Determinants of Foreign Direct Investment in East African countries:

A Panel data approach

By

Tefera Getachew Dagnachew

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Abstract

This paper examines the determinants of FDI in East African countries. The study employed a penal data to empirically analyze the determinants of FDI in East Africa for the period 2000 to 2015. A Sample of 5 countries from the region was selected to analyze the determinants of FDI inflows. A Secondary data was obtained from World Bank Development indicators, world good governance indicators and IMF. Based on the Hausman specification test fixed effect model is appropriate but because of the existence of heteroskedasticity and autocorrelation problem it is inefficient and inconsistent. To solve this problem FGLS model is used, which is the appropriate model when there is a problem of autocorrelation and heteroskedasticity. The other model which is used in this research is GMM model, which is mainly used to capture the dynamic effects of FDI. The result shows that inflation rate, real effective exchange rate, infrastructure, trade openness and political stability affect FDI inflows to the East African countries. Except, inflation rate all variables affect positively. But GDP and gross capital formations are found to be insignificant with the expected signs.