THE CASE FOR CONTEXTUAL POLICY PRESCRIPTION TO ENHANCE DEVELOPMENT IN SUB-SAHARAN AFRICA: A CALL FOR REFORM IN THE DELIVERY OF POLICY PACKAGES

by
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Abstract

This thesis explores development policy in sub-Saharan Africa (SSA) and argues that international development organizations seemingly are placing emphasis on policy prescriptions that fail to help developing nations achieve long-lasting and sustainable development. Chapter one reviews the determinants of foreign direct investment (FDI) for multinational corporations in SSA through a case study of newspaper reports on FDI in Kenya and finds political stability to be one of the leading determinants of investment, and yet the factor is commonly overlooked or taken for granted by international development organizations. After reviewing the academic literature and recommendations put forth by international development organizations urging developing nations to focus on installing economic policies meant to encourage inflows of FDI, chapter two uses regression analysis to determine the impact of FDI on the overall welfare of the citizenry in SSA and finds that while there is a slight correlation between the two, it is negligible, and most prominent in countries that have already achieved political stability, independent of political regime. Building on the importance of political stability in development, chapter three questions what developing countries can do in order to improve their governance, what good governance means, and how countries can improve their institution without applying policy reforms that resemble ‘everything and the kitchen sink’, by highlighting the turnaround of Uganda.

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I dedicate this paper to my Jack Robison and Wilfred & Ruth Eichman.
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<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
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<td>ALDC</td>
<td>Africa, Least Developed Countries and Special Programs Division</td>
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<td>APRM</td>
<td>Africa Peer Review Mechanism</td>
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<td>AU</td>
<td>African Union</td>
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<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>CPIA</td>
<td>World Bank's Country Policy and Institutional Assessment</td>
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<td>CREFSA</td>
<td>The Center for Research into Economics and Finance in Southern Africa</td>
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<td>DFID</td>
<td>United Kingdoms' Department for International Development</td>
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<td>DP</td>
<td>Uganda Democratic Party</td>
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<td>EAC</td>
<td>East Africa Community</td>
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<td>FDI</td>
<td>foreign direct investment</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>GSP</td>
<td>Generalized System of Preferences</td>
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<td>HDI</td>
<td>United Nations Human Development Index</td>
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<td>HDRO</td>
<td>Human Development Report Office</td>
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<td>IAB</td>
<td>Investing Across Borders</td>
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<td>ICC</td>
<td>International Criminal Court</td>
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<td>IGOs</td>
<td>intergovernmental organizations</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ISEW</td>
<td>Index of Sustainable Economic Welfare</td>
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<td>KY</td>
<td>Kabaka Yekka</td>
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<td>LDCs</td>
<td>least developed countries</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MEW</td>
<td>Measure of Economic Welfare</td>
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<tr>
<td>MIGA-EIU</td>
<td>MIGA-Economist Intelligence Unit</td>
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<tr>
<td>MNCs</td>
<td>multinational corporations</td>
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<td>NEPAD</td>
<td>New Partnership for Africa's Development</td>
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<td>NRM</td>
<td>National Resistance Movement</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Development</td>
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<td>PFI</td>
<td>Policy Framework for Investment</td>
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<td>SSA</td>
<td>sub-Saharan Africa</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>UNLF</td>
<td>Uganda National Liberation Front</td>
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<td>UPC</td>
<td>Uganda Peoples Congress</td>
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<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
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<tr>
<td>USD</td>
<td>United States dollar</td>
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<tr>
<td>WBE</td>
<td>World Business Environment Survey</td>
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<td>WDR</td>
<td>World Development Report Survey</td>
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WGI  Worldwide Governance Indicators
WIR  World Investment Report Survey
Introduction

This thesis explores development policy in sub-Saharan Africa (SSA) and argues that international development organizations seemingly are placing emphasis on policy prescriptions that fail to help developing nations achieve long-lasting and sustainable development. If an individual were to read the news on development policy, or turn to an international development organization such as the World Bank or International Monetary Fund and look through the plethora of working papers on development, it would become readily apparent that a large focus on how to increase growth in developing nations is to implement economic policies that encourage foreign direct investment inflows. Chapter one reviews the determinants of foreign direct investment (FDI) for multinational corporations in SSA through a case study of newspaper reports on FDI in Kenya and finds political stability to be one of the leading determinants of investment, and yet the factor is commonly overlooked or taken for granted by international development organizations. Furthermore, there is a lack of consensus even within the international development organizations as to whether FDI promotes overall improvements in the welfare in a nation. After reviewing the academic literature and recommendations put forth by international development organizations urging developing nations to focus on installing economic policies meant to encourage inflows of FDI, chapter two uses regression analyses to determine the impact of FDI on the overall welfare of the citizenry in SSA and finds that while there is a slight correlation between the two, it is negligible, and most prominent in countries that have already achieved political stability, irrelevant to the political regime of the nation, and increasingly questions into the recommendations being made by the Bretton Woods organizations in the name of promoting development. Even considering the
benefits of FDI that do exist, an increase of FDI into a SSA nation does not deliver trickle-down benefits of improved welfare for the people as a whole, leaving questions as to what policy actions should developing nations take in order to promote sustained development. Building on the importance of political stability in development, chapter three questions what developing countries can do in order to improve their governance, what good governance means, and how countries can improve their institution without applying policy reforms that resemble ‘everything and the kitchen sink’, by highlighting the turnaround of Uganda. The third chapter paper aims to demonstrate that reforms to promote good governance, specifically through strengthening institutions leads to increased political stability, and in turn increased economic growth, in developing nations by studying the case of Uganda. Additionally, this chapter examines current ‘good’ governance models, as determined by international development organizations and highlights which of those specific models contributed to the turnaround in Uganda, and how theories of “good enough governance” may help to increase the scalability of best practices in SSA.
Chapter One

Political Instability as a Constraint on Foreign Direct Investment in Kenya: An analysis of media coverage and defining the role for policy makers in combating political instability

Introduction

According to information provided by the United Nations Conference on Trade and Development (UNCTAD), Kenya’s fellow East African Community (EAC) members are eclipsing the state in terms of inward foreign direct investment (FDI) inflows on an annual basis. While the country is implementing economic policy reforms in order to encourage FDI, the other decision points considered by firms need to be better understood to develop a clearer picture as to why the country is being overlooked in favor of its neighbors. I posit that political instability within the nation has led to a decrease of FDI inflows. In order to encourage increased investment, Kenya needs to convince corporate decision makers that it is politically stable. This paper reviews the determinants of foreign direct investment (FDI) for multinational corporations in SSA through a case study of newspaper reports on FDI in Kenya and finds political stability to be one of the leading determinants of investment.

Policy Problem

While FDI determinants have previously been studied in Kenya, a vast majority of the research focuses on economic policy, and only modest attention to non-economic factors.
However, surveys of multinational corporations (MNCs) identify political stability as a key constraint.\textsuperscript{1} Even as Kenya works to adopt many of the policies set forth as recommendations by international institutions, such as the World Bank, International Monetary Fund (IMF), and the Organization for Economic Development (OECD), the country lags behind its neighbors and fellow EAC members in terms of net inflows of FDI as a percentage of GDP.\textsuperscript{2} \textsuperscript{3}

\textit{Background}

\textbf{History}

Although Kenya serves as the East Africa hub for many large multinational corporations (MNCs) - including but not limited to General Motors, Proctor & Gamble, and Citibank - Tanzania and Uganda, the two of the other members of the EAC, have greatly overshadowed the nation in terms of inward FDI inflows. From 1970 until 1992, Kenya received tens of millions of dollars (measured in USD) of FDI inflows as compared to Tanzania and Uganda. Today, Kenya lags greatly behind its neighbors, in 2013 experiencing inflows of $514 million, significantly less than Tanzania and Uganda, which drew in $1.9 billion and $1.1 billion respectively.\textsuperscript{4}

\begin{flushright}
\textsuperscript{2} Luca Bandiera, Praveen Kumar and Brian Pinto, \textit{Kenya's Quest for Growth Stabilization and Reforms - but Political Stability?}The World Bank, 2008).
\textsuperscript{4} UNCTADstat, "Inward and Outward Foreign Direct Investment Flows, Annual, 1970-2013," \url{http://unctadstat.unctad.org/wds/TableViewer/summary.aspx}
\end{flushright}
While Kenya became independent on 12 December 1963, the first multiparty general election was not held until 29 December 1992, wherein Daniel arap Moi retained the presidency. However, political violence surrounded both the election in 1992, as well as the next general election in 1997. While the elections of 1997 brought reforms to increase public freedoms, the 2007 general elections led to widespread violence, as Mwai Kibaki claimed to have won reelection, disregarding external exit polls that showed his opponent, Raila Odinga, to have won by a comfortable margin.

The 2007-2008 Kenyan crisis that emerged was responsible for the death of approximately 1,500 individuals, as well as the displacement of 600,000 from their homes. Following the acceptance of a power sharing agreement between Kibaki and Odinga brokered by UN Secretary General Kofi Annan, a new coalition government was created. As a result of the coalition government, a new constitution was drafted and accepted through referendum vote in 2010. However, throughout the first general elections following the adoption of the new constitution, violence again erupted, though not to the scale of the violence experienced during the 2007 elections. Uhuru Kenyatta was elected president in 2013 and currently faces charges of crimes against humanity before the International Criminal Court (ICC).

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Political violence of another kind struck the country when from the 21st to the 24th of September: the Islamist group al-Shabaab attacked the Westgate Shopping Mall in Nairobi resulting in the death of at least 67 individuals. Sheikh Abulaziz Abu Muscab, al-Shabaab military operations spokesman, stated following the attack that “It is possible if they don't withdraw [from Somalia] attacks like this will happen in Kenyan cities and towns every day.” With Kenyatta admitting that the operation to take back control of the mall was ‘bungled’, it likely gives much reassurance for those MNCs looking to operate within Kenya.

The country views FDI favorably and as a necessity, stating on the country’s state run website that “it is dependent on [FDI] for capital and employment.” It is the country’s opinion that Kenya is a strong choice for FDI by MNCs due to its geographic location, which it uses to promote as a transportation hub, its membership in the EAC as well as the Common Market for Eastern and Southern Africa (COMESA), a self-proclaimed skilled workforce, a liberalized economy, a developed infrastructure, and potential for mineral resources. Additionally, the government highlights Kenya’s membership ACP/Cotonou Partnership Agreement, the African Growth and Opportunity Act (AGOA), part of the Generalized System of Preferences (GSP), and the Multilateral

Investment Guarantee Agency (MIGA), a grouping of tax treaties and investment promotion and protection agreements the country believes necessary to encourage FDI.\textsuperscript{9}

According to a benchmarking summary conducted by MIGA (as part of the World Bank) in 2006, Kenya:

Human resources and international transportation infrastructure are two key aspects of Kenya’s attractive investment environment. The country boasts the highest literacy rate resulting in a high level of qualified upper level staff and skilled labor. This large supply of labor also contributes to fairly low wage levels. Flexible employment regulations make workforce management comparatively easy for companies in Kenya. Kenyan firms also benefit from access to well developed sea shipping and airfreight services. Investors reported some of the lowest prices in office rentals, and utility costs are at a competitive level compared to other surveyed countries. In part this is due to the relatively low cost of water, which was the third lowest at USD 0.42 per cubic meter. Kenya’s EPZs also strengthen the operating environment for zone-based industries, as these areas have comparatively good electrical, water, and telecommunications connections.\textsuperscript{10}

This same benchmarking study uses the Euromoney Country Risk Poll to value political stability, of which it found Kenya to have a 38.0. In comparison, South Africa scored 59.8 and Ireland scored 94.0.\textsuperscript{11}

\textsuperscript{9} Ibid.
\textsuperscript{11} The Euromoney Country Risk Poll is a survey monitoring the political and economic stability of countries around the globe. The score is based 0 to 100, with 100 being the best possible score.
Review of International Institutions

A number of intergovernmental organizations (IGOs) have spent significant amounts of time and resources working to encourage developing nations on their path towards creating developed economies; however, none more so that the Organisation for Economic Co-operation and Development (OECD), the World Bank, the International Monetary Fund (IMF). Within the United Nations (UN), the United Nations Conference on Trade and Development (UNCTAD) has served as the body responsible for handling economic development issues, while on a geographically localized level the New Partnership for Africa’s Development (NEPAD) is a technical body of the African Union (AU) created by African leaders with aims of addressing “critical challenges facing the continent: poverty, development and Africa's marginalisation internationally”\(^\text{12}\).

The OECD has been at the forefront of encouraging developing nations to reform their policy frameworks in order to encourage investment. They have done this through the Directorate for Financial and Enterprise Affairs, a body which “helps governments to improve the domestic and global policies that affect business and markets…[working to] identify policies and best practices designed to keep markets open, competitive and sustainable while combating market abuses and economic crime through international co-

operation"\textsuperscript{13}. Through this body, the OECD developed legal investment instruments, pushed for international investment agreements, and authored the Policy Framework for Investment (PFI) framework, which the organization believes to be a comprehensive and systematic approach that countries can follow with intent of improving investment conditions. As stated by the OECD:

The objective of the \textit{Policy Framework for Investment} is to mobilise private investment that supports economic growth and sustainable development. It thus aims to contribute to the prosperity of countries and their citizens and the fight against poverty.

Drawing on good practices from OECD and non-member economies, the \textit{Framework} proposes guidance in ten policy fields identified in the 2002 United Nations Monterrey Consensus on Financing for Development as critically important for improving the quality of a country’s environment for investment. It enables policy makers to ask appropriate questions about their economy, their institutions and their policy settings in order to identify priorities, to develop an effective set of policies and to evaluate progress.

The \textit{Framework} was developed by OECD and non-member participants in a task force established under the aegis of the OECD Investment Committee as part of the OECD Initiative on Investment for Development launched in Johannesburg in November 2003.

The \textit{Framework} was adopted and declassified by the OECD Council, the governing board of the Organisation, and welcomed by Ministers at their annual OECD meeting in May 2006. OECD and non-member partners will continue to work together, in co-operation with the World Bank, the United Nations and other interested institutions and with the active engagement of business, labour and other civil society organisations, to support effective use and future development of the \textit{Framework}\textsuperscript{14}.

The PFI supposes, “Apart from macroeconomic stability, political predictability, social cohesion and upholding the rule of law, which are pre-conditions for sustainable

\textsuperscript{13} The Organization for Economic Co-operation and Development, "Directorate for Financial and Enterprise Affairs," The Organization for Economic Co-operation and Development, \url{http://www.oecd.org/daf/2014}).

development, the task force selected ten policy domains, based on an assessment of the strength of the linkages between each policy field and the investment environment.\textsuperscript{15}

With the assumption the OECD makes by determining “pre-conditions for development”, the IGO absolves policy makers of control over political predictability and other non-economic factors necessary to attract attention from MNCs. While the framework clearly helps governments to assess their current economic policies impacting investment, it lacks in providing guidance on non-economic factors.\textsuperscript{16}

Working with the OECD, the NEPAD has created the NEPAD-OECD Africa Investment Initiative, which claims to “strengthens the capacity of African countries to design and implement reforms that improve their business climate” and “raises the profile of Africa as an investment destination while facilitating regional cooperation and highlighting the African perspective in international dialogue on investment policies.”\textsuperscript{17} However, there is opportunity for the NEPAD to become a more vocal participant into the FDI determinant discussion through the African Peer Review Mechanism (APRM), a voluntary program adopted by the countries in the AU aiming to promote and reinforce the highest standards of governance, while providing best practices to be used by other member states.\textsuperscript{18}

\textsuperscript{15} Ibid.
\textsuperscript{16} It should be noted that the current version of the PFI is under review and being updated to reflect current economic realities. This updated version will be published in 2015.
\textsuperscript{17} The Organisation for Economic Co-operation and Development, "NEPAD-OECD Africa Investment Initiative," The Organisation for Economic Co-operation and Development, \url{http://www.oecd.org/investment/investmentfordevelopment/africa.htm2014}.
The World Bank similarly developed an “initiative comparing regulation of foreign direct investment around the world”. From the World Bank:

*Investing Across Borders* (IAB) is a new World Bank Group initiative comparing regulation of foreign direct investment (FDI) around the world. It presents indicators on economies’ laws, regulations, and practices affecting how foreign companies invest across sectors, start businesses, access industrial land, and arbitrate commercial disputes.

The IAB indicators evaluate the text of laws and regulations as well as, to the extent possible, their implementation. The indicators are based on data collected through questionnaires completed by local experts -- including lawyers, business consultants, and investment promotion specialists -- in each of the economies surveyed.

IAB does not measure all aspects of the business environment that matter to investors, including security, macroeconomic stability, market size and potential, corruption, skill levels, or infrastructure quality. Still, the indicators provide a starting point for governments seeking to improve their competitiveness in attracting foreign direct investment.19

Like the OECD, the World Bank indicates outright that it does not measure “all aspects of the business environment that matter to investors, including security, macroeconomic stability”. While the initiative helps countries to focus on economic factors as measured by quantitative analysis, it similarly presumes that policy makers have little control over non-economic factors impacting investment decisions. Therefore, within the IAB developing nations are reviewed only by their economic factors, and are instructed to use this review as their starting point in attracting FDI, and without any consideration of the major variables such as security and macroeconomic stability.

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UNCTAD “produces often-innovative analyses that form the basis for recommendations to economic policymakers. The aim is to help them make informed decisions and promote the macroeconomic policies best suited to ending global economic inequalities and to generating people-centred sustainable development.”

Specifically, in terms of FDI, UNCTAD “informs policymakers about the structure and evolution of foreign direct investment in the world, and outlines the main trends in investment” and “provides technical assistance to enable beneficiary countries to attract more investment for sustainable development, including through investment policy reviews.”

Through its Africa, Least Developed Countries and Special Programmes Division (ALDC), UNCTAD works to promote a better understanding of the development problems associated specifically with Africa and the least developed countries (LDCs). Like the OECD and the World Bank, it works with these nations to provide analysis and guidance. Unlike its fellow IGOs, its main framework works to tackle general supply-side trade constraints instead of isolating FDI determinants. Nonetheless, UNCTAD considers political stability as a “basic effort”, and far more weight on policies that support market liberalization.

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21 Ibid.
22 The Enhanced Integrated Framework (EIF) is a multi-donor program run through UNCTAD created to provide trade related assistance to LDCs.
While the IMF routinely publishes reports on FDI and its determinants, as well as fundamentally meeting its role in working to provide assistance in helping mainly middle and low income countries design necessary macroeconomic, financial, and structural policies, it does not publish public guidelines or checklists for countries to use as model policy. However, it does routinely use UNCTAD as a source when listing host country determinants of FDI.23

**Literature Review**

Early literature points to political stability as a key determinant of FDI. An early study by Oriye Ogodo focusing on the determinants of U.S. private manufacturing in Africa found that as a result of the oral evidence, political stability is the next most crucial factor after the size of the potential market.24 Root and Ahmed filled the early void of empirical studies on determinants of FDI and highlighted six variables as potential discriminators, yet note only one political factor as a discriminator: the frequency of changes in government leadership over the period tested.25 These early works both demonstrate an early understanding of the importance of political stability as a factor, as well as beginning to provide a clear definition of political stability in terms of governance.

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Overall, the literature surrounding FDI inflows into Africa is not as well developed as other regions around the globe. Filling this void, Asiedu is consistently cited in works with a focus on Africa, providing research as to show that investing in Africa does not follow earlier models that applied in Latin America and Asia, as well as furthering studies on the impact of political instability on governance in Africa, as many scholars have taken and applied the lessons from these regions.  

In a large-scale survey of 3,500 firms in different countries, Pfeffermann, Kinsunko and Sumlinksi found that FDI is sensitive to political instability within a nation. This study differs from other studies in the fact that it is able to extrapolate various types of political risk, including general uncertainty of regulations, crime, corruption, and terrorism. It is useful in providing a key understanding of issues impacting decision makers as to where FDI will flow.

However, when empirically tested for its impact as a determinant, the results of political stability’s impact on foreign direct investment are inconclusive, but hedging positive. A panel study by Wheeler and Mody focuses on manufacturing investments of U.S. multinationals in the 1980s and finds that political risk is not a significant determinant.

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27 Asiedu, Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability, 63-77
Likewise, a recent study by Okafor found that political instability has an insignificant negative relationship with U.S. outward FDI into SSA.\(^\text{30}\) In contrast, Loree and Guisinger developed a model with the assumption of FDI in each country being at its equilibrium level, and when measuring for change found political stability to be a significant variable. This study also notes that empirical research on determinates of FDI has proven “elusive”, largely as a result of the challenges associated with the operationalization of policy variables.\(^\text{31}\) Additionally, Signh and Jun find that political risk is a significant determinant of FDI flows for countries in their sample of developing countries studied between 1970 and 1993.\(^\text{32}\)

**Survey of Constraints to FDI**

Constraints to foreign investment for the purposes of this study were provided through the research conducted by Dr. Asiedu in “Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability”. The author used four surveys; the World Business Environment (WBE) Survey, World Development Report (WDR) Survey, World Investment Report (WIR) Survey, and The Centre for Research into Economics and Finance in Southern Africa.
Asiedu explains that “Table 1 summarises the results from the WBE and WDR surveys and it reports the average score for each constraining factor. Table 2 presents the summary for the WIR and CREFSA surveys and it shows the percentage of firms that identified a particular factor as a constraint to FDI. Two points stand out from the two tables. First, corruption ranks very high on the list of obstacles in all four surveys. Second, FDI regulations, financing constraints, weak infrastructure, macroeconomic
instability (which includes inflation and exchange rate risk) and political instability are strong deterrents of FDI to Africa." Due to the time since these four studies were conducted, I used the 2013 MIGA-Economist Intelligence Unit (MIGA-EIU) survey to corroborate Asiedu’s earlier findings. In it, the survey finds 19% of respondents believed political risk to be the major constraint to foreign investment over the next three years. The only constraint more formidable to respondents was macroeconomic instability, which 21% believed to be the major constraint to foreign investment. The other surveyed potential constraints include: limited size of the market (5%), poor infrastructure (7%), lack of qualified staff (18%), lack of financing for investments in these countries (13%), lack of information on the country’s business environment (0%), weak government institutions/red tape/corruption (10%), and increased government regulation in the aftermath of the global financial crisis (4%).

Methodology

In order to deeper analyze the impact of political stability on foreign direct investment in Kenya, I developed a search of periodicals through the LexisNexis Academic database to develop a better understanding of what newspapers reported on Kenya, foreign direct investment, and political stability from January 1, 1970 to December 31, 2014. I created four separate searches in order to fully encompass all possibly related articles. The

35 1970 is the year in which UNCTAD began to measure FDI inflows.
searches were as follows: “Kenya AND foreign direct investment OR FDI from 1/1/1970-12/31/1992”, “Kenya AND foreign direct investment OR FDI from 1/1/1993 to 12/31/2014”, “Kenya AND political stability from 1/1/1970 to 12/31/1992”, and “Kenya AND political stability from 1/1/1993 to 12/31/2104”. The search time frames were used in order to provide order and potentially determine a tipping point, as 1992 served as the year of the first open elections within Kenya. By using this method, I aim to explore the relationship between FDI and political stability, as represented through traditional news media, with the belief that the traditional media coverage acts similarly to a longitudinal study of the country, being sure to account for bias in media sources.

Results

From the 1970 to 1992 results, there were a total of 82 articles that met the criteria of the search. Of these results, 27 of the articles directly report on Kenya, foreign direct investment into the nation and/or its political stability. From the 1993 to 2014 search query, there were 2,742 articles that met the same criteria. Of this pool of results, 51 of the articles directly report on Kenya, foreign direct investment into the nation and/or the nation’s political stability. In both queries, reprinted or duplicate stories were not counted. The results ranged from a number of sources, yet the stories most frequently were published within local African newspapers, such as Business Daily Nairobi. Global periodicals, such as The New York Times and The Guardian, tended to place the most focus on Kenya at crisis, whether it be the actual violence ravaging the nation at election time, or the threat of violence as Kenya adopted a new constitution. Overall, the local
publications focused more on investments being made into the country, while the global publications focused on political violence as the country began its transition to open elections.

This combined pool of 79 articles creates a distinct timeline at first highlighting Kenya’s undeniable success in creating a nation that was a model to its neighbors in encouraging FDI as a result of its envied political stability. However, this timeline also puts a spotlight on the issues Kenya faced as a result of political instability as a result of large-scale election violence and how its formerly maligned neighbors learned from Kenya’s mistakes. The narrative is as follows: from the first articles found in 1979, the press covered Kenya in a positive light, focusing on the fact that the country maintained its stability following the death of its first leader, Jomo Kenyatta. Furthermore, a distinct comparison is drawn between the political instability in neighboring Uganda and its related strife, as compared to the stability of Kenya. In 1982, an attempted coup against new Kenyan President Daniel arap Moi fails, still a few newspaper articles begin to highlight the fear of unrest and its potential impact on development, even while noting Kenya as a paragon of political stability in the region. In 1983 and 1984, Kenya is viewed to be a “stable rock”, with hopes of breaking ‘Africa’s Cycle of Hopelessness’3637. While there is a single mention of Kenyan unease in 1985 after a perceived threat against the government by a group of students, for the most part 1985 and 1986 focused on the

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continued unrest in Uganda and its inability to develop as a result. Whatever unrest was bubbling under the surface in 1985 was replaced in 1988 by stories on increased tourism and real estate prices in Kenya due to its admirable political stability.

Yet, by 1990, the tone from the international community towards Kenya started to change. Calls for reform and a democratization of the single party system began gently, with constant reminders of Kenya’s role as the model country for international development. Even as the country headed towards its first open election, the political turmoil associated with was deemed manageable in comparison to its neighbors. Following the violence that came with the election, Tanzania proclaimed that it had learned from its neighbors’ mistake as it opened its one-party system. By 1995, the façade of Kenyan political stability had disappeared, as news starts reporting of a decrease of investment and aid into the country and by 1996, companies began moving corporate offices out of Nairobi, Kenya and into Kampala, Uganda, which a few years prior were mired in previously noted political conflict.

Following a few years of silence on the topic, 2004, 2006, and early 2007 were years Kenya seemed focused on repairing its image as political unstable. Any progress that was made during that time was lost as violence erupted within the country following the latest round of elections, causing business to exit the country and pushing the Kenyan economy.

on the brink of catastrophe. 2009 found Kenyans poorer than they were 10 years prior and 2010 dually focused on how Kenya was losing the battle for FDI to Uganda and Tanzania, while similarly facing increased political risks as the referendum approached on whether to back a new constitution. In 2013, the articles show that Kenya still lagged behind Uganda and Tanzania in terms of recruiting foreign investment, with analysts consistently citing high political instability as a reason for the falling amounts of FDI into Kenya year over year. In a bright spot for Kenya, 2014 news reported that increased terrorism in the country, committed by Al-Shabaab, did not play an impact on FDI levels into the nation, highlighting a difference between political instability as a result of the government and violence caused by outside groups\textsuperscript{39}.

\textbf{Analysis}

The results of this query show a strong correlation between political stability and levels of foreign direct investment as perceived by the reporting media. When Kenya was politically stable, outside commentators, investors, and government officials praised the nation, and as the news would tell the story, the country was rewarded with increased levels of investment, which spurred economic growth. Yet, as Kenya became increasingly marred by political instability as a result of its governance, FDI in to the country dwindled which placed increased pressures on its economy. When asked to explain the decreased levels of investment in the country, analysts consistently noted the

\textsuperscript{39} "Terrorist Attack in Kenya Harms Economic Growth." \textit{The Namibian (Windhoek)} September 27, 2013.
lack of political stability and called for reform with hopes of returning Kenya to its formerly prosperous path.

It is also interesting to note the sheer increase of coverage of both political stability and FDI in Kenya. The number of newspaper stories on the query increased by 3,244% from the first fourteen-year period of coverage to the second.

**Conclusion**

Through this study, I found that political instability is a constraint on foreign direct investment, as well as finding political stability to be a key determinant of where MNCs chose to invest. While the literature showed political stability to be a traditional determinant, the number of empirical studies on the subject of FDI determinants find the significance of political stability inconclusive; the surveys that directly connect with MNCs with decision making capability as to the location of FDI and this survey of media sources in Kenya both find political stability to be a significant variable. This leads me to wonder whether determinants of FDI can truly be tested through empirical studies, as previously noted policy variables do not necessarily translate well, leading to differences in definition and great variance in results. Furthermore, this study demonstrates how international institutions believe political stability to be a pre-condition for development, which leads to an assumption that while political stability is a necessity in encouraging FDI, it is a variable that is out of the control of the host country. The international institutions are absolving the host nation of any responsibility towards its own political
stability by creating a ‘you-either-have-it-or-you-don’t’ mentality. I find it bizarre that the international organizations that are hyper focused on creating economic policy mandates for developing countries in order to attract foreign direct investment gloss over this fact with limited acknowledgment.

I believe that the research started here lends itself to further and more expansive research into media sources as they catalogue both changes in political stability and levels of FDI. For example, it was purely happenchance that I found the stories about the changes in political stability in Uganda and Tanzania and the impact on each countries respective economic development. Yet, these findings help to validate the hypothesis of this paper. In future research, I would find a more expansive study, both in terms of number of countries studied as well as types of media sources, to be extremely beneficial to highlighting the role of political stability as a determinant in foreign direct investment. In a more expansive study, greater review of the media source should also be included to analyze the freedom of the media from government control.
Chapter 2

Understanding the Relationship between FDI and Human Welfare in Sub Saharan Africa: How the Two Variables are Related and the Impact of Government Structure on the Correlation

Introduction

The research question at the foundation of this study is whether foreign direct investment inflows correlate to economic welfare in Sub-Saharan Africa (SSA). A better understanding of the relationship between these two factors, as well as the potential impact that the type of government has on that relationship, with hopes of building upon current knowledge of development policy recommendations in SSA and aiming to improving those recommendations in the future.

Literature Review

Modern development policy as it is recognized today is commonly thought to have started following World War II, as the United States took a leading role in the creation of the International Bank for Reconstruction and Development (now part of the World Bank Group), the International Monetary Fund (IMF), and the United Nations (UN). Simultaneously, regions of the globe that previously operated as colonies of leading nations experienced independence and as part of that transition were categorized as the “less developed countries” or part of “the third world”. Moreover, academics and policy
makers debated the initial ideas of development – how developed and lesser-developed countries interacted with one another in order to alleviate poverty across the globe. Unlike colonial rule, where developed countries simply imposed their beliefs and politics, development policy opted for a coordinated effort between the developed and developing nations to promote economic growth and social change (Cooper and Packard 1997).

In 1989, the ‘Washington Consensus’ emerged as a term to describe ten policies that those working on development issues in Washington could generally agree would need to be implemented in Latin America in order to spur economic development. The degree to which the Washington Consensus would become ground zero of an ideological controversy on development was unexpected and a significant amount of research has analyzed what the meaning and original reach of the Washington Consensus, as well as the multitude of unintended consequences (Serra and Stiglitz 2008). While the ten policies focused on within the Washington consensus were economic policies of a neoliberal background that had been propagated by the Organisation for Economic Co-ordination and Development (OECD) for quite some time, in the opinion of the Washington Consensus’ author, John Williamson, an economist who associated with the Peterson Institute of International Economics from 1981 to 2012, two interpretations exist beyond his original meaning.

The first interpretation is the assumption that the Washington Consensus matches the policy recommendations of the Bretton Woods institutions (such as the IMF).
Williamson states that at the initial identification of the consensus, the Bretton Woods institutions frequently matched the economic policy agenda being suggested. However, as time passed, the two entities began to differ in approaches; yet, the conjecture continued to be made that the Washington Consensus equated to the thinking of the international development organizations, which was no longer true. The second interpretation argues that ‘Washington Consensus’ is a simple synonym for neoliberalism or market fundamentalism. Williamson finds this to be a “dramatic deviation from the original intent and a thoroughly objectionable perversion of the original meaning”, as the author argues it would be hard to find consensus on the use of distinctly neoliberal policies - such as supply-side economics, monetarism, or minimal government - within the Reagan, Bush, or Clinton administration (Williamson 2008).

Out of the controversy of the Washington Consensus came a need for a new framework that lacked vitriol. So emerged the Barcelona Development Agenda in 2004, when a group of economist across the United States and Europe created loose guidelines of what they envisioned for future development policy – exceptionally loose considering one of the tenets of the Agenda states “no single set of policies can be guaranteed to ignite sustained growth” (Serra and Stiglitz 2008). Significantly, the agenda identified that development includes far more than just economic growth and chooses to highlight the importance of institutional quality, labor markets, environmental factors, and the disparity of health epidemics faced by developing compared to developed nations.
The background of development policy helps provide a necessary understanding on the actions individual nations take in order to encourage development. Not surprisingly, many nations that lack their own academic knowledge on development turned to the Bretton Woods Institutions and all of the various permutations of the Washington Consensus for guidance. For example, the OECD authored the Policy Framework for Investment (PFI), developed to help “governments to design and implement policy reforms to create a truly attractive, robust and competitive environment for domestic and foreign investment” (The Organisation for Economic Co-operation and Development 2006). Demonstrative of the push to encourage investment by various intergovernmental organizations (IGOs) in developing countries, the introductory paragraph of the official Kenyan website on FDI is “[l]ike many African countries, it is dependent on Foreign Direct Investment (FDI) for capital and employment” (Chlopak, Leonard, Schechter & Associates on behalf of the Office of the President of the Republic of Kenya 2010).

However, a review of the literature exploring the relationship between FDI and the welfare of citizens in host country recipients is lacking, potentially as an effect of the lack of consensus surrounding whether or not FDI contributes to growth, with most of the literature focused on theoretical models over empirical evidence. Additionally, a review of the relationship between FDI and welfare in the Sub-Saharan Africa (SSA), the countries of focus for this study, is scant.

As the framework for what constituted good development policy was still being debated, Brecher and Bhagwati (1981) demonstrated that the then standard beliefs held about welfare as a part of international trade theory need to be reconsidered when national and
aggregate incomes differ as a result of foreign ownership within the host country. The authors found that welfare might decrease as a result of international transfer, economic growth, or tariff policy, whereas these factors would lead to an increase of welfare in the absence of foreign ownership shown through an analysis of international transfer, economic expansion, and tariff policy.

Balcão Reis (2001) finds that foreign investment decreases national welfare as a result of transfer of capital returns to the foreign owners. The author finds that national welfare does not necessarily change with adjustments to FDI and further develops a model to demonstrate conditions that would suggest either a positive or negative welfare change as an effect of FDI. Balcão Reis (2006) builds on the authors’ earlier research to demonstrate that even when a favorable tax policy is enacted benefiting the host country, the welfare effect may still be negative due to the transfer of profits to the foreign parent companies.

A claimed benefit of FDI is the ‘spillover effect’ from the foreign investment, in which domestic firms gain from transfers in technology, increased skills and knowledge, and benefits of competition. However, a significant portion of the literature finds this benefit to be exaggerated at best, and fictional at worst. In fact, a segment of this literature suggests that the spillover effect is really “market stealing”, with domestic firms becoming displaced by their foreign competitors. Lederman et al (2010) provides a concise display of a number of studies on the potential negative impacts of FDI on
Contrarily, Zajc Kejzar (2011) finds that even where the benefits of the spillover effect are not present and where foreign firms have displaced local firms, FDI can still improve the welfare of the host country. In a study of Indonesian manufacturers, one of the few case studies available on the topic, Blalock and Gertler (2008) determined that there is significant evidence demonstrating productivity gains, greater competition, and lower prices among host country firms in markets that supply foreign competitors. Just as questions remain as to whether FDI contributes to growth, the relationship between FDI and economic welfare within the host country are similarly unclear.

**Welfare Indicators**

In an attempt to quantify the relationship between FDI and host country welfare, it is necessary for the indicators to clearly demonstrate a capacity for measuring welfare. Welfare, unlike other economic principles has no defined measurement. Traditionally, GDP per capita was the standard measure for economic welfare. However, towards the end of the 1960s, experts started to move away from GDP per capita as an indicator, as it failed to capture many of the aspects necessary in order to be a strong measure of individual economic welfare. Nordhaus and Tobin (1972) developed the Measure of Economic Welfare (MEW), one of the first alternative indicators of economic welfare. The authors found that GDP per capita could not account for factors that contribute to...
overall welfare. As a result, the authors included values to measure for leisure, unpaid work, and environmental costs. Daly and Cobb (1989) expanded on MEW with the creation of the Index of Sustainable Economic Welfare (ISEW), which accounted for externalities of economic growth and income inequality, as well as subtracting defensive expenditures from a GDP calculation.

The current welfare measurement, the United Nations Human Development Index (HDI), was created in 1990 by Mahbub al Hag and Amartya Sen as part of the Human Development Report Office (HDRO) within the United Nations Development Programme (UNDP) (United Nations Development Programme 2014a). This index is a composite measure taking into account life expectancy, education, income, as well as additional factors, and become a key indicator to determine state welfare. A further benefit of this indicator is that information is available for most countries.

*Is Africa Different?*

From the available literature, it is apparent that even when non-theoretical studies are available, little study has been done on the impact of FDI on welfare in sub Saharan Africa (SSA). This prompts the question of whether SSA is significantly different from other developing regions, or whether knowledge derived from studies in previous developing regions can be applied within SSA. Studies from Asiedu (2002) find that “a higher return on investment and better infrastructure have a positive impact on FDI to non-SSA countries, but have no significant impact on FDI to SSA. [Additionally],
openness to trade promotes FDI to SSA and non-SSA countries; however, the marginal benefit from increased openness is less for SSA. These results imply that Africa is different—suggesting that policies that have been successful in other regions may not be equally successful in Africa.” Furthermore, Cooper and Packard (1997) note that even as Africa was the “latest of the late developers, [and] the least likely to generate its own academic knowledge…African political leaders and intellectuals also pushed a distinct view of economic development, one less oriented than the conventional view toward a generic ‘developed economy’ and more focused on the communitarian roots of African economies” (12). This conclusion, and its proliferation within much of the literature, lends itself to the belief that Africa needs to be studied in greater depth in order to develop policies that work for the continent, SSA and individual nation states.

Methodology

In order to determine any sort of correlation between FDI and welfare, I created a scatter plot comparing net inflows of FDI in current US Dollars (USD) as my dependent variable, as provided by UNCTADstat, with the HDI score as my independent variable over the time frame of 2005 to 2013 for countries in SSA. UNCTADstat, part of the United Nations Conference on Trade and Development (UNCTAD), “compiles, validates and processes a wide range of data collected from national and international sources” (UNCTADstat 2014b). By using FDI annual inflows provided by UNCTADstat, one can be more assured of the validity of the figures, due to the fact that they are checked by a third party organization, as compared to using the figures directly from the individual nation. Additionally, because UNCTADstat produces all figures in current USD using
current prices and current exchange rates, it eliminates the need to account for variations based on changes in exchange rates or currency, therefore increasing the reliability of the figures. The definition of FDI measured by UNCTADstat uses states that the:

FDI inflows and outflows comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to a FDI enterprise, or capital received by a foreign direct investor from a FDI enterprise. FDI includes the three following components: equity capital, reinvested earnings and intra-company loans. Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than that of its residence. Reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested. Intra-company loans or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises. (UNCTADstat 2014a)

Additionally, “[d]ata on FDI flows are presented on net bases (capital transactions' credits less debits between direct investors and their foreign affiliates)... Hence, FDI flows with a negative sign indicate that at least one of the three components of FDI is negative and not offset by positive amounts of the remaining components. These are called reverse investment or disinvestment.”(UNCTADstat 2014a)

The HDI score is a “composite index measuring average achievement in three basic dimensions of human development – a long healthy life, knowledge, and a decent standard of living”. The sources used to calculate the HDI score by the HDRO are “based on data from UNDESA (2013a), Barro and Lee (2013), UNESCO Institute for Statistics (2013b), United Nations Statistics Division (2014), World Bank (2014) and
IMF (2014)” (United Nations Development Programme 2014b). By using this score, which is rated from 0 to 1, with 0 representing the lowest possible human development score and 1 representing the highest possible human development score, the data will be based on a standard score that accounts for various aspects of human welfare.

From the scatter plot, a simple linear regression was calculated to determine the correlation between the two variables. The studied timeframe was determined for two reasons; first, 2005 is the earliest date from which the UNDP began to provide yearly data scores for the HDI, therefore selecting this year provides a more coherent analysis and prevents having to account for any gaps in time. Second, by starting in 2005, the data will take into account both the global recession of 2008-2009, a time when investment decreased worldwide, as well as the current recovery. The recession will help paint a clearer picture on what relationship, if any, between FDI inflows and welfare than a constant increase (or decrease) in FDI inflows would. While there is benefit towards using yearly data for consistency, there is no reason to believe that using a longer time frame would alter the results. However, in order to account for sporadic gaps in the HDI scores prior to 2005 and with no data before 1980, I do not believe that earlier data would show a coherent relationship and would only add to an increased number of variables to account for.

Results

To begin, I created a scatter plot for each year of the data range, including all countries in
SSA, identifying each nation by its governance structure. The resulting scatter plots are as follows:

![Graph showing HDI Score vs. FDI Annual Inflows for SSA, 2005](image)

Sum of FDI 2005 vs. sum of HDI 2005. Color shows details about Governance Type (group). The marks are labeled by Country.
HDI Score vs FDI Annual Inflows, SSA, 2008

Sum of FDI 2008 vs. sum of HDI 2008. Color shows details about Governance Type (group). The marks are labeled by Country.

HDI Score vs FDI Annual Inflows, SSA, 2009

Sum of FDI 2009 vs. sum of HDI 2009. Color shows details about Governance Type (group). The marks are labeled by Country.
HDI Score v FDI Annual Inflows, SSA, 2010

Sum of FDI 2010 vs. sum of HDI 2010. Color shows details about Governance Type (group). The marks are labeled by Country.

HDI Score v FDI Annual Inflows, SSA, 2011

Sum of FDI 2011 vs. sum of HDI 2011. Color shows details about Governance Type (group). The marks are labeled by Country.
The correlation coefficients (r), calculated through simple linear regression are as follows for each year (where 0 represents no correlation and 1 represents strong correlation between the two variables, rounded to the hundred thousandths):

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.21922</td>
<td>0.07079</td>
<td>0.19812</td>
<td>0.18749</td>
<td>0.19300</td>
<td>0.10131</td>
<td>0.09823</td>
<td>0.00956</td>
<td>0.09469</td>
</tr>
</tbody>
</table>

Next, I created scatter plots, grouping countries by their governance structure, as provided by CIA World Fact Book and created a plot for each year. The first group consists of constitutional democracies, federal republics, parliamentary democracies, and parliamentary republics. Group Two is made up of republics. Group Three consists of republics with multiparty presidential regimes. Group Four includes a military junta and monarchy. I excluded Eritrea from the groupings, as it is listed in a transitional government. I created these groupings in an attempt to categorize each nation with countries that match the most similar political regimes.

Table of Nation Groupings

<table>
<thead>
<tr>
<th>Group One</th>
<th>Ghana, Somalia, Nigeria, Ethiopia, Sudan, Lesotho, Sierra Leone, Malawi, Zimbabwe, Mauritius, Botswana, and Burkina Faso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Two</td>
<td>Cabo Verde, Comoros, Benin, Burundi, Central African Republic, Chad, Republic of the Congo, Equatorial Guinea, The Gambia, Guinea, Kenya, Liberia, Mali, Mozambique, Namibia, Senegal, Tunisia, Uganda, Zambia, Tanzania, Djibouti, Guinea-Bissau, Niger, Sao Tome and</td>
</tr>
<tr>
<td>Group Three</td>
<td>Principe, South Africa, Madagascar, the Democratic Republic of the Congo</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Group Four</td>
<td>Mauritania, Swaziland</td>
</tr>
<tr>
<td>Togo, Angola, Cameroon, Côte d'Ivoire, Rwanda, Gabon</td>
<td></td>
</tr>
</tbody>
</table>

The correlation coefficients for each group, rounded to the hundred thousandths, are as follows:

**Group 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>r</td>
<td>0.01871</td>
<td>0.03362</td>
<td>0.06626</td>
<td>0.06899</td>
<td>0.05710</td>
<td>0.06237</td>
<td>0.06156</td>
<td>0.04764</td>
<td>0.01673</td>
</tr>
</tbody>
</table>

**Group 2**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>r</td>
<td>0.35582</td>
<td>0.16549</td>
<td>0.3459</td>
<td>0.26640</td>
<td>0.32482</td>
<td>0.18212</td>
<td>0.17813</td>
<td>0.03302</td>
<td>0.18518</td>
</tr>
</tbody>
</table>

**Group 3**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>r</td>
<td>0.21095</td>
<td>0.36247</td>
<td>0.07078</td>
<td>0.35704</td>
<td>0.14889</td>
<td>0.06892</td>
<td>0.01816</td>
<td>0.02720</td>
<td>0.18517</td>
</tr>
</tbody>
</table>

**Analysis**

From the data, a very slight, but positive correlation can be found in the results when all SSA countries are surveyed. There are inconclusive results when comparing the total amount of FDI in SSA to the degree of correlation. For example, as the total amount of FDI decreased in 2006 to USD$15,968,400,00 compared to $21,017,640,000 in 2005, the correlation coefficient also decreased. This also occurred in 2010 and 2012. When total FDI increased compared to year prior, the correlation coefficient increased in 2007 and
2009. However, when total FDI increased in 2008 (USD$38,724,080,00 compared to USD$29,772,590,00 in 2007), the correlation coefficient decreased. Similarly, this occurred in 2011 and 2013. Overall, the correlation between FDI inflows and HDI score for all SSA nations seem slightly positive, but inconclusive at best.

There is less of a correlation between FDI inflows and HDI score for countries in Group 1, than for all SSA countries overall. While a slightly positive relationship exists, the p-value, measuring significance, ranged from .84 to .96 (rounded to the hundredth) for each year between 2005 to 2013, which suggests that that there is no relationship between the two measured variables. Additionally, even as FDI inflow amounts increased year-on-year with Group 1, except for 2009 and 2012, this seemingly plays no role in the correlation between the two variables.

The correlation coefficient for Group 2, representing all republics, is higher than that of the correlation coefficient representing the FDI inflows – HDI score relationship between all SSA countries and shows a positive relationship between these two variables within this grouping. In fact, the correlation coefficient is strongest in Group 2, than any other grouping of nations. The single outlier for this set is in 2012, where the correlation coefficient drops to 0.03302 (rounded to the hundred thousandths) with a p-value of 0.87 (rounded to the hundredth). P-values for all other years were relatively low, ranging from 0.069 to 0.41 (rounded to the hundredth), suggesting there is a relationship between the two measured variables, except in 2012. However, if one excludes the Democratic Republic of the Congo from the set for this year, the correlation coefficient increases to
0.13057 and the p-value decreases to 0.52. In fact, if the Democratic Republic of Congo is removed from every set, the correlation coefficient increases and the p-value decreases, indicating a stronger relationship between the two variables.

The Democratic Republic of the Congo is an outlier within Group 2, having some of the highest levels of annual FDI inflows with the some of the lowest FDI scores year after year. It is clear that the inflows of FDI are not improving the welfare of the citizens within the Democratic Republic of the Congo, yet the other countries within this set show slight, but clear, improvement in their HDI scores with increases in FDI. This prompts questions of what makes the Democratic Republic of Congo different than the other countries in this set that are also republics.

Group 3, which represents republics with multiparty presidential regimes, shows inconsistent correlation coefficients for the time period analyzed. The p-value for this set of countries also varies, ranging from 0.48 to 0.97, showing little relationship between the variables measured. However, this data set also includes multiple reverse investment figures over the timeframe measured, mainly occurring from Angola. In fact, Group 3 is the only grouping where the sum of all inflows multiple years summed to net reverse investments. The outlier in this data set is Angola, which experienced reverse investments in 2005, 2006, 2007, 2010, 2011, 2012, and 2013. Excluding Angola from the data set increases the correlation coefficients and decreases p-values, showing a positive relationship between the two variables. Similar to the Democratic Republic of Congo in Group 2, Angola greatly alters the relationship between the measured variables.
in Group 3. Likewise, the degree to which Angola operates as an outlier raises questions about the differences between the country and the other countries within Group 3.

Group 4 could not be statistically analyzed due to the lack of countries within the data set, leaving this study unable to explore the relationship between FDI inflows and human welfare within military juntas or monarchies in SSA.

**Conclusion**

In conclusion, the data shows there is a slight, but positive correlation between FDI inflows and the welfare of a country’s citizenry. Additionally, the data shows that there is a greater correlation in republics as compared to other types of government structures. It is important to note, that while the correlation between the two variables was slightly positive, correlation does not imply causation and therefore I do not believe the claim can be made that FDI inflows improves the overall welfare of individuals in SSA.

Furthermore, there are limitations to this study that became apparent when plotting the data. First of all, by grouping the countries by their de jure government structure, the study did not take into account the de jure operation of the SSA nations. This has the potential for improperly grouping nations and could have impact on what type of government allows citizens to best benefit from FDI into their nation. Future research should take this into account and use a more comprehensive analysis of the individual nations and how they truly operate. Additionally, this research categorized the countries by their current government structure and did not take into account how that structure could have changed over the time studied. Likewise, this research did not take into
account the time lag between the relationship of changes in FDI and changes in HDI scores and instead made a direct year to year comparison. Future research would be wise to determine what sort of lag appears between the variables and include that in the calculations.

Similarly, this research does not take into account events occurring within each nation that could impact the welfare of the citizens. For example, the two outliers identified in this study, Angola and the Democratic Republic of Congo, both experienced decades long civil wars in the period directly before the time studied, in addition to relatively briefer episodes of political violence. These outliers offer a jumping point for further research on the relationship between war, political violence, FDI and human welfare, as these countries also tell two distinctly different stories; Angola faces reverse investment in great numbers and relatively high HDI scores as compared to the other nations in SSA, whereas the Democratic Republic of the Congo has high levels of FDI with relatively low HDI scores compared to the other nations within the study. Furthermore, future research on this topic should look into other factors that impact both FDI and human welfare, such as whether a country is rich in natural resources, in order to understand whether countries that are resource rich tend to benefit more or less from FDI inflows, as compared to SSA nations with a dearth of natural resources.

The results of this paper also questions the current standard policy framework goals on how to increase development as offered by the Bretton Woods institutions, along with the self-admittance from SSA nations working to entice FDI to their individual nations “for
capital and employment”, and whether the aim to increase FDI is actually the correct policy prescription if countries are looking to improve the livelihood of their citizenry (which, I believe, should be a foremost concern of countries looking to increase their development). I do not believe that SSA nations should turn their back on working to encourage investment within their individual countries; however, I believe that the international economic institutions have a responsibility in educating SSA nations that an increase in FDI will not singularly solve development challenges and a greater focus should be placed on policy goals that do help to benefit the welfare of the citizenry. For the benefits of FDI that do exist, an increase of FDI into a SSA nation does not deliver trickle-down benefits of improved welfare for the people as a whole.
Chapter Three
Developing Good Governance and Strengthening Institutions in Contextual Reality: The Ugandan Recovery Case

Introduction

From the previous chapters of this study, it was found that political stability is a necessity in encouraging foreign direct investment (FDI), which in turn increases economic growth within. However, the second chapter found that there is a very slight correlation between inflows of FDI and improvements in overall human development, as measured by the Human Development Index, for the citizens of Sub-Saharan African nations, and led to the conclusion that while encouraging FDI is an important goal for developing nations, it should not be the sole focus in determining policy. While international development organizations tend to promote policy recommendations for encouraging FDI while assuming political stability had already been achieved, it seemed as if recommendations for policy reforms to increase political stability were overlooked. This paper aims to demonstrate that reforms to promote good governance, specifically through strengthening institutions leads to increased political stability, and in turn increased economic growth, in developing nations by studying the case of Uganda. Additionally, this chapter examines current ‘good’ governance models, as determined by international development organizations and highlights which of those specific models contributed to the turnaround in Uganda, and how theories of “good enough governance” may help to increase the scalability of best practices in SSA.
Literature Review

The topic of good governance as a means towards development has been researched thoroughly, especially following the creation United Nations Millennium campaign, and the subsequent report by Sachs (2005) at the bequest of the United Nations Secretary-General that dedicated a chapter to the importance of governance in achieving the Millennium Development Goals (MDGs). The report notes that there is broad acceptance of the fact that better governance can lead to higher rates of economic growth, and finds that investments in human capital, infrastructure and public sector management all lead to better governance. While there is general acceptance of the idea that better governance leads to increased economic growth and decreased poverty rates, there is some dissent. Kwon and Kim (2014) find through empirical testing that there is no relation between the two factors in the least developed countries (LDCs), though a relationship does exist in more developed nations.

While this paper assumes and accepts the relationship between good governance and economic growth, the literature provides varying definitions as to what constitutes governance and what the principles of good governance are. The seeming standard definition comes from the World Bank in conjunction of its development of the Worldwide Governance Indicators (WGI). It states that “governance consists of the traditions and institutions by which authority in a country is exercised” and uses six indicators in order to measure said governance. The indicators measured are: voice and
accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption (Kaufmann, Kraay, and Mastruzzi 2011, 220-246). Other studies have questioned the measurement indicators of the WGI, suggesting that all of the indicators measure the same broad concept (LANGBEIN and KNACK 2010, 350-370).

Alternatively, the United Nations Development Programme (UNDP), the department in charge of managing the MDGs, finds the principles of good governance to be participation, transparency, accountability, equity and the rule of law (United Nations Development Programme, Management Development and Governance Division, 1995). Additionally, many other additional definitions for what good governance should look and how it should be properly measured exist, leading to lack of clarity in the guidance set forth to developing nations. Nonetheless, meeting the targets of all the various good governance agenda becomes part of the ‘must be done’ agenda of developing nations.

The Kaufmann et al definition of governance highlights the importance of institutions. North (1990) defines institutions as the “constraints put on themselves.” Similar to the variance in what defines governance, multitudes of definitions exist to describe what and what does not constitute an institution. For example, other scholars include organizational entities, procedural devices and regulatory frameworks into their definitions (North 1990). Throughout the literature, there is a sense that there is a strong correlation between the how well an institution performs and increased development, and
Rodrik (2004) highlights the “growing body of empirical research [that] has shown that institutions exert a very strong determining effect on aggregate incomes. Institutions are *causal* in the sense that a poor country that is able to revise the rules of the game in the direction of strengthening the property rights of entrepreneurs and investors is likely to experience a lasting increase in its productivity capacity.”

Rodrik and many others note that the majority of the academic literature on institutional determinants to increase economic development have yet to produce a specific set of policy prescriptions. Grindle (2011) works to narrow the gap between academic concept and practice, and through the concept of ‘good enough governance’ suggests “not all governance deficits need to (or can) be tackled at once, and that institutions- and capacity-building are products of time.” The frameworks derived from the Grindle’s concept of good enough governance will help in this paper’s goal of analyzing the case of Uganda.

*Review of Current Governance Analysis*

International organizations, such as the World Bank and the United Kingdoms’ Department for International Development (DFID), play a significant role in taking generally indefinite academic research and converting it into policy recommendations that are expected to lead to good governance, as well as demonstrating successful use of these reforms in specific case studies. Yet, due to the complexities and ambiguities associated with various empirical and methodological studies, and their inability to be
easily translated to policy prescription, it allows for the oversimplifications of the issues in the works put forth by the international bodies and therefore contributes to misguided of policy recommendations. Increasingly, international organizations, developing governments and academics alike are aware of the shortcomings of these policy prescriptions and have worked to correct for these issues by working to incorporate the importance of contextual factors in planning policy interventions and to increase understanding that planning needs to begin ‘where the country is’.

The DFID-sponsored Drivers of Change framework helps analysts to identify the gaps in knowledge of country-specific history and its political economy, which frequently informs decision-making on policy and programmatic planning within specific cases. Below, Table 1 shows a framework to help strategically analyze opportunities of change, drawing upon the Drivers of Change.
Table 1: Strategic analysis of opportunities for change

<table>
<thead>
<tr>
<th>Governance reform example: Strengthening the rule of law in country x</th>
<th>Opportunities for change</th>
<th>Constraints on change</th>
</tr>
</thead>
<tbody>
<tr>
<td>What social, political, economic, and institutional issues are supportive of change?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What social, political, economic, and institutional issues are likely to constrain change?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are the incentives that different actors have to support change?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are the role, power, and influence of different actors likely to be opposed to or supportive of change?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are the role, power, and influence of external actors such as donor agencies and other governments in supporting/constraining change?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are the expected payoffs for poverty reduction of the intervention?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How is the intervention to be operationalised?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Grindle (2011)

In an attempt to help ‘align a capacity-building strategy with country-specific realities’, the World Bank’s Country Policy and Institutional Assessment (CPIA) identifies four different factors that offer insight into the contextual reasons for change in a specified country, with primary focus on the current policies in place during the assessment, as well as a sequence of central institutional characteristics (Kpundeh and Levy 2004). Table 2 presents the categories that are used in the World Bank’s approach to analyze political and institutional contexts.
Both of these frameworks, as offered by the international development community, are suggestive of ways for developing countries to identify possible areas of both change and the potential constraints on the suggested change in an individualized manner. However, these frameworks lack in helping to provide a developing nation direction as to what reform programs should be taken on given limited resources of money, time, knowledge, and human and organizational capacity. The good enough governance model developed by Grindle is the first step in helping developing nations to prioritize policy programs based on their regimes and current capacities.

**Good Enough Governance Model**

**Table 2: The World Bank’s CPIA framework**

<table>
<thead>
<tr>
<th>Criteria for Country Policy and Institutional Assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Economic management</strong></td>
</tr>
<tr>
<td>1. Macroeconomic management</td>
</tr>
<tr>
<td>2. Fiscal policy</td>
</tr>
<tr>
<td>3. Debt policy</td>
</tr>
<tr>
<td><strong>B. Structural policies</strong></td>
</tr>
<tr>
<td>4. Trade</td>
</tr>
<tr>
<td>5. Financial sector</td>
</tr>
<tr>
<td>6. Business regulatory environment</td>
</tr>
<tr>
<td><strong>C. Policies for social inclusion/equity</strong></td>
</tr>
<tr>
<td>7. Gender equality</td>
</tr>
<tr>
<td>8. Equity of public resource use</td>
</tr>
<tr>
<td>9. Building human resources</td>
</tr>
<tr>
<td>10. Social protection and labour</td>
</tr>
<tr>
<td>11. Policies and institutions for environmental sustainability</td>
</tr>
<tr>
<td><strong>D. Public-sector management and institutions</strong></td>
</tr>
<tr>
<td>12. Property rights and rule-based governance</td>
</tr>
<tr>
<td>13. Quality of budgetary and financial management</td>
</tr>
<tr>
<td>14. Efficiency of revenue mobilisation</td>
</tr>
<tr>
<td>15. Quality of public administration</td>
</tr>
<tr>
<td>16. Transparency, accountability and corruption in the public sector</td>
</tr>
</tbody>
</table>

Source: Grindle (2011)
The first step necessary in helping developing countries to identify necessary steps to increase governance is to determine what type of regime is in place, and what capacities that regime has. Table 3 provides an overview of regime type, the characteristics of said regime, the institutional stability of the state, the organizational capacity of the state, the degree of state legitimacy, as well as the types of policies in place. Table 4 in turn shows a hierarchy of governance priorities for each type of regime. Grindle notes that:

The table is meant to be suggestive – certainly not definitive – of the ways in which development practitioners might begin to sort among possible governance interventions in terms of priorities in distinct types of environments. It is intended to stimulate debate rather than to propose solutions, and is thus not meant to be definitive or comprehensive, merely indicative of possibilities for assessing priorities. Nevertheless, it links the need to begin where the country is with hard choices about the most essential aspects of governance that need to be ensured in that context (Grindle 2011, s209).

The good enough governance model is key in helping developing nation, or any nation looking to implement reform policies, to improve their governance identify their current context and constraints in order clearly prioritize what basic reforms need to take place and help to improve decision-making capabilities.
Table 3: Characteristics of regimes and their capacities

<table>
<thead>
<tr>
<th>Types of political systems</th>
<th>Characteristics</th>
<th>Institutional stability of the state</th>
<th>Organisational capacity of the state</th>
<th>Degree of state legitimacy</th>
<th>Types of policies in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collapsed states</td>
<td>There is no effective central government.</td>
<td>Extremely low. There are no effective rules of the game that are agreed upon.</td>
<td>Extremely low. It is difficult to identify organisations that have any capacity to produce results.</td>
<td>Low to non-existent. Those who wield power are outside the state.</td>
<td>No policies.</td>
</tr>
<tr>
<td>(Examples: Iraq, Somalia, Afghanistan)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal rule</td>
<td>Rule through personalities and personal connections. If political parties exist, they are based on personalities.</td>
<td>Stability highly dependent on personal control of power. Rules of the game emphasise power of elites and personal connections to elites; there is conflict over who controls the state.</td>
<td>Low. Organisations respond to the personal and shifting priorities of powerful elites.</td>
<td>Low. There is often significant contention over who has the right to wield power; power is used for personal wealth creation.</td>
<td>Policies are unstable; a major objective is to enrich those in power; few basic public services are provided.</td>
</tr>
<tr>
<td>(Examples: Turkmenistan, Guinea, Libya)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimally institutionalised states</td>
<td>An unstable mixture of personal and impersonal rule, with varying degrees of legitimacy. Parties are based partly on personalities.</td>
<td>Basic rules of the game are established in law and practice, although they function poorly and intermittently.</td>
<td>Low/modest. There may be some organisations that are able to carry out responsibilities on a sustained basis.</td>
<td>Low/modest. Conflict over the right to wield power persists in the absence of consensus about institutions for resolving conflict.</td>
<td>There exist organisations to provide a range of basic public and welfare services; coverage is patchy and often based on patronage.</td>
</tr>
<tr>
<td>(Kenya, Paraguay, Indonesia)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutionalised non-competitive states</td>
<td>Rule through stable and legitimate organisations and procedures; no open competition for power. Political parties serve the regime or are hindered and controlled by it.</td>
<td>Clear rules of the game and generally orderly processes of decision-making and public management are in place; generally centralised and authoritarian practices.</td>
<td>Modest. Many organisations carry out routine activities on a sustained basis.</td>
<td>Modest. Day-to-day legitimacy to carry on activities, but often in the presence of major questioning of the roots of legitimacy not based on consent.</td>
<td>A wide range of basic and welfare services may be provided, but citizens have little influence over the range and type of provision.</td>
</tr>
<tr>
<td>(North Korea, Vietnam, China)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutionalised, competitive states</td>
<td>Rule through stable and legitimate organisations and procedures; open competition for power through programmatic parties.</td>
<td>Rules of the game widely recognised as legitimate and not subject to significant change; conflicts resolved through appeal to the rules.</td>
<td>High. Organisations challenged to improve performance on a sustained basis.</td>
<td>High. Legitimacy to make decisions and wield power persists even in context in which there is disagreement on decisions on the use of power.</td>
<td>A wide range of basic and welfare services. The range and type of provision are major themes in politics.</td>
</tr>
<tr>
<td>(South Africa, Chile, India)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Grindle (2011)
Table 4: Is there a hierarchy of governance priorities?

<table>
<thead>
<tr>
<th>Governance characteristics</th>
<th>Collapsed states</th>
<th>Personal rule</th>
<th>Minimally institutionalised states</th>
<th>Institutionalised non-competitive states</th>
<th>Institutionalised competitive states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal safety ensured</td>
<td>P</td>
<td>P</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic conflict resolution systems in place and functioning</td>
<td>P</td>
<td>P</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Widespread agreement on basic rules of the game for political succession</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government able to carry out basic administrative tasks</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government able to ensure basic services to most of the population</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td></td>
</tr>
<tr>
<td>Government able to ensure equality/fairness in justice and access to services</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Open government decision-making/implementation processes</td>
<td>P</td>
<td>P</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government responsive to input from organised groups, citizen participation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government fully accountable for its decisions and their consequences</td>
<td></td>
<td></td>
<td>P</td>
<td></td>
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</tr>
</tbody>
</table>

Note: P = priority.

Case Study of Uganda

History

The Republic of Uganda, commonly known as Uganda, is a country located in east-central Africa, populated by dozens of ethnic groups with a common division made between the “Nilotic North and the Bantu South”. Since Uganda Protectorate became independent of British colonial rule on October 9, 1962 to form the Republic of Uganda, political divisions existed, specifically between the new independent republic and the
kingdom of Buganda. The new republic was lead by Prime Minister Milton Obote, who headed the Uganda Peoples Congress (UPC) party and was opposed by the Democratic Party (DP), which was based in Buganda and led by Benedicto Kiwanuka, who had served as the first prime minister in the interim self-government period. Additionally, members of the conservative Ganda group set up their own opposition group, Kabaka Yekka (KY), meaning “King Alone.” The new nation faced immediate political division between the UPC and KY alliance with the DP in opposition and tensions steadily grew both in the alliance and within the UPC itself, as supporters took issue with what was believed to be a disparity in the distribution of material gains associated with the independence. By 1969, the situation became so politically unstable that Obote imposed a new republican constitution, declaring himself executive president and eliminating the various kingdoms existing within Uganda. As a result, hostilities increased between factions, assassination attempts occurred against Obote and the government used increasingly tyrannical methods in order to silence its critics (Ingham and Lyons 2015).

At this time, the Ugandan economy flourished in large part due to the high demand and high prices for its agricultural exports, specifically of coffee. However, Obote felt pressured by accusations that the profits of the export economy did not benefit producers enough; as a result, he developed a “common man’s charter” which allowed the government to take majority control in larger, mainly foreign-owned companies, while additionally removing the remaining aspects of feudalism. In order to combat the growing disenchantment with the political leadership, Obote proposed a new electoral system with hopes of increasing unity in the country; however, before the changes could
take effect, Colonel Idi Amin, formerly loyal to Obote, took advantage of the president’s absence from the country to overthrow the government and seize power for himself.

While Amin’s coup was initially widely welcomed both by Ugandan citizens who hoped for unity within their country, as well as Western nations who were distrusting of Obote’s socialist-leaning policies, it was not long before issues under Amin’s leadership were readily apparent. With very little education and training, Amin commonly used random violence as a means of maintaining control, killing anyone who pledged allegiance to anyone but himself. In 1972, Amin expelled all Asians who had not taken Ugandan nationality out of the country, as it was popularly believed that the Africans had been economically exploited by the Asian minority. Although this expulsion of Asians was popularly received within Uganda, the act isolated Uganda from the rest of the world community.

By the mid- to late 1970s, the Ugandan economy was in complete shambles. As a means for survival, rural Ugandans living in the countryside survived on the wealth of their agricultural resources. In metropolitan regions, the country’s institutions collapsed and morality disappeared allowing a pervasive black market to develop. Amin and his government wore the brunt of criticism over the economic collapse and faced a series of coup attempts as competing factions attempted to take control. Amin attempted to pivot from the Uganda’s internal failure by launching an attack on Tanzania in October 1978 that was quickly pushed back by Tanzanian forces assisted by Ugandan exiles. As troops
moved towards Kampala, Amin escaped the capital and fled to Libya, then Iraq, before settling in Saudi Arabia. By the end of his rule, up to 400,000 people are believed to have been killed under his command (BBC News 2003).

The group of Ugandan exiles who had assisted Tanzanian forces in toppling Amin created a coalition government called the Uganda National Liberation Front (UNLF) and former DP leading figure, Yusufu Lule, took office as president in April 1979. Lule’s presidency was shortlived due to disagreements surrounding his economic policy and he was replaced by Godfrey Binaisa in June 1979. Binaisa himself was overthrown by supporters of Obote, with Obote returning to Uganda in May 1980. The UPC won majority of the parliament following a controversial election in December 1980, wherein the DP leadership agreed to form the constitutional opposition. While Obote attempted to work through international institutions, such as the International Monetary Fund, in order to rebuild the economy, he faced constant challenged from a guerilla group led by Yoweri Museveni out of the Kampala bush, as well as an entrenched black market system contribution to a skyrocketing inflation rate. Once again, Ugandan citizens became frustrated with the flailing economy under Obote and he was overthrown and forced into exile following a military coup d’état led by General Tito Okello in 1985. As a result of the civil war between Obote government and Museveni’s guerilla operations, now known as the National Resistance Army, it is estimated that up to 500,000 people were killed, many of them innocent civilians over a four year period (Agance France-Presse 2005). Okello’s military council operated for a few chaotic months before the NRA took control of Uganda.
Museveni became president on June 29, 1986 and while a new Ugandan constitution was being drafted, the National Resistance Council acted as the national legislature, an indirectly elected body controlled by the National Resistance Movement (NRM). In an attempt to battle the issues that had brought down previous governments, Museveni announced a series of policy reforms, both moral and economic policies, in an attempt to reconstruct the flailing nation. While sporadic violence occurred in the form of military resistance to the president’s government, primarily in the north and east regions of the country, security and a protection of human rights greatly increased throughout most of central, southern, and western Uganda. A new constitution was put in place in 1995, and in the 1996 presidential election, Museveni won a majority of the votes. He was again reelected in 2001.

In 2005, a referendum was held to return the country to a multiparty political regime. Though Museveni had initially opposed the idea with the belief that it would divide the country on an ethnic basis, as pressure increased from the international community, the president accepted the referendum and the overwhelming results in its favor. Additionally in 2005, a constitutional amendment passed eliminating presidential term limits, which allowed Museveni to run again in the 2006 presidential election. However, this election was clouded with controversy as the leader of the opposition group Forum for Democratic Change, Kissa Besigye, was imprisoned for months leading up to the election and only released a month prior to the election. Museveni and Besigye were the
again the frontrunners in the 2011 presidential elections where Museveni won 68 percent of the vote; however, the validity of the election was under question by both Besigye and international election monitors who noted acts of both bribery and election day intimidation through military presence. While the government has faced criticism over Museveni’s lengthy presidential term, as well as fought in military disputes both in and outside of the Ugandan borders, Museveni’s leadership has brought political stability and economic growth back to the previously struggling nation.

Policy Reforms Under Museveni

As Museveni and the NRM came to power, they released a Ten-Point Programme, which served as a philosophical guide of the NRM leadership. From the point of view of the NRM, the Programme contains “proposals for a political programme that could form a basis for a nationwide coalition of political and social forces that could usher in a new and better future for the long-suffering people of Uganda” (National Resistance Movement (Uganda), 1986). The ten points of the Programme are as follows: 1) democracy, 2) security of all persons in Uganda and their property, 3) consolidation of national unity and elimination of all forms of sectarianism, 4) defence and consolidation of national independence, 5) laying the foundation for an independent, integrated, self-sustaining economy, 6) restorations and improvement of social services and the rehabilitation of the war-ravaged areas, 7) elimination of corruption and abuse of power in public life, 8) redressing of errors that have resulted in the dislocation of sections of the population, 9) cooperation with other African countries to defend human and
democratic rights throughout Africa, and 10) pursuing the strategy of a mixed economy.

Scholars have noted that a political program was needed as the “basis for a national coalition of democratic, political and social forces that could at last get things moving after years of stagnation, destruction and utter chaos” (Mutibwa 1992).

In a 2005 conference held by the Woodrow Wilson International Center for Scholars, former U.S. Ambassador to Uganda, Johnnie Carson, stated that Museveni was a genuine reformer who guided and engineered Uganda’s turnaround by accomplishing five strategic objectives (Woodrow Wilson International Center for Scholars.,Africa Program., 2005). They include putting an end to the majority of the violence that had ravaged the country and instituting one of the first successful military demobilization programs in Africa; aligning with and earning financial backing from the World Bank and IMF early on; improving the country’s human rights record; increasing democratic rule throughout Uganda; and addressing the impact of HIV/AIDS on his country and becoming the first major African to speak publically about the epidemic and instituting nation-wide prevention efforts.

Museveni committed the country to the IMF Economic Recovery Program in 1987, yet modified it to better meet the needs of Uganda, so that the country could embrace it as its own. Additionally, he reversed the expulsion of Asians that had occurred under Amin and returned all businesses, residences, and properties to their original owners, a move to show the new government’s commitment to property rights that was widely supported by
the international community. Museveni’s commitment of increased political freedom and a path towards democratic rule was demonstratively shown through his release of political prisoners and journalists from both previous and current regimes from prisons, as well as through the development of a constitutional commission that traveled throughout Uganda in order to gain a better understanding from the general citizenry as to what they would like their democratic government to look like. By 1995, the new Ugandan constitution was promulgated; the country held secret ballot elections under international observation, and a freely elected and representative government came to power.

In a review of Museveni’s book *Sowing the Mustard Seed: The Struggle for Freedom and Democracy in Uganda*, the reviewer notes that Museveni portrays Obote and Amin as the “larger problem of ‘the political bankruptcy of the independence generation of African leaders,’ who exploited sectarian differences for personal gains and, in turn, destroyed the foundations of nationhood” (Khadiagala 1998, 141-144). The reviewer also notes that Museveni spends the bulk of the book on how he has worked to build the foundation for new structures that allow future leaders to separate themselves from their personal ambitions in order to promote national unity. Museveni highlights the idea of the “no-party movement”, wherein consensus is developed across a road spectrum representing all Ugandans.42 Furthermore, in order for Museveni to achieve buy in to his plans for

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42 Museveni authored this book before the 2005 referendum allowing Uganda to operate as a multiparty republic. Although Museveni came to support the calls for multiparty politics, he had initially opposed the idea, believing that multiple parties could antagonize strife between different ethnic groups.
economic reform, he uses “teaching sessions” to explain the merits of responsibility and wealth creation, he encourages Ugandans to focus on “poverty reduction, monetization of the economy, and the need for a new social contract between the individual and the state” (Khadiagala 1998, 141-144). Museveni constantly highlights the importance of institutions as a system of checks and balances safeguarding the freedoms of the Ugandan people over the political ambitions of any one leader, as well as the need for social institutions that tie the Ugandan citizens to each other and the state.  

In a comprehensive review of Uganda’s recovery published by the World Bank and edited by Reinikka and Collier analyzes the postconflict recovery of the nation as it simultaneously embarked on a path towards economic liberalization, how the two goals are intertwined and what tradeoffs were made through a primary study of households, private entities and the government. It is made clear that the policy objectives for a country such as Uganda in 1986, emerging from postconflict recovery, must differ from those of a country that is establishing a course of traditional economic recovery. Reinikka and Collier find that the main economic achievement by the NRM, was its ability to deliver “rapid, broad-based growth” through policy improvements, which was able to significantly reduce the risk of further conflict (Reinikka and Collier 2001). The growth allowed for increased opportunities for youth into the labor force, raised per

43 It is interesting to note that following the 2005 referendum that removed presidential term limits, Museveni has created a loophole in the very institutions he claimed necessary for prolonged stability of the nation and has seemingly been overtaken by his own political ambitions. International observers have increasingly called for the president to retire before he tarnishes his reputation as a star reformer in Africa. Museveni has served as president of Uganda for 28 years. While this paper acknowledges the growing contention with Museveni serving as president for life, it places a greater focus on the impressive turnaround of Uganda following decades of political instability and economic failure.
capita incomes, and increased diversification of income away from primary commodity exports. As a result of the increasing levels of stability, a “virtuous circle” developed, where previous polarization, militarization, and displacement could be remedied.

The Reinikka and Collier volume focuses in great detail on specific policy changes on the country’s road to recovery, especially those impacting firms, farms, and the government. In summation, they find that trade liberalization, privatization of public enterprises, and securing and upholding property rights were the most significant aspects of the economic reform package.

One of the prime examples of Uganda’s ability to recovery from its extraordinarily high levels of opportunism, which had created a society of distrust within its institutions, is how the government improved upon its revenue collection system. When there are high levels of opportunism, there is an implication that the government lacks a general ability to govern, as professional ethics that normally exist will have dissolved. This was certainly the case in Uganda, which faced a deeply entrenched black market and a deficiency in ethics across the legal, accountancy, medical, education, and civil service professions. Reinikka and Collier note that as a result of such a breakdown of professional conduct would lead to unusually low efficiency of a service coupled with unusually high costs, implying that the optimal size of government for an economy facing a postconflict recovery would be smaller than that of a government facing a traditional economic recovery. In order to more efficiently and cost effectively increase revenues,
the NRM noted its constraints and acted accordingly through five main strategies, including: paying Uganda Revenue Authority (URA) staff significantly above the civil service pay scales in order to increase accountability; privatizing many aspects of customs collections, including using services of an international inspection company; reducing the size of the civil service and using the savings to increase salaries; decentralizing basic service delivery to districts, with hopes of increasing scrutiny on local politicians and electorates; rebuilding the reputation of the judicial system by bringing in some foreign judges. Yet, even with the attention paid to the challenges facing basic institutions, many of the strategies employed here were only found limited success. While the tax revenues increased from 5 percent of GDP in 1986 to 11 percent in 1999, there have been complaints of corruption and pay reform in the URA. The authors conclude that while the NRM’s recognition and desire to rebuild professionalism and institutions is admirable and necessary, it has been most successful in building its tax collection system, and even in that case, with only limited success.

Nonetheless, the authors conclude that Uganda’s three “elementary” achievements of providing a reasonable level of peace, rescinding predatory taxation by removing a massive implicit tax on exports, and providing a currency that did not dramatically erode is what has allowed the country to successfully recover. By 2001, the country was approaching its previous economic peak, and the opportunities from growth due to recovery were diminishing. As a result, the country’s objectives will change as it moves beyond recovery to focus on increased investment and behavioral change, specifically,
how the country will continue to combat corruption and improve its institutions, both public and private.

**Analysis**

In reviewing the history of Uganda and matching it to a type of political system from Grindle’s model for good enough governance, I would categorize Uganda in 1986 at the beginning of Museveni and the NRM taking control of the country as a country somewhere between a collapsed state and a regime run through personal rule. While there was a central government in theory, there were no effective rules of the game agreed upon and the institutional stability of the state was extremely low, and those who were wielding power were outside of the state – economically, within the black market, and politically, through guerilla resistance. Whatever policies were in place were unstable, and constantly under threat due to years of mass scale political violence and regular regime change as a result of the political instability. Noting the standing of Uganda at this time, using the framework for determining hierarchy in governance priorities in Table 4, Grindle would suggest the most important governance characteristics to be addressed would be: ensuring personal safety; installing basic and functioning conflict resolution systems; developing widespread agreement on the basic rules of the game for political succession; and making sure the government can carry out basic administrative tasks. While these priorities seem elementary in comparison to fully institutionalized states, fragile states “provide more difficult environments in which to introduce governance reforms and present less capacity to address the implementation
challenges of such changes” (Grindle 2011, s218). Given the challenges Uganda faced after decades of civil war, economic and moral collapse, it is even more impressive the course the Museveni’s government was able to lay forth, in order to gradually increase their ability to provide good governance.

Many of the policy reforms addressed by Museveni and the NRM, and highlighted by Reinikka and Collier, show that the government took appropriately measured steps in order to lift itself from its fragile state status and employed measures of good governance, and as a result experienced not only recovery, but sustained development. I believe that the most important thing that Museveni did was developing a new social contract between the citizens of Uganda and the state, in order to increase trust and unity, rebuild social institutions so that all Ugandans could experience the benefits of political freedom and stability. The original Ten-Point Programme put forth by the NRM shows that philosophically, the government was spot on in what needed to be accomplished in order to revive the state and encourage long-term development through good governance.

**Conclusion**

In reviewing the case of Uganda’s recovery, especially with regard to the historical context of the country’s lack of political stability, economic failure, and weak institutions, makes its development story even more impressive. A review of the current literature shows that while there is far from complete agreement on the relationship between development and good governance, as well as issues with how academic
research is transposed into policy prescriptions, there is growing empirical evidence that institutions and good governance have a very strong effect on aggregate development goals within a state. In large surveys of countries, there tends to be strong evidence of not only a correlation between governance and development, but that governance is causal and essential and essential to development. Longitudal case studies of developing nations are not as prevalent in the current academic literature and in the past have been overly prescriptive in using countries with cases of impressive economic growth as examples, which adds to a growing list of ‘things that must be done’ before development could proceed. Unfortunately, international institutions added to confusion in policy planning for developing countries by taking academic literature as prescriptive, and ignoring many of the concerns that still plagued researchers. Overall, this confusion left decision makers with the knowledge they must improve upon their governance, yet without any clear way to operationalize the learning’s in any meaningful way.

Fortunately, there has been a realization that in order to move forward from the academic ambiguity, frameworks must be developed to bridge the gap between concept and practice. International organizations like the World Bank and DFID have provided frameworks that allow each country an opportunity to closely analyze their specific situation and identify potential sources of change and the constraints on such sources. These types of analyses are generally the most helpful as a basis for understanding the politics surrounding a reform at its most basic level. Still, these frameworks can add to the idea that a large number of reforms are necessary in order to make the necessary steps towards good governance. Grindle’s good enough governance model helps countries to
identify what their governance priorities should be based on the regime and its current capacities. Future research should include a greater review of other models in order to increase the depth of knowledge on all of the various frameworks being propagated to developing nations.

The case of Uganda shows that when a country identifies the basic steps necessary to improve their governance, they are setting themselves on a path towards increased development. By carefully identifying the issues at hand and simultaneously having a realistic understanding of the capacities of the current regime, the NRM was able to turn around Uganda from economic and moral collapse and make it a shining example of sustainable development in sub-Saharan Africa. While there is still plenty of Uganda to grow and develop, it shows that even without a quick fix or magic bullet, a country can move forward from a history of political instability and large-scale violence, especially when taking measured steps to improve the country’s institutions. The country also shows that policies should not be taken strictly from programmatic prescription, but tailored in order to best meet the contextual realities of the nation. This in itself is an important lesson and a proof point for many other SSA nations that find themselves currently in, or exiting politically precarious situations. While this, again, does not provide a magic bullet to solve the issues facing weakened states, it does provide a starting point for decision-makers to move forward from while, recognizing where the country currently is.
Moving forward, I believe there are many options for longitudinal studies of developing countries, as more and more statistical information becomes both readily available and reliable. These studies will be helpful to developing nations if it is used to understand patterns of development in specific contextual situations and not as a specific policy prescription. On a more basic level, I believe that both academics and development practitioners would benefit from more coherent definitions of governance, institutions, and the necessary indicators; however, I recognize this is a moot point as the understanding will continue to change as the academic discourse continues to move forward. While this paper did not investigate the importance of understanding the process of reform itself, I believe that is simply the next step in understanding the context and content of government reforms. Furthermore, I believe it is imperative that international organizations play a greater role in promoting the idea that practitioners need to be flexible in applying their reform programs based on their specific context. This will help to alleviate the additive nature of the good governance agenda, and instead make it more analytic to the case at hand, and help the nations to move forward in a positive direction towards the “virtuous circle” of sustained development.
Conclusions

I believe the greatest learning from this paper is the realization that international development organizations need to alter the information they are disseminating in order to create more successful policy outcomes amongst developing nations in SSA. In chapter one, the idea emerged that international institutions absolved developing nations of responsibility towards its own political stability by creating a ‘you-either-have-it-or-you-don’t’ mentality, and instead offered economic policy solutions to encourage FDI with a laser focus. Yet, this chapter also found that MNCs found political stability to be a key determinant in the decision making process of where to deliver FDI. Chapter two found that for all of the focus on obtaining FDI in developing nations, the correlation between FDI and welfare of individuals in SSA was only slightly positive, and therefore claims that FDI improves welfare are negligible, again leading to questions on the prioritization of obtaining FDI on a developing nations policy agenda. This leads to a call for international institutions to educate SSA nations that an increase in FDI will not singularly solve development challenges and instead suggesting these nations place an increased focus on policy goals that help to improve the welfare of the citizenry.

As this paper found that political stability was a necessary factor in encouraging development, chapter three analyzed the relationship between governance and development, and found general acceptance with the idea that good governance and strong institutions have a very strong effect on aggregate development goals within a nation. Unfortunately, international institutions add to confusion in policy planning for
developing countries by taking academic literature as prescriptive, and ignoring many of the concerns that still plagued researchers. Overall, this confusion left decision makers with the knowledge they must improve upon their governance, yet without any clear way to operationalize the learning’s in any meaningful way. International institutions need to instead focus on bridging the gap between concept and practice that allow a developing nation incorporate their own history and constraints into policy plans, while helping the nations to prioritize what is the basic minimum that needs to be done in order to promote development. The case of Uganda shows that when a country identifies the basic steps necessary to improve their governance, they are setting themselves on a path towards increased development. By carefully identifying the issues at hand and simultaneously having a realistic understanding of the capacities of the current regime, the NRM was able to turn around Uganda from economic and moral collapse and make it a shining example of sustainable development in sub-Saharan Africa.

I believe the lessons from this thesis call for greater study into how international institutions can better bridge the gap between academic concept and practice. International institutions should also look inward to determine whether their prescriptive policy frameworks are truly helping decision makers in developing nations, or if they are overwhelming many of these fragile states who are already struggling with how to allocate resources with limited capacity. I believe that these organizations should place greater weight in helping developing nations to prioritize their policy goals based on their capacity. Additionally, it is imperative that international organizations play a greater role in promoting the idea that practitioners need to be flexible in applying their reform
programs based on their specific context. This will help to alleviate the additive nature of
the good governance agenda, and instead make it more analytic to the case at hand, and
help the nations to move forward in a positive direction towards the “virtuous circle” of
sustained development.
Appendix A

Scatter Plots From Chapter 2

HDI Score v FDI Annual Inflows, SSA, 2005, Group 1

Sum of FDI 2005 vs. sum of HDI 2006. Color shown details about Governance Type (group). The marks are labeled by Country. The view is filtered on Country, which keeps 12 of 40 members.
HDI Score v FDI Annual Inflows, SSA, 2005, Group 4

Sum of FDI 2005 vs. sum of HDI 2005. Color shows details about Governance Type (group). The marks are labeled by Country. The view is filtered on Country, which keeps Mauritania and Switzerland.
HDI Score vs FDI Annual Inflows, SSA, 2008, Group 4

Sum of FDI 2008 vs. sum of FDI 2008. Color shows details about Governance Type (group). The marks are labeled by Country. The view is filtered on Country, which keeps Mauritania and Senegal.
HDI Score v FDI Annual Inflows, SSA, 2009, Group 1

Governance Type (group)
- Constitutional Democracy
- Federative Parliamentary Republic
- Federal Republic
- Multiparty Democracy
- Parliamentary Constitutional Monarchy
- Parliamentary Democracy
- Parliamentary Republic
- Republic

Sum of FDI 2008 vs. sum of FDI 2009. Color shown details about Governance Type (group). The marks are labeled by Country. The view is filtered on Country, which keeps 12 of 48 members.
HDI Score v FDI Annual Inflows, SSA, 2010, Group 2

Sum of FDI 2010 vs. sum of HDI 2010. Color shows details about Governance Type (group). The marks are labeled by Country. The view is filtered on Country, which keeps 27 of 46 members.
HDI Score vs FDI Annual Inflows, SSA, 2011, Group 1

Sum of FDI 2011 vs. sum of HDI 2011. Color shows details about Governance Type (group). The marks are labeled by Country. The view is filtered on Country, which keeps 12 of 48 members.
HDI Score vs FDI Annual Inflows, SSA, 2013, Group 2

Sum of FDI 2013 vs. sum of HDI 2013. Color shows details about Governance Type (group). The marks are labeled by Country. The view is filtered on Country, which keeps 27 of 46 members.
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Curriculum Vitae

EXPERIENCE

Unilever, Associate, Government Relations & External Affairs, North America
Washington, DC, July 2011 – Present
- Develop and execute strategic events to increase Unilever’s awareness amongst key influencers; create and mine content for issue and advocacy based content on Unilever social media handles; draft speeches and talking points for executives as necessary for external affairs activities;
- Support Unilever’s government relations program by lobbying legislators and their staffs, attending trade association fly-ins, and participating in coalition strategy sessions; prepare executive summaries and talking points in support of Unilever’s legislative agenda;
- Organize crisis management teams in response to issues based crises; draft internal briefing memos for global Corporate Issues Management Team, including external response and position statements; support the company’s North America Issues Management process by coordinating meetings and activities of the Issues Management Council; develop and maintain an issues management intranet site;
- Coordinate the company’s information gathering and report filing requirements for compliance with lobbying registration and disclosure laws; manage North America trade association database and ensure employee antitrust compliance.

Office of Senator Joe Lieberman (CT-ID), Legislative Correspondent
Washington, DC, November 2010 – July 2011
- Served as the Senator’s representative in meetings with constituents, lobbyists, and special interest groups;
- Conducted research and wrote constituent correspondence for a policy portfolio including telecommunications, cable, patents, copyrights, intellectual property, space, science, technology, earmarks and state based projects;
- Wrote vote recommendations and cosponsorship memoranda; assisted with legislative duties as needed, including tracking legislation in the Senate and House of Representatives.

Office of Senator Joe Lieberman (CT-ID), Mail Database Coordinator
Washington, DC, February 2010 – July 2011
- Tracked constituent opinion and provided daily reports to the Senator; organized high volume mail program, maintained constituent correspondence database;
- Developed and implemented response strategies to effectively reply to constituent correspondence;
• Supervised and managed 5 Legislative Correspondents; coordinated and oversaw the Senator’s internship program, consisting on average of 8 students per session.

**Office of Congressman Jim Himes (CT-D-04), Intern**  
**Washington, DC, September 2009 – February 2010**

• Drafted summaries and talking points of proposed legislation for the Congressman; supported Financial Services Legislative Assistant by attending markups, hearings, and briefings;
• Assisted Communications Director by expanding media database of the Congressman’s television appearances; created news briefs regarding the Congressman’s health care listening tour;
• Managed front office with Staff Assistant by answering phones; sorted and responded to constituent correspondence.

**EDUCATION**


**Bachelor of Arts – Public Policy Studies, Vanderbilt University**, Nashville, TN, May 2009

• Public Policy Studies Major, Emphasis on Western European Trade Policy
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Vanderbilt University International Studies in London