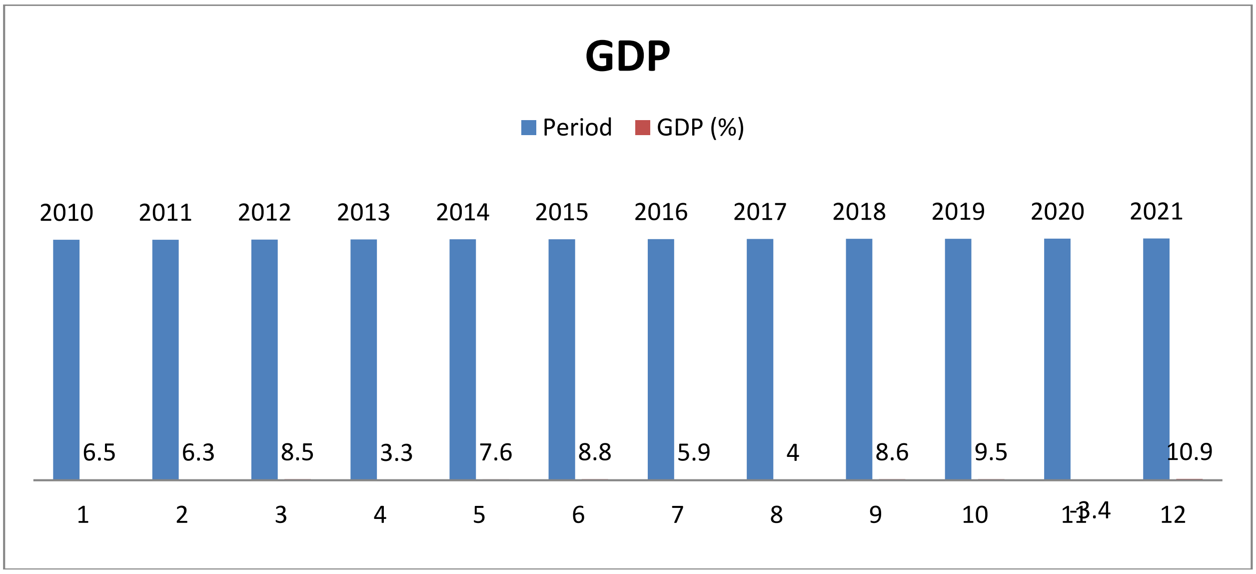


Figure 4.3: Trend of GDP change from 2010 to 2021

**Source: NBR, 2021**

The findings in the above figure indicated that GDP of Rwanda was periodically changed where in year 2021 national GDP was drastically increased at 10.9% than other years while in year 2020 GDP was heavily decreased to -3.4%. This decrease was resulted to the issue of COVID-19 pandemic which was occurred in year 2020.

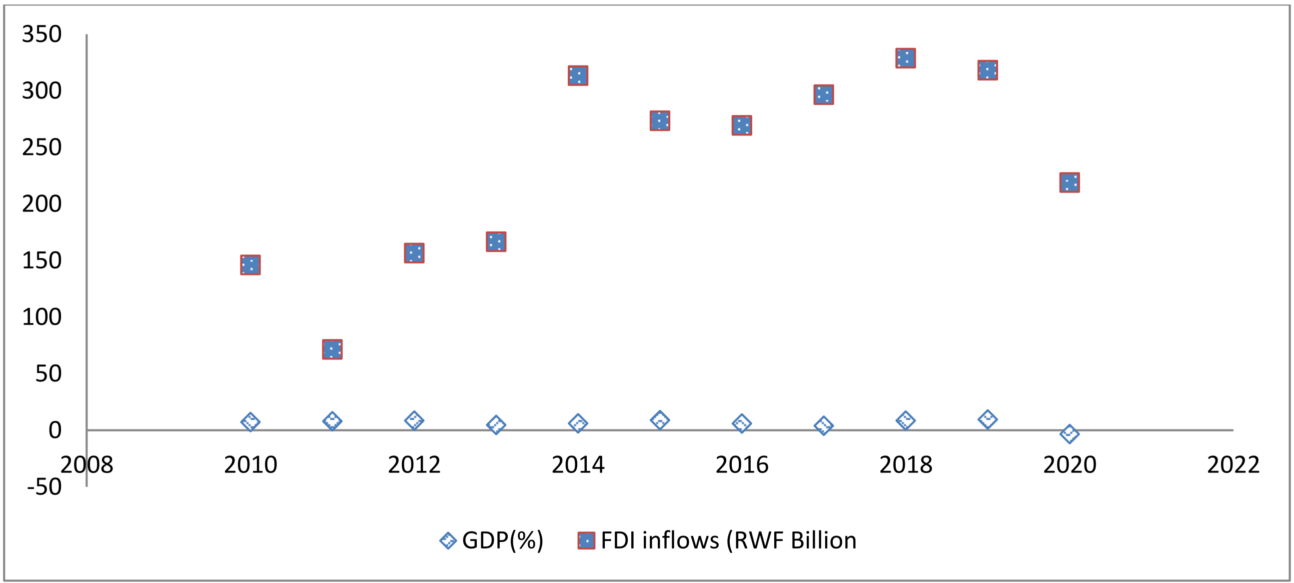


**Figure 4.4: FDI and GDP from 2010 to 2020**

**Source: NISR, 2021**

The results in the figure 4.4 showed that GDP was higher in year 2019, 2015, 2018 and 2012 than other years but GDP was dramatically decreased in in year 2020. The same as for FDI inflows, the results indicated that FDI inflows was higher in year 2018, 2019, 2014, 2017, 2015

This study explores the effect of foreign direct investments on economic growth using FDI and GDP inflow data series from 2010 to 2021. Descriptive statistics were tabulated to give a brief summary of the variables under consideration. The data was then subjected to various inferential analyses to establish relationships between the variables such as Analysis of Variance (ANOVA) and Correlation analysis. On the basis of our findings, empirical results reveal a positive and statistically significant relationship between FDI and GDP Growth. Correlation analyses resulted in a correlation coefficient of 0.806 at the 0.01 (2-tailed) significance level. Thus, it can be stated that the effect of foreign direct investments on economic growth is a strong positive one. Correlation analyses between FDI and GDP also revealed a direct proportional relationship.

This result is also in agreement with the findings in earlier studies primarily on the direct positive relationship between FDI and GDP. In this regard, in a survey by Ilhan (2007) of over 50 empirical investigations on the relationship between FDI and economic growth, 40 of such studies have showed a positive relationship with only 2 reporting negative and the rest demonstrating no effect. These empirical evidences point to the fact that most FDIs are associated to growth. Furthermore, Lumbila (2005) test a hypothesis whether FDI has an overall effect on economic growth and the results revealed a statistically significant difference that a 10 percent increase in FDI can bring about 0.34 percent growth. In another study, Feridun and Sissoko (2006) examines the relationship between FDI and economic growth for the period 1976 to 2002 in Singapore using Granger causality and vector auto regression (VAR). Their findings revealed a unidirectional causation running from FDI to economic growth. It also concurs with the findings of Esso (2010) who reports in his investigation of ten sub-Saharan African countries on the relationship between FDI and economic growth, a positive and significant growth in Angola, Cote d'Ivoire, Kenya, Liberia, Senegal and South Africa.

Moreover, further empirical evidence on the cons of FDI posits that foreign direct investment does not come devoid of some negative aspects. There is normally the tendency for over utilization of the available natural resources, as the companies strive to maximize profits in their venture (Colen et al. 2009). The ‘tragedy of the commons’ whereby many organizations compete to utilize a shared resource leads to degradation of natural resources as well as environmental pollution, which have largely been associated with the issue of climate change (Sindre, 2011). Importation of capital intensive and outdated technology, Exploitation of local labour, Increase in local wage cost through payment of high wages by MNC affiliates.

Contribution to economic leakage (and deterioration of balance of payments) through preference of imported inputs to local ones, Lack of linkages with local communities, that is, development of 'enclaves', Adverse effects on competition in the national market, Use of transfer prices to escape local taxes and to cheat local partners on returns, Encouragement of corruption, Pollution of the environment, especially in extractive and heavy industries, Social disruptions associated with accelerated commercialization and creation of tastes for expensive foreign consumer goods and Political dependency on FDI source countries and, therefore, loss of sovereignty.

Empirical results reveal a direct proportional relationship between foreign direct investment and economic growth. These findings imply that FDI promotes economic growth and suggest that the Kenyan government embrace policies that aim to attract more foreign direct investment while micro-managing the same to avoid the negative impacts of FDI on local firms such as crowding out, use of transfer prices to escape local taxes and contribution to economic leakage through preference of imported inputs to local ones. The results also emphasize the need for the government to weed out deep rooted vices such as corruption, reinforce security especially in the wake of terror attacks. We also need to channel investment into infrastructure and generally create an enabling environment to competitively garner more FDI funds to integral facets of our economy. Finally, recent developments in the mining sector notably titanium mining in the coast region and even more recently discovery of oil reserves; projects which foreign affiliates are in the bidding for contracts, policies should be crafted to control the repatriation of profits. Rather, a bulk of these funds should be reinvested in more needy sectors especially towards human development as growth in the GDP would be immaterial if the same doesn't reflect positively on the population.



**5. Conclusion**

The study analyzed the effect of foreign direct investments on economic growth in Rwanda. Economic theories hold that FDI has the potential to be an important component of a nation's development strategy. FDI contributes to development in three major ways (Jacobs, 2001). First of all, capital inflows such as FDI enable countries to import more than they export, which enables them to invest more than they save and thus accumulate capital faster, boosting labor productivity and wages. FDI has the potential to absorb some of the surplus literate labor in the rural and urban informal sectors (Jacobs, 2001). Employment creation in industries with good productivity growth prospects is an important aspect of poverty alleviation strategies, which is good for local entrepreneurs (Watkins, 1998). Thirdly, FDI can transfer technology and expertise, stimulating the productivity of locally owned firms (Jacobs, 2001). This can occur through training, competition and emulation within industries where foreign firms are present, and through "forward and backward linkages" with other industries (for example, foreign firms providing domestic enterprises with both inputs and output markets under more favorable terms than imports and exports).

In the backdrop of our finding a direct proportional relationship between FDI and economic growth, the government should strive to attract more FDI but exercise strict rules and regulations regarding foreign investment and make every effort to micro-manage FDI, favoring it in some industries with targeted subsidies while forestalling it in other industries through legislation. It's imperative that policies that promote economic growth be given adequate attention in order increase economic growth so as to attract FDI, this is because it is established in the literature that most factors that increase economic growth also attract FDI. It is also observed from the trend of FDI in the literature that some countries attract higher FDI than others. Rwanda has comparatively low levels of FDI and as such needs to improve its business environment by ensuring that administrative procedure, legal and judiciary system are improved so as to ensure property right, fight corruption and respect rule of law and due processes. All of these will see higher levels of much needed FDI channeled into the country. In a nutshell, foreign direct investment that is channeled into the country ought to be well utilized towards the projects for which it's targeted considering recent horror stories of the mismanagement of funds meant for free primary and secondary education. In this regard, relevant

bodies and authorities should vigilantly prosecute those in positions of leadership who don't walk the talk. The study concluded that foreign direct investment significantly influences economic growth at 80.6%.
The study has demonstrated hope for Rwanda's potential to attract more FDI in doing business indicators as all aspects are ranked competitive for the reasons of giving the job for citizens. However this was possible with more efforts put in the areas of enforcing contacts by establishing strong and efficient in RDB. Global competitive indicators are competitive in attracting foreign investors. However this not enough to attract many foreign direct investors as there are still some aspects where Rwanda is said to be less competitive. Despite such better ranking by the respondents in favours of Rwanda's global competitive indicators, Rwanda still has a small number of foreign investors which calls for attention to other factor affecting FDI's inflows.

**6. Recommendations**

areas and employed skilled employees this will reduce the problems of unemployment for graduate students.
The government should have to focus on the state infrastructure improvement that will meaningful for attracting more foreigner investors.

Rwanda being landlocked country and geographical competition in attracting foreign investors it is recommended that the Rwandan government should establish infrastructure that connect it to the cost like railway lines, which dramatically reduce the high transport costs for imports and exports.
In Rwanda there are numbers of procedures required to obtain the permits and the processing of the requirements are done at different location. It is therefore, recommended that all applications and inspections for location permit, building permit, water, electricity and telephone should be done at sector level and merged into single building so as to coordinate the efforts of the different agencies involved and this will reduce the number of procedures and associated costs which will boost the inflow of foreign investors thus will motivate the foreign to come in the country.
The result is limited access to finance; transfer is too costly and complicated. It is there, recommended that government of Rwanda should reduce number of procedures to transfer immovable property.
The government is suggested that more attention should be paid to formulate policies that will maximize the benefits from FDI inflows.

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