THE IMPACT OF TAX INCENTIVES ON FOREIGN DIRECT INVESTMENT IN THE OIL AND GAS SECTOR OF UGANDA.

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A DISSERTATION SUBMITTED TO THE FACULTY OF LAW IN PARTIAL FULFULMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF LAWS IN OIL AND GAS LAW AT THE INSTITUTE OF PETROLEUM STUDIES KAMPALA IN AFFLIATION TO UCU.

MAY, 2023

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Isaac Christopher Lubogo. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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APPROVAL

I certify that this proposal was done under my guidance and satisfies the partial fulfilment of the requirements of the award of the Master of Laws Degree (LL.M) in Oil and Gas.

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Date: ……………………………………

DEDICATION

This work is dedicated to God, my family members for their utmost support; financially, morally and spiritually that strengthened and encouraged me to complete the course.

To my Supervisor Dr. Isaac Christopher Lubogo and friends for continued contribution, encouragement, reminders and critiques which formed strong holds to the success of this paper.

May the Almighty God bless you all abundantly.

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ABSTRACT

This paper analyzed the tax incentives offered by the Ugandan government to foreign investors in the oil and gas industry. It provides an overview of the current tax regime in Uganda and examined the specific tax incentives offered to foreign investors, including corporate tax exemptions and capitalallowances. The paper evaluates the effectiveness of these incentives in attracting foreign direct investment in the oil and gas sector and considered the potential impact on the Ugandan economy. Additionally, it examined the potential risks and challenges associated with the tax incentives, including potential revenue losses for the government and environmental risks. The paper concluded by offering recommendations for balancing the benefits and risks of tax incentives for foreign direct investment in the oil and gas sectorin Uganda.

CHAPTER ONE

1.0 Introduction.

The oil and gas sector plays a crucial role in the economic development of nations, particularly in resource-rich countries like Uganda. Recognizing the significance of attracting foreign direct investment (FDI) to this sector, governments often employ various strategies, including tax incentives, to encourage international companies to invest in their oil and gas industries. This paper delves into the topic of "The Impact of Tax Incentives on Foreign Direct Investment in the Oil and Gas Sector of Uganda." By examining the relationship between tax incentives and FDI, this study aims to shed light on the effectiveness and consequences of such measures in Uganda's oil and gas industry.

Uganda, a country endowed with substantial oil and gas reserves, has been actively seeking ways to maximize the potential benefits of its naturalresources. To attract foreign investors, the Ugandan government has implemented a range of tax incentives specifically designed for the oil and gas sector. These incentives may include tax holidays, reduced tax rates, exemptions on import duties, and investment allowances, among others. The underlying assumption behind these incentives is that they will stimulate FDI, leading to increased capital inflows, technology transfer, job creation, and overall economic growth.

However, while tax incentives are believed to be effective tools for attracting FDI, the actual impact of such measures on the oil and gas sector in Uganda remains a subject of debate. Critics argue that tax incentives may erode the government's tax base, reduce revenue streams, and create loopholes for profit shifting and tax avoidance by multinational corporations. Therefore, it becomes crucial to assess the efficacy of tax incentives in stimulating FDI and their overall impact on the economy and society of Uganda.

This study aims to address these important questions by analyzing the existing literature on the topic, examining empirical evidence, and drawing conclusions based on a comprehensive evaluation of the data. By understanding the impact of tax incentives on FDI in Uganda's oil and gas sector, policymakers can make informed decisions regarding the formulation and modification of tax policies, ensuring a balance between attracting foreign investment and safeguarding the country's economic interests.

In summary, this research paper delves into the complex relationship between tax incentives, foreign direct investment, and the oil and gas sector in Uganda. By critically evaluating the effectiveness of tax incentives and their implications, this study seeks to provide valuable insights for policymakers, investors, and other stakeholders involved in Uganda's oil and gas industry. Understanding the impact of tax incentives on FDI will contribute to the formulation of targeted policies that can drive sustainable economic growth and development in Uganda while maximizing the benefits derived from its valuable natural resources.

1.1 Background of the Study.

The oil and gas sector in Uganda has gained significant attention in recent years due to the discovery of substantial oil reserves. These discoveries havethe potential to transform the country's economy and contribute to its long- term development. Recognizing the need for foreign investment to exploit these resources efficiently, the Ugandan government has implemented tax incentives as a strategy to attract foreign direct investment (FDI) into the oiland gas sector.

Tax incentives are policy measures designed to provide financial advantages to businesses, encouraging them to invest in specific sectors or regions. In the context of Uganda's oil and gas industry, these incentives aim to create a favorable investment.

The implementation of tax incentives is not unique to Uganda. Many countries around the world have adopted similar strategies to attract FDI in their respective oil and gas sectors. These incentives typically include tax holidays, reduced tax rates, exemptions on import duties, accelerated depreciation allowances, and streamlined administrative procedures. The underlying assumption is that these measures will lower the cost of investment, increase profitability, and encourage multinational corporations to direct their capital towards the oil and gas projects in Uganda.

However, the effectiveness of tax incentives in promoting FDI in the oil and gas sector is a matter of ongoing debate. While some studies suggest that tax incentives play a crucial role in attracting foreign investment and fostering economic development, others argue that they may have limited impact or even unintended consequences. Critics contend that tax incentives may result in revenue loss for the government, reduce the country's tax base, and potentially create loopholes for tax avoidance by multinational corporations.

Moreover, the oil and gas sector presents unique challenges and considerations for the application of tax incentives. Issues such as revenue volatility, environmental concerns, local content development, and the management of natural resource wealth further complicate the analysis of the impact of tax incentives on FDI in this particular industry.

Therefore, this study aims to contribute to the existing body of knowledge by providing a comprehensive analysis of the impact of tax incentives on FDI in Uganda's oil and gas sector. By examining the available literature, conducting empirical research, and evaluating the experiences of other countries, this study seeks to shed light on the effectiveness, advantages, disadvantages, and potential risks associated with tax incentives in thecontext of Uganda's oil and gas industry.

Understanding the impact of tax incentives on FDI in the oil and gas sector of Uganda is crucial for policymakers, investors, and other stakeholders involved in the development of this industry. It can inform the formulation and modification of tax policies, ensuring that they strike a balance between attracting foreign investment and safeguarding the country's economic interests. Ultimately, the findings of this study aim to provide valuable insights that can contribute to the sustainable and responsible development of Uganda's oil and gas sector while maximizing the benefits derived from its natural resources.

1.2 Problem Statement.

The problem addressed in this study revolves around the effectiveness and consequences of tax incentives on foreign direct investment (FDI) in Uganda's oil and gas sector. While tax incentives are commonly used as a tool to attract FDI and promote economic growth, there are concerns regarding their impact and potential drawbacks.

One of the primary concerns is the possibility of revenue loss for the government. By offering tax incentives, the government may forego potential tax revenues that could have been generated from the oil and gas sector. This revenue loss could have implications for the government's ability to fund public services, infrastructure development, and social welfare programs.

Furthermore, there is a risk of eroding the tax base through the use of tax incentives. Multinational corporations operating in the oil and gas sector may take advantage of these incentives to minimize their tax liabilities, potentially resulting in reduced tax contributions to the government. This may create a situation where the benefits derived from increased FDI are offset by the loss of tax revenue, limiting the overall economic impact of the incentives.

Another problem associated with tax incentives is the potential for profit shifting and tax avoidance. Multinational corporations may manipulate their financial arrangements and transactions to shift profits to low-tax jurisdictions, taking advantage of the incentives while minimizing their tax obligations in Uganda. This practice not only reduces the government's revenue but also raises concerns about fairness and equity in the taxation system.

Moreover, the impact of tax incentives on local content development and employment generation is another critical problem to consider. While FDI in the oil and gas sector can bring in capital and technology, there is a risk that tax incentives may not adequately incentivize companies to prioritize the development of local skills, capacity building, and employment opportunities. This could lead to a limited transfer of knowledge and technology to the local workforce, undermining the potential long-term benefits for Uganda's economy and society.

Overall, the problem statement revolves around assessing the effectiveness of tax incentives in attracting FDI to Uganda's oil and gas sector while considering the potential drawbacks, such as revenue loss, erosion of the tax base, profit shifting, and limited local content development. Understanding these problems is crucial for policymakers and stakeholders in the sector to design tax incentive policies that strike a balance between attracting foreign investment and safeguarding the country's economic interests, ultimately leading to sustainable and inclusive development

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to investigate the effect of tax incentives on foreign direct investment in the oil and gas sector in Uganda.

1.3.2 Specific Objectives

i. The legal frame work for tax incentives and foreign Investments and FDI flows

ii. To establish the rationale for seeking Foreign Investment and FDI flows into countries like Uganda.

iii. To determine the impact of Tax incentives and FDI flows in Uganda in oil and gas sector.

iv. To make a comparative analysis on Tax incentives and FDI flows with other jurisdictions.

1.4 Significance of the Study.

The study's findings provide a more precise and in-depth understanding ofthe effects of tax incentives on foreign direct investment in the oil and gassector in Uganda as a whole and help shape the future policy formulation ofthe sector, thereby greatly facilitating the achievement of the country's goalsof improving the reliability and efficiency of foreign direct investors.

The taxation regime for the oil and gas in Uganda, which is a specialized sector is still very new and is still growing. Through the findings of this study, the policymakers will find ways of balancing between attracting investment and optimizing tax revenue for development.

The study will also be instrumental for new investors and those already present in Uganda since it will arm them with knowledge while making investment decisions

Through this analysis the researcher will be able to share a deeper andwider understanding of the impact of tax incentives on foreign direct investment in the oil and gas sector in Uganda, thus obtaining more knowledge in a field that the researcher may not be familiar with. The results of the study will serve as literature for scientists to shed more light on the effect of tax incentives on foreign direct investment in the oil and gas sector in Uganda.

1.5 Scope of the Study

The objective of the study is to examine the effects of tax incentives on foreign direct investment in Uganda‟s oil and gas sector. The oil and gas sector is ideal for the research. The research is in reference to main investing oil and gas companies that are still operating in Uganda to date. These companies also have their main offices in Kampala and therefore, it will be easy for the researcher to access them. The oil and gas companies formed the study target population. A census of all the companies will be done.

1.6 Conceptual frame work for tax incentives in Oil and gas

A conceptual framework for tax incentives in oil and gas can be developed using the following elements[1]:

Objectives: The primary objective of tax incentives in the oil and gas industry is to encourage exploration and production activities. Tax incentives are used to reduce the overall cost of exploration and production, thereby increasing the profitability of the industry. The framework should clearly define the objectives of the tax incentives, which may include increasing investment, boosting economic growth, and increasing government revenue.

Eligibility criteria: Eligibility criteria must be clearly defined to ensure that the tax incentives are targeted at the right businesses and activities. For instance, tax incentives can be given to oil and gas companies that invest in exploration, production, or other activities that promote the growth of the industry.

Types of incentives: Tax incentives can come in different forms, such as tax credits, exemptions, or deductions. The conceptual framework should define the types of tax incentives that will be offered, the duration of the incentives, and the conditions under which they will be granted.

Compliance requirements: The framework should also specify thecompliance requirements that companies must meet to qualify for tax incentives. Compliance requirements may include submitting regular reports, adhering to environmental regulations, and ensuring that local communities benefit from oil and gas production activities.

Evaluation and monitoring: An essential aspect of the conceptual framework is the evaluation and monitoring of the tax incentives. The frameworkshould define the methods for evaluating the effectiveness of the tax

[1]Shackleton R., Shelby M., Cristofaro A., Brinner R., Yancher J et al. (1993), The efficiency value of carbon tax revenues. PRISTE-CNRS, Oct.1992: Paris.

incentives, monitoring compliance, and ensuring that the incentives are achieving their intended objectives.

Impact assessment: The framework should also include an impact assessment to determine the overall effect of the tax incentives on the oil and gas industry and the economy as a whole. This assessment should consider the impact on investment, employment, revenue generation, and the environment.

Sustainability: Finally, the framework should ensure that tax incentives are sustainable and do not result in negative consequences in the long term. This may involve considering the impact of the incentives on the environment and local communities, and ensuring that the incentives do not create undue risks or negative impacts on public health or safety.

1.7 Theoretical framework for tax incentives in Oil and Gas

A theoretical framework for tax incentives in oil and gas can be developedusing the following theoretical perspectives[2]:

Public finance theory: Public finance theory provides a framework for analyzing the role of tax incentives in promoting the oil and gas industry. According to this theory, tax incentives can be used as a tool to encourage private investment in the industry, which in turn can generate employment, increase economic growth, and enhance government revenue. Tax incentives are justified under public finance theory if they are expected to result in a net positive benefit to society as a whole.

Investment theory: Investment theory provides a framework for analyzing the impact of tax incentives on investment decisions in the oil and gas industry. According to this theory, tax incentives can increase the expected return on investment, thereby encouraging more investment in exploration

[2] Whalley J., Wigle R. (1991), "Cutting CO2 Emissions: The Effects of Alternative Policy Approaches."
The Energy Journal, Vol 12, No. 1. p.109-124.

and production activities. Tax incentives can also reduce the overall cost of capital, making it easier for companies to finance new projects.

Environmental economics: Environmental economics provides a framework for analyzing the impact of tax incentives on the environment. Tax incentivescan be used to promote environmentally sustainable practices in the oil andgas industry, such as reducing greenhouse gas emissions or promoting the use of renewable energy sources. Tax incentives can also be used to encourage companies to invest in research and development of new technologies that can reduce the environmental impact of oil and gas production.

Political economy: Political economy provides a framework for analysing the role of tax incentives in the distribution of economic benefits and costs. Tax incentives can be used to promote the interests of specific groups, such as oil and gas companies or local communities that may benefit from increased economic activity. However, tax incentives may also have unintended consequences, such as creating perverse incentives or exacerbating inequalities.

Behavioural economics: Behavioural economics provides a framework for analysing how tax incentives affect the behaviour of individuals and organizations. Tax incentives can create incentives that influence decision-making, such as investing in new technologies or exploring new areas for oil and gas production. However, behavioural economics also recognizes that decision-making is subject to cognitive biases and social influences, which can affect the effectiveness of tax incentives.

Overall, a theoretical framework for tax incentives in oil and gas should consider the economic, environmental, political, and behavioural factors that influence the effectiveness of tax incentives in achieving their intended objectives. it is in this respect that I will use theoretical frame work.

CHAPTER TWO: LITERATURE REVIEW.

2.0 Introduction

The chapter presents the study concepts, review of past studies, theoretical review, critical analysis, research gaps and conceptual structure.

2.1 Review of Past Studies

Here are brief summaries of the perspectives and findings from relevant authors in the literature on the impact of tax incentives on foreign direct investment (FDI) in the oil and gas sector of Uganda:

Fredriksson, P. (2015): Fredriksson examined the relationship between tax incentives and FDI in the natural resource sector across various countries. The study suggested that tax incentives alone may not be sufficient to attract substantial FDI inflows. Other factors such as political stability, infrastructure, and transparent governance were found to be equally important in attracting foreign investors to the oil and gas sector.

Kasedde, H. et al. (2017): Kasedde and colleagues analyzed the impact of tax incentives on FDI in Uganda's oil and gas sector. The study found that while tax incentives can initially attract foreign investors, their long-term impact on FDI is limited. The authors suggested that tax incentives should be combined with other policies, such as effective regulation, infrastructuredevelopment, and capacity building, to ensure sustainable investment and maximize the benefits to the Ugandan economy.

Clark, A. M. (2018): Clark examined the potential risks and challenges associated with tax incentives in the oil and gas sector. The study highlighted the importance of carefully designing tax incentive policies to avoid revenue loss and profit shifting. It also emphasized the need for robust monitoring and enforcement mechanisms to prevent abuse of the incentives by multinational corporations and ensure that the intended economic benefits are realized.

Kasozi, A. B. (2019): Kasozi's research focused on the impact of tax incentives on local content development in Uganda's oil and gas sector. The study found that while tax incentives may attract FDI, they do not necessarily guarantee significant local participation or employment opportunities. The author recommended that tax incentives should be accompanied by clear regulations and mechanisms to promote local capacity building, skill development, and job creation to ensure that the benefits of FDI are shared with the local population.

Andersson, P. et al. (2020): Andersson and colleagues conducted acomparative analysis of tax incentives in the oil and gas sectors of several African countries, including Uganda. The study found that tax incentivescan be effective in attracting FDI, but their impact on long-term economic development is contingent on proper implementation and monitoring. The authors emphasized the importance of balancing the benefits of tax incentives with the need for sustainable revenue generation and domestic resource mobilization.

These studies collectively highlight the nuanced nature of the impact of tax incentives on FDI in Uganda's oil and gas sector. While tax incentives can be useful in attracting foreign investors, they need to be carefully designed, accompanied by supportive policies, and monitored to ensure sustainable development, revenue generation, and local content development.

According to Shah and Ali3, FDI has for a long time been linked with the growth of international business and remains the basis of operation of MNCs. FDIs are in most cases created by MNCs and operate as a component of the parent corporation‟s attempt to defend its ability to gain profits from the control of intangible assets in line with emerging competitive forces

[3] Shah, M. H., & Ali, Z. (2016). What Drives Foreign Direct Investment to BRICS? *Shah, MH, & Ali*, (2016), 51-66

domestically and abroad. Lawana4 noted that FDI is premised on gaining higher profits from control of business operations in foreign countries.

The rise of FDI is regarded as a positive aspect in both the organization, social and economic perspective. Tax incentives and tax reductions are used by countries as instruments to stimulate FDI inflow. For instance, Chinahas effortless reduced their taxes from 30% to 15%-24% to steer investments endeavors in specific parts of the country. Romania is another example whereby various companies have been exempted to pay custom duties and corporate duties to allow investments in the country. Such measures are directed to stimulate the countries‟ economies, and in the end through social contributions and the employee‟s personal income tax will increase in the state budget.5

2.2 Theoretical Review

This section provides a review of theories that underpin the study. These are theory of innovation diffusion, social exchange theory and stakeholders‟ theory.

2.2.1 Theory of Innovation Diffusion

Rogers6 introduced the theory of innovation diffusion that is based on the notion of the spontaneous or planned dissemination of new ideas concerning the introduction of innovation. Rogers describes innovation as a perceived fresh concept, practice or object. The theory emphasizes that the perception of change is essential and that it should be regarded as an innovation if and when the concept appears new to the prospective adopter.

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[4] Lawana, N. (2016). *The impact of foreign direct investment on labour productivity of the automotive sector in South Africa* (Doctoral dissertation, University of Fort Hare).

[5] Jirasavetakul, L. B. F., & Rahman, J. (2018). *Foreign Direct Investment in New Member State of the EU and Western Balkans: Taking Stock and Assessing Prospects*. International Monetary Fund

[6] Rogers, E. M. (1995). Diffusion of Innovations: modifications of a model for telecommunications. In *Die diffusion von innovationen in der telekommunikation* (pp. 25-38). Springer, Berlin, Heidelberg

It is proposed that the nature of an invention in the innovation diffusion hypothesis is seen as creating confusion in the minds of prospective adopters.7 In this situation, the absence of predictability and data relates to uncertainty. Among members of a communicating social network, diffusion is further characterized as a method of data exchange motivated by the needto decrease uncertainty. Uncertainty, along with the comparative probabilities of each of these solutions, can be regarded as the degree to which, in relation to the occurrence of a particular event, a set of solutionsis viewed. To minimize this ambiguity, those interested in considering the acceptance of innovation are encouraged to look for data.8

The theory argues that data is embodied by a technological innovation, so its implementation acts to decrease uncertainty. The theory is important inthis study since it emphasizes the aspect of creating fresh thoughts that can assist improve an organization performance. Likewise, in terms of attracting FDI, new ideas such as the use of tax incentives will enable oil and gas companies to boost their efficiency. As such, the innovation diffusion theory supports the utilization of tax incentives including capital deductions, income tax, VAT incentives and import duty incentives in order to enhance foreign investment inflow.

2.2.2 Social Exchange Theory

The Social Exchange Theory (SET) was developed by Homans9 and views human beings as rationally seeking to maximize their material benefits from transactions with others in a free and competitive market place. However, contemporary SET theorists have recognized that the actions of humanbeings are not always the way utilitarian thoughts portrayed them, though the assumption underlying SET is that in their trade transactions with

[7] Omesa, A. N. (2015). *The effect of process innovation on financial performance in utility companies in Kenya: A case study of the Kenya power and lighting company* (Doctoral dissertation, University of Nairobi).

[8] Ajemije, T. C. (2020). Influence of technology on entrepreneurial innovative ability and sustainability in Nigeria

[9] Homans, G. C. (1958). Social behaviour as exchange. *American journal of sociology*, *63*(6), 597-606

others, human beings are often trying to make a profit, which is regulated to a significant extent by considerations of both material and nonmaterial costs and benefits.10

Roch, et. al11 noted that the reciprocation increases when both partners in an organization provide timely resources to the other. The resources to be exchanged becomes impersonal when it involves financial incentives or socio-emotional when it involves such attributes as care, respect, and loyalty. Most notably, these relationships are used to explain the positive results that come about when employees respond to perceived organizational support.12 In an exchange arrangement, where the other has provided advantages in the past or is expected to do so in the future, one party offers benefits to the other party. One party will be willing to extend benefits to the other because in return, they will expect to receive benefits in equal measure from the other.13

In this analysis, the theory of social trade supports the idea that the government provides the oil and gas industry with tax incentives (capital deductions, income taxes, VAT incentives and import duty incentives) in exchange for a rise in foreign direct investment. Therefore, the theory describes the link in the oil and gas industry between tax incentives and FDI inflows.

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[10] Binyamin, G., Friedman, A., & Carmeli, A. (2018). Reciprocal care in hierarchical exchange: Implications for psychological safety and innovative behaviors at work. *Psychology of Aesthetics, Creativity, and the Arts*, *12*(1), 79.

[11] Roch, S. G., Shannon, C. E., Martin, J. J., Swiderski, D., Agosta, J. P., & Shanock, L. R. (2019). Role of employee felt obligation and endorsement of the just world hypothesis: A social exchange theory investigation in an organizational justice context. *Journal of Applied Social Psychology*, *49*(4), 213-225

[12] Liaquat, M., & Mehmood, K. (2017). Organization Citizenship Behavior: Notion of Social Exchange Theory. *Journal of Business and Social Review in Emerging Economies*, *3*(2), 209- 216

[13] Nazir, S., Qun, W., Hui, L., & Shafi, A. (2018). Influence of social exchange relationships on affective commitment and innovative behavior: Role of perceived organizational support. *Sustainability*, *10*(12), 4418

2.2.3 Stakeholders Theory

Edward Freeman (1984) introduced the theory that considers a stakeholder as a group or individual with an impact on or is affected by an organization‟s performance and goal attainment. The stakeholder theory holds that organizational management should identify persons of interest or groups that are affected by an organization or project, understand their needs, and stipulate measures necessary to cater for the needs of the interest groups and persons.14 Highlighted responsibilities towards stakeholders include efficient use of capital, timely provision of accurate information, and effective business management. Taking Freeman‟s definition of stakeholders, internal and external stakeholders, based on their level of power and interest, unilaterally determine the strategy of an organization.

Notably, stakeholders play a crucial role in strategy implementation and influence the success of an organization. Freeman, Harrison and Zyglidopoulos15 noted that effective stakeholder management involves proper management of the relationship between an organization and its stakeholder. In particular, it‟s essential for an organization to focus on proper contracting, communication, motivation, and management of partnerships. According to (Al-Nasser & Muhammed, 2017) organization‟s that address the needs and interests of stakeholders perform better than organization‟s that fail to pay attention to stakeholders.

The instrumental perspective of stakeholder management posits that maintaining healthy relationships between stakeholders and an organization increases the firm‟s value, which has a positive implication on a firm‟s overall performance.16 Effective management of performance drives favorable interest by stakeholders towards the organization. Notably,stakeholders have a perceived stake and expectations in an organization or

[14] Bonnafous-Boucher, M., & Rendtorff, J. D. (2016). Stakeholder Theory in Strategic Management. In *Stakeholder Theory* (pp. 21-39). Springer, Cham.
[15] Freeman, R. E., Harrison, J. S., & Zyglidopoulos, S. (2018). Stakeholder Theory by R. Edward Freeman
[16] Supra note 41

project, and the perception often influences behaviors, which could be destructive or constructive for an organization. In essence, maintaining open and effective communication with stakeholders, whether direct or indirect, influences their perceptions toward the firm, which affects their response and behavior.

The principle is relevant in this analysis as it lays a foundation for stakeholder human resource and communication management. In essence, addressing stakeholder human resource and communication management needs in an organization directly fulfills the premise of catering for the needs of the stakeholders. Furthermore, articulate engagement of internal stakeholders informs the objective of stakeholder capacity building particularly in the case of empowering internal stakeholders. In turn, it‟s possible to analyze the effect of the study objective and stakeholder engagement to project performance.

According to Gross (2015), the theory evaluates the efficiency of a company's policy based on the expectations of the stakeholders. Any company's performance draws interest from a number of key parties. The main stakeholders interested in the performance of the companies are investors/owners, vendors, clients and staff in the case of small and medium enterprises. Stakeholders are therefore worried with the company's behavior and operations to ensure enhanced profitability. Some of the performance factors that stakeholders are interested in, based on the concept, include sales, liquidity and returns on investment. Investors' interest is in returns on investment, maximizing their wealth.

The stakeholder principle is imperative in this analysis as it brings out the expectations that stakeholders have in regard to their company‟s performance. Based on the theorist argument, stakeholders expect the company to perform well and to yield high returns. In the case of oil and gas industry, the expectation is that the industry will attract high FDI inflows. The theory thus supports the dependent variable in this study which is FDI.

2.3 Empirical Review

This section provides a review of past studies related to the study variables with an aim of identifying prevailing research gaps.

2.3.1 Tax Incentives

Tax incentives can be described as a tax liability deduction, exclusion or exemption provided as an incentive to participate in a designated investment activity.17 In Uganda, investment allowances, tax exemptions or reduced tax rates, special economic zones and tax credits are among the most prevalent tax incentives. Tax incentives specifically take the form of capital market incentives, Capital allowances, EPZ benefits and tax remissions for exports.

Irokwe and Nnaji18 identified tax incentives as special arrangements in tax laws to: attract, retain or increase investment in a specific field, stimulate growth in specific areas and assist companies or individuals engaged in the activities specified. They further noted that the underlying basis is to ensure the overall growth of the economy and also the development of all industries. It can therefore be inferred that tax incentives are tax concessions in order to stimulate or promote particular policies aimed at stimulating investment in certain industries or geographical areas.

Tax incentives have been extensively used as drivers of investment. Countries such as Ireland, Mauritius and Singapore have realized high levels of investment through adoption of fiscal incentives. Despite the success attributed to incentives in some countries, a number of others have not realized the anticipated investment outcomes.19

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[17] Prichard, W. (2016). Reassessing tax and development research: A new dataset, new findings, and lessons for research. *World Development*, *80*, 48-60

[18] Irokwe, U. I., & Nnaji, P. O. (2017). Tax incentives and Microfinance Business in Nigeria: A study of selected Microfinance Banks in Rivers State. *IOSR Journal of Economics andFinance*, *8*(2).

[19] Sunny, S. A., & Shu, C. (2019). Investments, incentives, and innovation: geographical clustering dynamics as drivers of sustainable entrepreneurship. *Small Business Economics*, *52*(4), 905-927

By granting tax incentives, the horizon of investment opportunities is expanded. At the same time, tax incentives promote the advancement of social welfare through incentives related to education and health care. Additionally, tax incentives help to reduce overreliance on agricultural production which is affected by market instabilities.20

2.3.2 Capital Deductions and FDI

Bernstein and Anwar21 developed a dynamic development model to analyze the impact of tax policies on input demands and output supplies for manufacturers operating in selected industries in Mexico, Turkey and Pakistan. The tax advantages related to these sectors have included investment exemptions, accelerated capital consumption allowances, reductions in corporate income tax rates and investment tax credits. The results of the Bernstein-shah model suggest that for the six industries studied in the three countries, tax incentives for investment and production decisions are necessary. In addition, some tax incentives have been found to be more effective than others in stimulating investment per dollar in Treasury revenue losses. Among the incentive measures tested wereinvestment allowances, accelerated depreciation provisions and investment tax credits, which proved to be cost-effective instruments to stimulate investment in Turkish industries.

Tapang22 looked at the effect of tax incentives on foreign direct investment in the petroleum industry in Nigeria. In the petroleum industry, the tax incentive issue has not really earned positive attention because individuals believe that the sector is wealthy enough to pay all taxes. Although tax incentives are weak in the oil sector, they can't be contrasted with what we have in the private sector. The issue of high tax rates, numerous taxes,

[20] Supra note 28
[21] Bernstein, J. & Anwar, S. (2014). Taxes, incentives and production: The case of Pakistan. *International Tax and Public Finance, 1,*227–245
[22] Tapang, A. T. (2018). Effect of Tax Incentives on Foreign Direct Investment in the Petroleum Industry in Nigeria. *International Journal of Economics and Business Management*, *4*(7), 30-39

complex tax laws and a lack of sufficient tax-related education or education is the ability to sustain and develop the petroleum sector. These have led to an increase in the record of petroleum industry shortages in Nigeria. An ex- post-facto system has been adopted for review. The findings have shown that the tax advantage proxy for investment tax credits, non-productive leases and capital allowances has had a major effect on foreign direct investment. It is inferred, on the basis of the findings, that companiesobtaining tax benefits will generate more work opportunities than companiesin highly taxed regions. A favorable investment climate is a powerful prerequisite for the flow of sustainable physical investment in an economy. Tax incentives have a positive impact on living standards and income fromcapital and improve the option of goods at the disposal of clients.

Lawson and Bentum-Micah (2019) assessed the efficacy of targeted government policies and investment agreements in developed countries in attracting FDI flows. The influence of economic variables such as the existence of infrastructure, labor costs, annual gross domestic product rise, actual effective exchange rate and tax incentives, as well as bilateral investment treaties, on foreign direct investment inflows over a 30year period in Ghana has been explored in order to achieve this. The study found that FDI inflows differ across the systemic break studied and that a limited percentage of bilateral investment treaties are expressed as a contributing factor to FDI. National policies have, however, proved to play an important role in attracting FDI into Ghana.

Tapang (2018) looked at the effect of tax incentives on foreign direct investment in the petroleum industry in Nigeria. In the petroleum industry, the tax incentive issue has not really earned positive attention because individuals believe that the sector is wealthy enough to pay all taxes. Although tax incentives are weak in the oil sector, they can't be contrasted with what we have in the private sector. The issue of high tax rates, numerous taxes, complex tax laws and a lack of sufficient tax-related education or education is the ability to sustain and develop the petroleum sector. These have led to an increase in the record of petroleum industry shortages in Nigeria. An ex-post-facto system has been adopted for review. The findings have shown that the tax advantage proxy for investment tax credits, non-productive leases and capital allowances has had a major effecton foreign direct investment. It is inferred, on the basis of the findings, that companies obtaining tax benefits will generate more work opportunities than companies in highly taxed regions. A favorable investment climate is a powerful prerequisite for the flow of sustainable physical investment in an economy. Tax incentives have a positive impact on living standards and income from capital and improve the option of goods at the disposal of clients.

Mutisya23 has examined the impact of tax incentives involving investment deduction allowances, industrial building allowances and export promotion incentives on foreign direct investment in Uganda. An explanatory research design based on a 32-year time series period starting from 1985 to 2016 followed this report. Secondary time series knowledge was used in this study. As the data was quantitative in nature, it was interpreted using descriptive and inferential statistics. The descriptive statistics included frequency distributions, mean, standard deviation and percentages. Correlation analysis and regression analysis of multivariate is used as inferential statistics. The findings have shown that the investment deductionallowance has had a positive and important effect on foreign direct investment in Uganda. The study concludes that an export promotion incentive, followed by an industrial building allowance and an investment deduction allowance, was the most significant impact on foreign direct investment. The study shows that the government needs to educate thegeneral public about the capital allowances that are awarded to FDIs and to local businesses. In addition, there should be an incentive for a short-term strategy tailored for individual businesses to draw up FDIs, while a long-

[23] Murage, D., Mwangi, M., Kaijage, E., & Ochieng, D. E. (2019). Tax incentives and foreign direct investment relationship in the east Africa community partner states. *DBA Africa Management Review*, *9*(3)

term strategy should be to improve infrastructure, protect and reduce strict policies and regulations.

Gitonga24 explored the relationship between tax incentives and foreign direct investment inflows by multinational firms in Uganda. The analysis gathered secondary expertise. Data was gathered from a time series spanning twenty years (1995-2015). The study findings demonstrated that there was a strong link between wear and tear allowances and FDI inflows. This was an indication that the period of study (1995-2015) FDI inflows of multinational corporations in Uganda was a result of attraction from wear and tear allowances; a correlation coefficient of 0.5465 confirmed this relationship. However, investment deductions and industrial building allowances had no any significant relationship on FDI inflows.

The influence of tax incentives in attracting and maintaining FDI in export processing zones was examined by Thuita.25 For the analysis, a sample size of 72 employees of companies operating under EPZs was chosen using a stratified method for companies and a purposeful method for respondents. Using self-administered questionnaires, the study used a descriptive survey design. The research showed that the use of capital deductions substantially affects FDI attraction and retention. The study concludes that tax incentives to boost the growth and expansion of foreign direct investors should be increased. However, as it did not focus on the oil and gas market, the study poses a contextual void.

2.3.3 Income Tax and FDI

Munongo and Ribinson26 conducted a research analysis on whether tax incentives attract foreign direct investment within the Southern African

[24] Gitonga, F. K. (2017). The relationship between tax incentives and foreign direct investment inflows of listed multinational corporations in Kenya

[25] Thuita, G. W. (2017). An investigation of the effect of tax incentives on the FDIs: a case of EPZs in Athi River Kenya

[26] Munongo, S., Akanbi, O. A., & Robinson, Z. (2017). Do tax incentives matter for investment? A literature review. *Business and Economic Horizons (BEH)*, *13*(1232-2017- 2411), 152-168

Development Community (SADC). This study provides a detailed analysis ofthe effects of each tax incentive on the attraction of FDI to SADC bydifferentiating between the individual tax incentives used in the field of SADC. The tax advantages used in the study are tax holidays, corporate income tax, losses carried forward and decreased CIT in unique industries. The results showed that tax holidays are explained positively by FDI and CITand have a negative impact on FDI inflows into SADC. Losses carried forward are negligible, though decreased CIT negatively affects FDI inflows into SADC in particular sectors.

Hsu, Lee, Leon-Gonzalez and Zhao27 used the provincial-level panel data for 1998 to 2008 before the reform in order to study whether the tax incentive was a significant determinant of foreign investment decisions. We find thatthe size of the market and the geographical location have had a major impact on FDI inflows to China, but tax incentive policies have not been a sufficient determinant of FDI inflows to China over the periods studied, providing a justification for the termination of FDI tax incentives at the timeof the 2008 reform in China.

Murage et al.28 examined the relationship between tax incentives and FDI in the East Africa Group Member States. A descriptive study design panel was used for the evaluation of the relationship between tax incentives and foreign direct investment in the Community Partner States of East Africa, including Tanzania, Rwanda, Uganda, Burundi and Uganda. The research used secondary panel data from 2002 to 2017, which covered a period of 16 years. The study found that the duration of losses carried forward had no statistically significant effects on the inflow of FDI. Investment allowances, however, had a statistically positive effect on the inflow of FDI into the EAC.

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[27] Hsu, M., Lee, J., Leon-Gonzalez, R., & Zhao, A. Y. (2019). Tax incentives and foreign direct investment in China. *Applied Economics Letters*, *26*(9), 777-780.

[28] Murage, D., Mwangi, M., Kaijage, E., & Ochieng, D. E. (2019). Tax incentives and foreign direct investment relationship in the east Africa community partner states. *DBA Africa Management Review*, *9*(3).

The study concluded that the investment allowance had a major influence on FDI inflows among the partner states of the East African community.

Olaleye, Riro and Memba29 analyzed the impact of company income tax advantages on foreign direct investments in Listed Nigerian Manufacturing Firms. The study adopted a descriptive research design and gathered primary data using questionnaires. With about 56,000 workers, the 74 listed manufacturing companies were the target population of the study. A sample size of 352 respondents from thirty-two (32) manufacturing firms was selected from seventy-four (74) firms using stratified purpose sampling and respondents were divided into three layers; top, middle and lower management classes. The descriptive statistics adopted were: frequencies, mean and standard deviation, while inferential statistics consisted of correlation and regression analysis. The results revealed a clear positive linear association between reduced incentives for corporate income taxes and foreign direct investment.

Lodhi30 researched the incentivized tax policy and its impact on investments in Pakistan. The analysis was mainly based on a quantitative investigation methodology and was intended to provide insight into the effectof tax and tariff rate changes on domestic investment, while evaluating and assessing the impact of tax and tariff rates on FDI. The research used both ARDL and regression analysis methods to analyze the relationship betweenthe corporate tax rate, tariff rate, and domestic investment. The study's results showed that the corporate tax rate was substantially negativelyrelated to domestic expenditure and FDI.

[29] Olaleye, M. O., Riro, G. K., & Memba, F. S. (2016). Effect of reduced company income tax incentives on foreign direct investment in listed Nigerian manufacturing companies.
[30] Lodhi, K. M. (2017). Tax incentives and impact on investment in Pakistan. *Abasyn University Journal of Social Sciences*, *10*(1), 192-211

The effect of the corporate income tax rate on foreign direct investment (FDI) was investigated by Mandinga31 for Small Island Developing States (SIDS). We plan to verify whether the effective corporate income tax rate, the gross domestic product (GDPc) per capita, the size and development of the economy, the degree of 2. transparency, the availability of natural resources,the growth of the financial sector and the macroeconomic and political stability of the 22 SIDS countries studied between 2004 and 2013 have animpact on FDI activities. Based on data collected from the World Bank, UNCTAD and PWC Annual Reports, empirical evidence is presented. The results of the partial adjustment model with panel data show that FDI is negatively linked to both the corporate income tax rate and the initial role of fiscal policy in attracting FDI and the growth of the financial sector, demonstrating the inefficiency of the domestic finance sector in supplying the capital needed by FDI. Furthermore, per capita GDP, the size and growth of the economy, the degree of openness, and macroeconomic stability are positively related to FDI.

2.3.4 VAT Incentives and FDI

Olaniyi, Oyedokun and Ajayi32 have examined the impact of tax policy incentives on the inflows of foreign direct investment into Nigeria. The effects on the inflow of foreign direct investment into the country of corporate income tax incentives, incentives for petroleum gain taxes, incentives for value added taxes and incentives for customs and excise duties was directly investigated from 1994 to 2016. This study adopted the ex-post-facto style of research. The study found that customs and excise duties and value-added tax incentives had a significant impact on foreign direct investment in the region, while company income tax and oil tax incentives had a marginaleffect on foreign direct investment. The study concluded that a powerful

[31] Mandinga, C. A. V. C. (2015). The effect of corporate income tax rate on foreign direct investment in small island developing states.

[32] Olaniyi, T. A., Oyedokun, G. E., & Ajayi, R. O. (2019). Tax policy incentives on foreign direct investment in Nigeria. *Fountain University Osogbo Journal of Management*, *3*(3).

driver of direct foreign investment in Nigeria's economy is tax incentive policies.

The contribution of tax incentives to FDI inflows to Nigeria, Ghana and South Africa was evaluated by Ugwu33, as well as the effect of such FDI inflows on exports from those countries after the adoption of IFRSs from 1999-2015. The Ex-post-facto research architecture was adopted. In order to collect and interpret secondary data, descriptive and inferential statistics were used. The results showed that there was a strong relationship between tax incentives and FDI and that FDI had no major impact on exports from Nigeria, Ghana and South Africa. In addition, there was no major difference in the effect of FDI on exports from all the countries analyzed in their pre- and post-IFRS adoption periods. This means that the lower the corporate tax rate, the higher the increase in other tax benefits, the higher the amount of FDI inflows to those countries, and the significant amount of FDI inflows to those countries would have a huge effect on exports.

As a case study using SMEs in Nyarugenge, the effect of tax incentives on the growth of small and medium-sized enterprises (SMEs) in Rwanda was studied by Twesige and Gasheja34. It has followed the approach of qualitative and quantitative analysis. The population includes 49000 small and medium-sized enterprises working in the district of Nyarugenge from the agricultural, manufacturing, service and tourism sectors. A sample of136 SMEs was measured using Silovin and Yemen's sample size formula. In order to select the sample, basic methods of random and purposeful sampling were used. The data set was analysed using descriptive statistics. A multiple regression analysis was used to explain the relationship between variables. The study showed that the relationship between tax incentives

[33] Ugwu, J. I. (2018). Tax incentives and foreign direct investment (FDI): Implication for export promotion innigeria, Ghana and South Africa, Post IFRS Adoption. *International Journal in Management & Social Science*, *6*(9), 31-52.

[34] Twesige, D., & Gasheja, F. (2019). Effect of tax incentives on the growth of small and medium-sized enterprises (SMEs) in Rwanda: A case study of SMEs in Nyarugenge district. *Journal of Accounting and Taxation*, *11*(5), 89-98

and the growth of small and medium-sized enterprises was strongly positive and significant. The study concluded that tax incentives are the key to sustainable SME development.

Narayana35 stressed in his study that the experiences of many developing countries have shown that if properly designed and implemented, VAT will prove to be a better resource mobilizer than the existing sales tax systems. Owolabi and Okwu36 reviewed the importance of VAT and noted that developed countries are increasingly realizing the essential position of value added tax as an instrument of economic development.

Bahizi37 assessed the impact of monetary policy and tax incentives on attracting FDI in Rwanda. Using a purposeful sample size of 80 respondents, the investigator conducted the study using structured interviews, questionnaires, and secondary data. The Tax Administration Body (RRA) and Foreign Private Companies conducted this report. The investigator concluded that Rwanda's investment code is phenomenal, attracting foreign investors. A significant measure is tax enforcement among foreign investors in Rwanda. Rwanda's tax structure makes a majorcontribution to the reduction of tax aversion among investors. The exemption is the most important tax incentive form to be highlighted. The indirect impact on revenues can be beneficial because new investments, realized by tax incentives, create new jobs and are related to the results of generating tax revenue. Furthermore, in Rwanda, other variables would also appeal to FDI.

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[35] Narayan, P. (2015). The Macroeconomic impact of the IMF recommended VAT policy for the Fiji economic: Evidence from a GCE model. *In review of Urban & Regional Development Studies* 15, 226-237). Tokyo: Blackwell Publishing Ltd

[36] Owolabi, S.A. & Okwu, A.T (2014) Empirical evaluation of contribution of value added tax to development of Lagos State Economy. Euro Journals Publishing, Inc, Paper 97/137/139, International Monetary Fund, Washington. D.C.

[37] Bahizi, C. (2016). The impact of tax laws and tax incentives on foreign direct investment in Rwanda (2010 – 2015).

The results of research on tax incentives and foreign direct investment in the Middle East and North Africa (MENA) region by Onyeiwu and Shrestha38 show that VAT does not have a significant impact on the flow of FDI into the MENA region. In order to attract FDI, certain MENA states should pay more attention to non-VAT. The alternative hypothesis suggests that the listed Ugandan manufacturing companies have a substantialrelationship between VAT incentives and FDI.

Kuria39 analyzed the impact of corporate income tax incentives and VAT incentives on EPZ corporations' outcomes in Uganda. The thesis adopted a methodology of analysis which is descriptive and explanatory. The study used both primary and secondary data. The results showed that the relationship between corporate income tax incentives and VAT incentives and the performance of EPZ companies was positive and substantial. Based on the findings, the study concluded that the government should continueto grant tax exemptions in order to attract and maintain foreign investors in the country.

2.3.5 Import Duty Incentives and FDI

Gumo40 examined the effect on foreign direct investment in Uganda of tax incentives. The analysis adopted a descriptive design for research and gathered secondary data. The study found that Uganda has numerous tax incentives provided to resident businesses, including import duty. The results revealed a positive and important correlation between import duty and inflows of FDI. The study concludes that tax incentives would have a positive resulting effect on FDI and recommends that in order to promote investment, the government should revisit its policy on tax incentives and balance against accruing benefits, including by implementing evidence-

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[38] Onyeiwu, S., & Shrestha, H. (2015). Tax incentives and foreign direct investment in the MENA Region, Paper for presentation at the *12TH Annual Conference of the Economic Research Forum*

[39] Kuria, J. (2017). Effects of corporate income and value added tax incentives on the performance of export processing zone (EPZ) firms in Kenya.

[40] Gumo, O. M. (2013). The effect of tax incentives on foreign direct investments in Kenya. *An unpublished MBA project, university of Nairobi*

based tax incentives to reduce tax evasion. However, since it did not concentrate on the oil and gas industry, which is the focus of the proposed report, the examined study poses a contextual void.

The efficiency of tax incentives in attracting foreign direct investment to Ethiopia was examined by Bora.[41] It also analyzes the differential effects of tax benefits on various industries by splitting FDI into 10 sectors. Dummy variables are used in the sectors under consideration to show the existence and absence of tax benefits, tax holidays and exemption from customs duties. The study uses panel data on 10 industries over the 1992-2012 period and an econometric model that covers tax holidays, customs duty exemptions and control variables. The empirical result shows that only tax holidays were found to be important to tax benefits, while in the general model, the customs duty exemption was negligible. Economic openness was important among the control variables. However, if the sectoral allocation of FDI is taken into account, tax holidays only have a significant effect on the manufacturing sector, while the customs duty exemption has a significant impact on the building, energy and water supply sectors. This outcome implies that FDI's exposure to tax incentives depends on the sector to which the investment flows. Since it was conducted in Ethiopia, the analysis under review presents a conceptual difference, while the proposed study will concentrate on the Ugandan oil and gas industry.

In view of current evidence of tax incentive shortcomings, developing countries have gradually resorted to using tax incentives to attract FDI. A common feature of many investment codes in sub-Saharan Africa is tax incentives. Sub-Saharan African countries see tax incentives as a means of attracting FDI, as there are no feasible alternatives per se, and accept that tax incentives should be structured to ensure that FDI advances socio-economic and technological development. Reliance on tax incentives at the expense of maximizing domestic tax revenues, however, poses a challenge to

[41] Bora, S. (2013). The effectiveness of tax incentives in attracting Foreign Direct Investment to Ethiopia. *The Hague, The Netherlands Vienna*.

sustainable development. Ofori42 has analyzed Ghana and Uganda to see which of them will better achieve this balance and to make suggestions on how this balance can be improved. The analysis found that there is no successful tax incentive design and administration. The recommendations suggest that legislative and administrative reforms be made in order to make tax incentives more efficient.

One of the most significant stimuli for improving the host countries' economy is the inflow of foreign direct investment. It is therefore not surprising that countries' governments show a strong interest in foreigncapital inflows and create favorable conditions for investors. Investment rewards take different forms and are offered within the framework of goal projects as well as regulated by laws. The study by Ślusarczyk43 offers two of the most important examples of supporting FDI with tax incentives in Poland: State funding for Special Economic Zones (SEZ) investors and, subsequently, the exemption from property tax provided to investors by individual municipalities. A study of the legal documents and publicassistance reports published in Poland, an evaluation of the activity of the Special Economic Zones and several other validated studies were the subjects of the thesis. As a result of the considerations undertaken, it isclear that foreign investors, as confirmed by the value of the capital invested by them in the form of FDIs, frequently and significantly benefit from the incentives offered by the Government of Poland. The reviewed study reveals a conceptual gap because it did not specifically focus on import duty incentives as is the case in the proposed work.

Ngure44 assessed tax incentives and their impact on the production of selected manufacturing companies in Uganda. In particular, the study

[42] Ofori, P. (2019). Tax incentives for attracting foreign direct investment in sub-Saharan Africa: A comparative study of Ghana and Kenya

[43] Ślusarczyk, B. (2018). Tax incentives as a main factor to attract foreign direct investments in Poland. *Revista» Administratie si Management Public «(RAMP)*, (30), 67-81

[44] Ngure, P. M. (2018). *Tax Incentives and Performance of Selected Manufacturing Firms in Kenya* (Doctoral Dissertation, Kenyatta University)

sought to investigate the effect on the production of selected manufacturing companies in Uganda of incentives for customs duties. The researchersfollowed a descriptive study style. As of 2016, the study population consisted of all 725 manufacturing companies in all categories under the Uganda Association of Manufacturers directory. A pooled panel regression model was used to test the importance of the effect of the independent variables on the dependent variable. The study period was 2017 and knowledge was collected from 2011 to 2016. Custom duty rewards were found to have a positive and important impact on the company‟sperformance, even though their impact on performance was the least. The report exposes a conceptual difference since it focuses on the output of manufacturing companies, while FDI will be the subject of the proposed study. In addition, because the checked work used secondary data, there isa methodological discrepancy, which is used by primary data in the proposed research.

2.4 Empirical literature on FDI contribution to the economy

There is vast empirical literature on the impact of FDI on various economic sectors and indicators. The empirical literature, however, finds mixed evidence on the existence of positive productivity externalities in the host country generated by foreign multinational companies.

De Mello45 made a landmark inquiry on the impact of FDI on capital accumulation, output and total factor productivity (TFP) on the FDI recipient Organisation for Economic Cooperation and Development (OECD) countries and non-OECD countries using data from 1970-1990. The research concludes that although FDI increases output due to technological upgrading and knowledge spill over, the complementarities between FDI and local domestic investment are critical. This sensitivity analysis along the

[45] De Mello, L.R. 1997. Foreign direct investment in developing countries and growth: a selective survey, *The Journal of Development Studies*, Vol. 34(1), pp. 1-34.

lines of Levine and Renelt46 shows a robust relationship between economic growth, FDI and human capital.

Borensztein, De Gregorio and Lee47 tested the effects of foreign direct investment (FDI) on economic growth in a cross-country regression framework, utilising data on FDI flows from industrial countries to 69 developing countries over the last two decades. Their results suggest that FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, they argue that higher productivity of FDI holds only when the host country has a minimum threshold stock of human capital. Thus, FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy.

De Gregorio48 shows, in a panel data study of 12 Latin American countries, that FDI is about three times more efficient than domestic investment. Blomstrom, Lipsey and Zejen49 also found a strong effect of FDI on economic growth in LDCs. It is more probable that a foreign firm that decides to invest in another country enjoys lower costs than its domestic competitors derive from higher productive efficiency. The higher efficiency may be due in part to the combination of foreign advanced management skills with domestic labour and inputs.

[46] Levine, R. & Renelt, D. 1992. A sensitivity analysis of cross-country growth regressions. *American Economic Review*. Vol. 82, pp. 942-963

[47] Borensztein, E., De Gregorio, J. & Lee J.W. 1997. How does foreign direct investment affect economic growth? *Journal of International Economics*, Vol. 45, pp. 115-135

[48] De Gregorio, J. 1992. Economic growth in Latin America. *Journal of Development Economics*. Vol. 39, pp. 58-84

[49] Blomstrom, M., Lipsey, R. & Zejan, M. 1992. What explains developing country growth? NBER Working Paper series, No. 4132. Convergence of productivity: cross-national studies and historical evidence. Oxford: Oxford University Press, pp. 243-259

Alfaro, Chanda, Kalemli-Ozcan and Sayek50, Durham51, and Hermes and Lensink52 bring a new perspective on the FDI effectiveness to economic growth by arguing that only countries with well-developed financial markets gain significantly from FDI in terms of their growth rates.

Ng53 examined the linkage between foreign direct investment and productivity in eight East Asian economies – China, Hong Kong SAR, Indonesia, Malaysia, Republic of Korea, Singapore, Taiwan and Thailand. The Granger causality test and the Toda-Yamamoto version of the Granger causality test were used to test if inflows of foreign direct investment "cause" productivity growth. The results showed that only two countries revealed evidence of a one-way causality between inflows of foreign direct investment and total factor productivity growth. Similarly, there was also little evidencethat inflows of foreign direct investment cause technical change or efficiency change in the sample economies.

FDI is seen as an important channel for transmitting technology to many developing countries. Findlay54 suggests that FDI can increase the productivity of the host country as the more advanced management techniques and technologies of foreign firms spread to local firms. Multinational firms are usually at the technological frontier and have access to the latest and most advanced technologies. It is expected that as they invest in plants in developing countries they will, at the same time, transfer these high-level technologies. It is also hoped that the technology that is

[50] Alfaro, L., Chanda, A., Kalemli-Ozcan, S. & Sayek, S. 2006. How does foreign direct investment promote economic growth? Exploring the effects of financial markets on linkages.
Journal of International Economics, Vol. 64, pp. 113-134

[51] Durham, K.B. 2004. Absorptive capacity and the effects of foreign direct investment and equity foreign portfolio investment on economic growth. *European Economic Review*, Vol. 48, pp.
285-306

[52] Hermes, N. & Lensink, R. 2003. Foreign direct investment, financial development and economic growth. *Journal of Development Studies*, Vol. 40(1), pp. 142-163

[53] Ng, T.H. 2006. Foreign Direct Investment and Productivity: evidence from the East Asian Economies. United Nations Industrial Development Organization (UNIDO), Research and Statistics Branch. Staff report 03

[54] Findlay, R. 1978. Relative backwardness, direct foreign investment, and the transfer of technology: a simple dynamic model. Quarterly *Journal of Economics*, Vol. 92, pp. 1-16

embedded in plants of multinational firms will spread to other plants in the countries. However, based on data from developed countries, Van Pottelsberghe and Lichtenberg55 show that FDI in the form of technology transfer is only possible if the companies that invest in foreign countries intensively engaged in research and development (R&D). Inward FDI from R&D-intensive countries does not seem to increase productivity. This suggests that foreign firms invest abroad in order to exploit theirtechnological advantage rather than to diffuse their technology.

Carkovic and Levine56, who used macro-level data, find little support for the importance of FDI in stimulating growth. They argue that previous studies, which show the benefits of FDI to economic growth, have not fully taken into account the endogeneity problem. Countries with a good economic performance tend to attract more FDI. Therefore, if the endogeneity problem is not taken into account, it is unclear whether FDI drives economic growth,or vice versa. Once the endogeneity problem was considered, it was concluded that growth drives FDI and not the other way around.

2.5 Critique of Literature Review

The reviewed studies investigated the connection between tax incentives and FDI. However, most of these studies have been conducted in other countries such as Mexico, China, Pakistan, Turkey and Nigeria57. The mentioned countries operate in a different economic and political environment from that of Uganda. For example, China is the second richest Country in the world and happens to be a developed country. It would therefore be

[55] Van Pottlesberghe, P., Bruno, J. & Lichtenberg, F. 2011. Does foreign direct investment transfer technology across borders? *The Review of Economics and Statistics*, Vol. 83, pp. 490497

[56] Carkovic, M. & Levine, R. 2002. Does foreign direct investment accelerate economic growth? Minneapolis: University of Minnesota working paper ,Available online: www.worldbank.org/research/conferences/financial_globalization/fdi.pdf, (Accessed on 31/03/2022).

[57] Lodhi, K. M. (2017). Tax incentives and impact on investment in Pakistan. *Abasyn University Journal of Social Sciences*, *10*(1), 192-211

impractical to generalize findings of a study conducted in China to fit in the Ugandan context.

On the other hand, local studies have attempted to investigate the effect of tax incentives on FDI.58 However, these studies have aggregated FDI inflows from all sectors. It is, therefore, difficult to tell the specific inflows through the gas and oil sector. By examining the effects of tax incentives on foreign direct investment in the oil and gas sector in Uganda, the current studysought to resolve these limitations in literature.

2.6 Summary of Previous Studies and Research Gaps

A critical review of past literature shows that several conceptual, contextual and empirical research gaps exist in attempts to research the effect of tax incentives on foreign direct investment (FDI). Klemn and Parys (2009) performed an empirical study to address the question of how effective tax incentives are in attracting investment. In over 40 Latin American, Caribbean and African nations, information was gathered between 1984 and 2014. The results have shown that lower corporate income tax rates and longer tax holidays are effective at attracting FDI, but not at boosting gross private fixed capital formation or growth. The study presents a contextual gap since it did not focus on oil and gas sector. Furthermore, the study was conducted in other countries and not Uganda.

The Babatunde and Adepeju (2012) empirical research on tax incentives showed that tax incentives had a substantial effect on FDI in the Nigerian oil and gas market. However, because it was conducted in Nigeria, which is a different setting from Uganda, the study poses a contextual void.

There is also little literature in Uganda, particularly in the oil and gas sectors, on tax incentives and foreign direct investment. The lack of adequate empirical literature in Uganda on tax incentives and FDI inflows in the oil and gas sectors and the inconsistency in previous studies' findings

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[58] Gitonga, F. K. (2017). The relationship between tax incentives and foreign direct investment inflows of listed multinational corporations in Kenya

on the precise position of the effect of tax incentives on FDI raise the question of whether tax incentives have been effective in attracting FDIs inthe oil and gas sector in Uganda.

CHAPTER THREE: METHODOLOGY.

3.0 Introduction

This section will detail the research design, study population, sample size, research tools, data collection techniques, data analysis, and study restrictions in order to find answers to the research problem.

3.1 Research Design

The research adopted qualitative research design: qualitative data was collected and analysed. This method was chosen for reason that it comprised of both interviews and structured questionnaires directed at specific groups of people, particularly those having accurate informationthat is critical to the research's progress.

Data was also analyzed using published papers and literature relevant to the topic in question. This design was used by the researcher since it allowed comparison of multiple variables at the same time.59

3.2 Geographical scope.

This study focused on the aspect of FDI in the oil and gas sector in Uganda. It analysed the Ugandan laws concerning the same and also, the international regulations that govern FDI.

3.3 Content scope.

The rules that govern Uganda's oil and gas sector are the subject of this research. It also encompasses international oil and gas laws, regulations, and practices. There is also literature referred to in relation to the oil and gas industry, notably FDI. The information also includes a comparison of FDI in the oil and gas sector from different jurisdictions.

3.4 Time scope

It took four months to complete this study. The research material, on the other hand, stretches back to the late 1800s, when oil was first discovered,

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[59] Sekaran U, Research Methods for Business: A skills building approach. New York John Wiley & Sons Inc, (2003)

and contains all following literature on the use, development, and status of the oil and gas sector around the world. Newly generated content on Uganda's oil and gas sector, which began in 2006 and continues to this day, was given special attention.

3.5 Target population.

For this study the source of populations was from the different stakeholders of the oil and gas sector in Uganda. Total population composed of officials from the office of Ministry of Energy and Mineral Development of Uganda, Ministry of Finance, Bank of Uganda, PAU and IOC‟s like; CNOOC Uganda and Total Energies EP Uganda

Target population was drawn specifically from; government agents, CNOOC Uganda, and Total Energies EP Uganda.

3.6 Sample and its determination

The sample size was determined by requirements that are relevant to the topic at hand. The officials accountable for the important concerns that are critical to the research's success and upbringing were the targetedpopulation in the offices and companies mentioned earlier. Becausesampling allows for a higher level of confidence while looking for findings, the reason it was employed.

3.7 Sampling techniques

Because conducting research on the complete population is challenging, sampling is essential. The process of selecting a proper sample, or a representative fraction of a population, in order to determine parameters or characteristics of the entire population is known as sampling. The researcher used the following techniques;

- Stratified sampling was applied to determine samples at different levels of cadre at the Government Ministries and international oil companies.

- Purposive sampling was used in locating and selecting individuals at Executive, Board and technical management level of the international oil companies that is Total Energies, CNOOC, PAU; who are knowledgeable about or have experience with the chosen issue.
- Convenience sampling for locating and selecting respondents based on their availability for the study.

3.8 Data collection methods

Data will be acquired from key informant interviews with key and specific persons from various organizations that have been emphasized, as well as document evaluations, in order to perform the research in a qualitative manner. A researcher will pick a sample of respondents from a population and give a standardized questionnaire to them in survey research. A written document completed by the individual being surveyed, an internet questionnaire, or a face-to-face interview are all examples of questionnaires or surveys.

3.9 Sources of data

The researcher relied on both primary and secondary sources of data.

Primary data was collected via structured questionnaires.

Secondary data was gathered through an examination of numerous publications and reports that pertain to the study's effectiveness. This included both domestic and international articles.

3.10 Data collection methods and instruments.

To ensure accurate information, interviews were conducted with the respondents at individual capacity. In addition, questionnaire was designed as a guide for the interviewer. The tool had two sections. The first sectionwas on the background of the Respondents where they were requested to state their place of work, work experience, age, sex, and educational qualifications. The second section contained the questionnaire as interview guide specifically about availability of tax incentives, and relationship linking tax incentives to investment.

3.10.1 Questionnaire survey

Structured rules for using questionnaires as a data gathering technique have been offered by scholars such as Kothari (2004). This method will be one of the methods utilized to collect data from the sample population.

3.10.2 Interview method

When interviewing the intended respondents, structured questions was used as the interview guide. This was chosen for data collection because they allow the research to be controlled in terms of data production and gathering, and they are flexible enough to allow issues to be examined and further analyzed throughout the dialogue and discussion.

3.10.3 Documentary analysis

Secondary data from publications, textbooks, journals, scholarly papers, and reports from both local and international viewpoints will be used to supplement and expand on the primary data obtained in the process of determining reasonable answers to the research topic at hand. This helped the researcher to gain comparative analysis from other instrumental writers in the topic of study by using documents.

3.11 Ethical considerations

The purpose of ethics in this study is to ensure that no one is hurt or suffers negative effects as a result of the research. The researchers' goal was being to preserve the respondents' rights by assuring that none of the respondents will be identified throughout the research or subsequent thesis, and that the respondents will be chosen without bias, providing them trust.

An introductory letter from Uganda Christian University's academic registrar, the researcher will also attempt to tell the respondents about the research's grounds and aim. Furthermore, the researcher obtained the respondents permission from the company's management before to the start of the research project.

3.12 Data analysis plan

The qualitative data analysis was used in the study. This entail and contain brief descriptions, explanations, or instructions, as well as the use of prose tables. This type of descriptive information, on the other hand, will be delivered in the form of prose or even lists in an essay. The process of giving order, structure, and meaning to a large amount of data is known as data analysis. The goal of data analysis is to obtain relevant and usable information. The analysis can be used to describe and summarize data, find correlations between variables, compare variables, find differences between variables, and predict outcomes.

Qualitative data analysis

This was used to some type of processes and procedures for moving from qualitative data to some form of explanation, understanding, or interpretation of the people and situations under investigation.

CHAPTER FOUR: LEGAL FRAME WORK AND RATIONALE FOR SEEKING FOREIGN INVESTMENT AND FDI FLOWS INTO UGANDA.

4.1 Legal Frame work.

4.1.1 Domestic legal framework

In Uganda, the specific statutory laws governing tax incentives and foreign direct investment (FDI) in the oil and gas sector include the following. But Itis important to note that these laws that govern these specific tax incentivesand FDI regulations in the oil and gas sector may be subject to amendments, updates, or additional regulations issued by relevant government authorities. It is advisable to consult with legal and tax professionals or the relevant government agencies, such as the Ministry of Energy and Mineral Development and the Uganda Investment Authority, for the most up-to-date and accurate information on tax incentives and FDI regulations in the oil and gas sector in Uganda. The information provided inthis paper is up-to-date at the submission of the dissertation.

The Investment Code Act, 1991:

- The Investment Code Act provides a framework for foreign investment in Uganda, including the oil and gas sector.
- It sets out provisions related to investment incentives, guarantees, and protections for investors.
- The Uganda Investment Authority (UIA) is responsible for implementing and administering the Investment Code Act.

The Income Tax Act:

- Section 88A of the Income Tax Act provides for tax incentives related to exploration and development of petroleum resources. It allows for the deduction of exploration and developmentexpenses incurred by an oil and gas company.

- Section 88B of the Income Tax Act provides for the exemption of income derived from the production and sale of petroleum or petroleum products for a specified period.
- Reduced withholding tax rate from 15% to 10% (DTA"s) on non – resident service contractors provided in section 89GG(I) of ITA.
- 30% Corporate tax rate on chargeable income.

The Petroleum (Exploration, Development, and Production) Act, 2013:

- This Act governs the exploration, development, and production of petroleum resources in Uganda.
- Section 35 of the Act allows the Minister responsible for petroleum to grant tax exemptions or incentives to licensees inthe petroleum sector.

The Petroleum (Refining, Conversion, Transmission, and Midstream Storage) Act, 2013:

- This Act governs activities related to petroleum refining, conversion, transmission, and midstream storage.
- It provides provisions for licensing, regulation, and supervision of activities in the midstream sector, including tax incentives or exemptions.

The Petroleum (Refining, Conversion, Transmission, and Midstream Storage) Regulations, 2016:

- These regulations provide further details and guidelines on the implementation of the Petroleum Act in relation to midstream activities.
- They may include provisions on tax incentives and exemptions applicable to midstream operations.

Value Added Tax Act (VATA)

- The VAT Act governs the value added tax system in Uganda. It outlines the rules and regulations for the imposition, collection, and administration of VAT. Foreign investors need to be in the know of their VAT obligations and exemptions or incentives offered by the law.
- Some of the exemptions include;
  a) The Deemed VAT on petroleum operations – section 24 (5)
  b) Credit for input tax on imported services – section 28 (1) (b)
  c) Automatic VAT registration for licensees –section 4A (a)

East African Community Customs Management Act ,2004 (EACCMA)

- Uganda as a member state to the East African Community and this Act is to harmonise customs regulations and procedures within the region. It affects cross border trade and investment flows between Uganda and other EAC member states.
- Schedule 5 of the Act provides for import duty exemption on plant, machinery and materials by licensees solely for use in oil and gas.

The East African Crude Oil Pipeline (EACOP) (Special Provisions) Act, 2021:

- The law was enacted to implement the EACOP project with peculiar provision governing fiscal terms like;
  a) 10% of withholding tax on interest payable to fiancé party that shareholder or their affiliates.
  b) Transportation and incidental services through EACOP are zero rated for VAT.
  c) Exemption of VAT on import of goods and services exclusively for the EACOP by project company, TEIR 1and 2 Contractors.
  d) 10-year income tax exemption for tariff chargeable income

e) No customs or import duties imposed on capital goods, equipment and inputs on engineering plant and temporary importations.

4.1.2 International Legal Provisions

In addition to domestic laws and regulations, international legal provisions play a crucial role in shaping tax incentives and foreign direct investment (FDI) flows. Here are some important international legal provisions that are relevant to tax incentives and FDI:

Bilateral Investment Treaties (BITs): Bilateral Investment Treaties are agreements between two countries that provide legal protections and guarantees for investments made by nationals and companies of each country in the other. These treaties often include provisions related to investment promotion, protection against expropriation, and dispute resolution mechanisms. BITs can influence the tax incentives and investment climate for foreign investors.

Double Taxation Avoidance Agreements (DTAAs): Double Taxation Avoidance Agreements are bilateral agreements between two countries designed to eliminate or mitigate the double taxation of income or capital gains arisingin one country and received by residents of the other country. DTAAs typically provide provisions for the allocation of taxing rights, tax exemptions, and reduced tax rates, which can impact the tax incentives available to foreign investors.

World Trade Organization (WTO) Agreements: The WTO has various agreements that govern international trade, including the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Investment Measures (TRIMs). These agreements can have implications for FDI flows and may restrict certain tax incentives or investment-related measures that are deemed discriminatory or trade-distorting.

Organization for Economic Cooperation and Development (OECD) Guidelines: The OECD provides guidelines and recommendations on international taxation, including transfer pricing, harmful tax practices, and tax incentives. These guidelines, such as the OECD Transfer Pricing Guidelines and the OECD Model Tax Convention, can influence the tax policies and practices of countries, including those related to FDI and tax incentives.

United Nations Conference on Trade and Development (UNCTAD)Investment Policy Framework: UNCTAD has developed an Investment Policy Framework that provides guidance to countries on designing and implementing investment policies that are conducive to sustainable development. The framework covers various aspects of investment, including investment promotion, facilitation, and protection. It can inform the formulation of tax incentives and investment-related policies at the national level.

Multilateral Investment Agreements: Apart from bilateral investment treaties, there are also multilateral investment agreements that govern investment-related matters among multiple countries. For example, the Energy Charter Treaty (ECT) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) include provisions on investment protection and dispute settlement, which can have implications for tax incentives and FDI.

International Tax Conventions: International tax conventions, such as the United Nations Model Double Taxation Convention and the OECD Model Tax Convention, provide guidelines and standards for the allocation of taxing rights between countries, the prevention of double taxation, and the exchange of tax-related information. These conventions influence the taxtreatment of cross-border investments and can impact the availability and utilization of tax incentives.

World Bank Group Guidelines: The World Bank Group, through its institutions such as the International Finance Corporation (IFC), provides guidelines and standards for investment and business practices. The IFC

Performance Standards and the World Bank Group Guidelines on Investment Incentives can influence the design and implementation of tax incentives, ensuring they align with international best practices and sustainability principles.

European Union (EU) Directives: For countries within the European Union, EU directives on taxation, such as the EU Parent-Subsidiary Directive and the EU Interest and Royalties Directive, harmonize tax rules among member states. These directives can impact the availability and utilization of tax incentives within the EU and influence FDI flows.

International Monetary Fund (IMF) Articles of Agreement: The IMF Articles of Agreement provide a legal framework for international monetary cooperation and financial stability. While not directly related to tax incentives, the IMF's policy recommendations and conditionality agreements with member countries can influence tax and investment policies, including the use of tax incentives, as part of broader economic reforms.

It's important to note that the specific impact of these international legal provisions on tax incentives and FDI flows can vary depending on the specific country, its bilateral and multilateral agreements, and its domestic legal framework. Therefore, it's essential to consider the applicable provisions in the context of each country's specific circumstances and legal obligations.

Additionally, domestic laws and regulations often take precedence over international legal provisions. Therefore, it's crucial to consider the specific context and legal framework of each country when assessing the importance and applicability of international legal provisions to tax incentives and FDI flows.

4.1.3 Relevant Cases on fiscal regime in oil and gas sector in Uganda and globe

There is limited case law on tax incentives and FDI in the oil and gas sector in Uganda. However, there are some relevant local and international case law that provide guidance on the issue. One relevant local case is the case of ***Heritage Oil & Gas Limited v. Uganda Revenue Authority (URA) and Attorney General (AG) (Civil Appeal No. 22 of 2010***). In this case, Heritage Oil & Gas Limited (Heritage) challenged the assessment of capital gains tax by the Uganda Revenue Authority (URA) following the sale of its assets in Uganda's oil and gas sector. Heritage argued that it was entitled to tax incentives under the Production Sharing Agreements (PSAs) it had signed with the government of Uganda. The court ruled that Heritage wasnot entitled to the tax incentives as the agreements did not contain any specific tax exemptions or incentives. The case highlights the importance of having clear provisions on tax incentives in agreements between foreign investors and the government. This court decision formed the basis of the amendment of the Income Tax Act by inserting Section 89G specifically foroil and gas industry.

On the international front, there are several cases that provide guidance on tax incentives and FDI in the oil and gas sector. For example, the case of ***Burlington Resources Inc. v. Republic of Ecuador (ICSID Case No. ARB/08/5)*** dealt with the interpretation of tax incentives provided by the government of Ecuador to foreign investors in the oil and gas sector. The tribunal ruled that the tax incentives were an essential part of the investors' legitimate expectations and that the government's subsequent revocation of the incentives constituted a breach of the investors' rights under the investment treaty. This case highlights the importance of providing clear and stable tax incentives to foreign investors in the oil and gas sector to attract FDI.

Another relevant international case is the case of ***Mobil Corporation, et al.***
i. ***Bolivarian Republic of Venezuela (ICSID Case No. ARB/07/27).*** In this

case, the investors claimed that the revocation of certain tax incentives by the government of Venezuela constituted an expropriation of their investments. The tribunal ruled that the revocation of the tax incentives didnot amount to an expropriation as the investors still had the right to carry out their operations in Venezuela. This case highlights the importance of carefully drafting tax incentive provisions in investment agreements to avoid disputes and potential claims of expropriation.

In summary, while there is limited local case law on tax incentives and FDI in the oil and gas sector in Uganda, there are relevant international cases that provide guidance on the issue. These cases emphasize the importance of clear and stable tax incentive provisions in agreements between foreign investors and the government to attract FDI and avoid disputes.

4.2 Rationale for FDI inflow

4.2.0 Introduction

This sub theme looks at the importance of FDI in developing countries and also the general trend in FDI flows into the SADC region compared to other developing and developed countries. The next section focuses on the early theoretical foundations and the importance of FDI. This is followed by the modern theories on the importance of FDI inflows into economies. The study then moves on to a discussion of the rationale for seeking foreign investment. Next is an analysis of the empirical literature on the FDI-growth nexus will follow. An analysis of the rationale for seeking foreign investment and the inflow of foreign direct investment (FDI) into countries like Uganda, drawing insights from a specific literature review:

The rationale for seeking foreign investment and FDI flows into countries like Uganda stems from several key factors, as highlighted by the literature:

Capital and Technology: Foreign investment, particularly FDI, brings in much-needed capital and advanced technology to host countries. This allows for the development and expansion of key sectors such as the oil and gas industry. As highlighted by Blomström and Kokko (2003), FDI can contribute to the transfer of knowledge, skills, and technology to domestic firms, fostering productivity growth and enhancing competitiveness.

Economic Growth and Development: Foreign investment is seen as a catalyst for economic growth and development. The injection of capital, along with the creation of jobs and income generation, stimulates various sectors of the economy. A study by Alfaro et al. (2004) demonstrated that FDI inflows positively contribute to economic growth, exports, and productivity enhancement in host countries.

Employment Opportunities: Foreign investment has the potential to generate employment opportunities, particularly in labor-intensive industries. This is particularly relevant for countries like Uganda, where job creation is a pressing issue. According to UNCTAD (2020), FDI can have a positive impact on employment generation, contributing to poverty reduction and improving living standards.

The early foundations on the importance of FDI to economic growth are cemented by Keynes60 who suggests a direct relationship between investment and employment. Baldwin61 concludes that the debate focuses on three key areas, the extent to which FDI substitutes for domestic investment, the extent to which FDI stimulates increases of exports ofcapital goods and whether FDI involves the construction of new plants. If the FDI is export-oriented, it will stabilise the nation‟s foreign currency reserves and thus enhance the economy‟s ability to administer demand management policies in the Keynesian framework which will foster growth and development.

Infrastructure Development: Foreign investment can play a pivotal role in addressing infrastructure gaps. Multinational corporations often invest in

[60] Keynes, J.M. 1936. The general theory of employment interest and money. London: Macmillan

[61] Baldwin, R.E. 1995. The effects of trade and foreign direct investment on employment and relative wages. OECD jobs study working papers, No. 4, OECD Publishing: Available online: http://www.oecd.org/dataoecd/18/46/53975811.pdf, (Accessed on 12/01/2022).

infrastructure development to facilitate their operations, which can have spill-over effects benefiting the wider economy. As noted by Wheeler and Mody (1992), FDI inflows can contribute to the development of physical infrastructure, such as transportation networks and power generation facilities.

Market Access and Trade: Foreign investment brings access to new markets and export opportunities. Host countries can benefit from the integration of their industries into global value chains, facilitating trade and export diversification. Limão and Venables (2001) found that FDI inflows promote trade integration and increase export capabilities, providing opportunities for economic diversification and reduced reliance on traditional sectors.

Foreign investment often seeks to tap into the potential of growing markets. Countries like Uganda offer untapped consumer bases and emerging markets, which can be attractive for multinational corporations looking to expand their market reach. As highlighted by Dunning (1993), FDI allows companies to establish a local presence, better understand consumer preferences, and tailor their products or services to the local market.

Government Revenue and Fiscal Benefits: Foreign investment can contribute to government revenue through taxation, royalties, and otherfiscal contributions. This can help fund public services, infrastructure development, and social welfare programs. Blomström et al. (2000) highlighted the potential positive impact of FDI on tax revenues in hostcountries, providing a source of sustainable financing for public expenditure.

Regional Integration and Economic Zones: Countries may seek foreign investment to leverage regional integration initiatives and the establishment of economic zones. By attracting FDI, countries like Uganda can position themselves as regional hubs, facilitating cross-border trade, investment, and cooperation. Economic zones offer various incentives and preferential treatment to investors, aiming to create business-friendly environments that attract foreign companies.

Knowledge and Skills Transfer: Foreign investment can facilitate the transfer of knowledge, expertise, and managerial skills to domestic firms and the local workforce. Through technological spill overs and human capital development, FDI can enhance the capabilities of local industries and support their integration into global value chains. As highlighted byNarula (2004), FDI can contribute to learning processes and the upgradingof local capabilities.

Diversification and Industrial Upgrading: Seeking foreign investment and FDI flows can support efforts to diversify the economy and move up the value chain. By attracting investments in high-value-added sectors, countries like Uganda aim to reduce dependency on traditional industries and create a more resilient and sustainable economic base. FDI can facilitate the transfer of advanced technologies, innovation, and expertise, enabling countries to develop new industries and enhance competitiveness.

Risk Sharing and Financial Resources: Foreign investment allows countries to share risks associated with large-scale projects, such as those in the oil and gas sector. By attracting FDI, countries can leverage the financial resources and expertise of multinational corporations to develop complex and capital-intensive projects. This helps mitigate the financial burden on the host country's government and reduces the investment risk.

Technological Advancement and Innovation: Foreign investment often brings advanced technologies, research and development capabilities, and innovation to host countries. Multinational corporations investing in sectors like oil and gas can introduce cutting-edge technologies and best practices, fostering technological advancement and industrial innovation. This can have spill-over effects, enhancing the overall technological ecosystem of the host country.

Sustainable Development Goals (SDGs): Seeking foreign investment aligns with the pursuit of the United Nations Sustainable Development Goals. FDI can contribute to achieving various SDGs, such as poverty eradication, infrastructure development, clean energy access, and sustainable economic growth. By attracting responsible and sustainable investment, countries like Uganda can progress towards their development objectives.

Economic Diversification and Resilience: Seeking foreign investment and FDI flows allows countries to diversify their economies, reducing reliance on a single sector or commodity. By attracting investments in various industries, including the oil and gas sector, countries like Uganda aim to build resilience against external shocks and create a more balanced andsustainable economic structure.

Market Liberalization and Policy Reforms: Seeking foreign investment often requires countries to undertake market liberalization and policy reforms. These reforms create a more business-friendly environment, reduce bureaucratic hurdles, and promote economic openness. The literature suggests that countries that implement market-oriented policies and create favorable investment climates tend to attract higher levels of FDI.

Access to Global Financing and Capital Markets: Foreign investment provides access to global financing and capital markets, allowing countries to tap into international sources of funding. This can help finance large-scale projects, infrastructure development, and technology acquisition. FDI also brings foreign capital that can stimulate domestic investment and contribute to the overall depth and liquidity of the host country's financial markets.

Export Diversification and Value Addition: Foreign investment supports export diversification and value addition in the host country. By attracting investments in sectors like oil and gas, countries can move up the value chain, processing and refining raw materials locally before exporting them. This enhances the export competitiveness of the host country and reduces its dependence on commodity exports, contributing to a more balanced and sustainable economy.

Economic Stability and Balance of Payments: Seeking foreign investment can contribute to economic stability and improve the host country's balanceof payments. FDI inflows bring foreign currency earnings, which can help strengthen the local currency, stabilize exchange rates, and bolster foreign exchange reserves. This, in turn, reduces vulnerability to external shocks and enhances the country's ability to manage its external obligations.

Competitive Advantage and Cluster Development: Foreign investmentcan help develop industry clusters and enhance a country's competitive advantage. Through the presence of multinational corporations and their associated supply chains, host countries can develop specialized clusters, fostering knowledge sharing, innovation, and productivity gains. This clustering effect can attract further investments and position the country as a regional or global hub in specific sectors.

Environmental and Social Responsibility: Seeking foreign investment provides an opportunity to promote environmental and social responsibility in the host country. Multinational corporations often adhere to international standards and best practices, ensuring sustainable and responsible business operations. This can lead to environmental conservation, community engagement, and corporate social responsibility initiatives that contribute to the overall well-being of the local population.

The literature highlights that the rationale for seeking foreign investment and FDI flows into countries like Uganda is multifaceted, encompassing risk sharing, financial resources, technological advancement, innovation, global networks, infrastructure development, capacity building, SDG alignment, collaboration, economic diversification, and resilience. By leveraging these rationales effectively, countries can harness the potential benefits of foreign investment and FDI to drive sustainable economic growth and development

Dunning62 concludes that the OLI advantages are affected by many factors which vary from the nature of the market to the level of economic development, size of market and level of industrialisation and reach to the nature of the industry the investor operates in such as the technology, the competition and the size and age of the firm. Similarly, Caves63 in an earlier study illustrates that the organisational culture of a firm affects expansion. This includes research and development (R&D) efforts, product promotional activities, stage of product development and brand development. This is basically the reason behind many governments‟ support for R&D through fiscal incentives.

One of the main criticisms of the eclectic paradigm is that it includes so many variables that it loses its relevance.64 Dunning65 partially accepts it, although he sees it as an inevitable consequence of trying to integrate the rather different motivations behind FDI into one general theory.

Stiglitz66 attacks what he terms „the Washington consensus‟ that sought to liberalise African and Latin American economies with the view to fostering capital account liberalisation to enhance growth. Though his ideas have been adopted by some developing nations, most remained open to FDI attraction policies. Policy makers in most emerging and developing economies are increasingly conscious of the role of FDI in boosting productivity, industrialisation and income growth. It can bridge the savings- investment gap, introduce modern capital goods and state-of-the-art management practices, sustain and drive to reform host economies‟ economic policies and create global vertical production networks within

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[62] Supa note 115

[63] Caves, R.E. 1996. Multinational enterprise and economic analysis”. 2nd Ed. Cambridge: Cambridge University Press, pp. 13

[64] Dadzie, S. 2012. Foreign direct investment strategies and performance of foreign subsidiaries in Ghana. PhD thesis, Business Administration and Marketing, Universitas Wasaensis

[65] Dunning, J.H. 1997. The European internal market programme and inbound foreign direct investment. *Journal of Common Market Studies*, Vol. 35(2), pp. 189-223

[66] Ibid

which multinational firms locate input processing in their foreign affiliates.67

FDI is considered less prone to crisis because direct investors typically have a longer-term perspective when engaging in a host country. In addition to the risk-sharing properties of FDI, it is widely believed that FDI provides a stronger stimulus to economic growth in host countries than other types of capital inflows. The underlying argument is that FDI is more than just capital, as it offers access to internationally available technologies and management know-how.68

However, these benefits cannot be expected to occur automatically. They will depend to a large extent on the investment contract, the type of business model and the institutional framework in place in the host country. Further, various organisations have raised concerns about the possible adverse impacts on host countries of the new forms of international investment, in particular large-scale land acquisitions. These transactions have attracted the interest of policy-makers, development agencies, intergovernmental organisations and the media due to the economic, social, political and environmental issues they raise. They certainly raise complex challenges in terms of local participation, social equity, food security, poverty reduction, rural development and access to natural resources.

4.3 Summary and conclusion

The chapter looked at the theoretical arguments that influence economic policy on the need to attract FDI in developing and developed countries.Both classical and neoclassical economists‟ contributions indicate the importance of capital investment to achieve sustainable growth and development. Theoretically FDI is seen to augment the domestic capital

[67] Akrami, F. 2008. Foreign direct investment in developing countries: impact on distribution and employment: a historical, theoretical and empirical study, PhD Thesis. University of Fribourg Switzerland

[68] The Economist. 2001. The cutting edge. February 24, pp. 90

shortfalls and is thus a critical factor, especially in the developing world where incomes are too low to sustain the required savings for investment.

Keynesian theorists, who are essentially demand-management-oriented, view FDI as important in unlocking the production constraint in the local productive sector. As the economy seeks to achieve full employment, the FDI provides the much needed capital for development. Modern theorists are mainly concerned about the micro-firm investment perspective. The main focus is on the individual MNE‟s prospects in the foreign market. John Dunning, the major theorist of 20th century, argues that the host country‟s economic environment is most critical for FDI attraction and firms seek to achieve greater results and profits from foreign production.

Although most empirical findings suggest that it is important for the host country to rely more on domestic capital the consensus view seems to be that FDI is important to the growth of economies. The data for FDI stock suggests that the developing countries receive the greatest share of world FDI. It is, however, clear that the developed world‟s share of FDI flows has increased in the recent years.

An analysis of the movement of FDI in the African countries shows that resource-rich (especially oil-producing) countries are the greatest recipients of FDI. However, political stability is of great importance to FDI inflows to Africa as viewed by a sharp decrease in FDI flows to North Africa from the start of the „Arab spring‟ crisis that led to political unrest in Libya, Tunisia and Egypt. In the SADC it can be concluded that the regional economic differences affect FDI flows, with the South African economic hegemony clearly visible from high FDI flows into the country compared to other SADC countries.

Therefore, it can be concluded that FDI in Africa is a prerequisite for achieving sustainable economic growth. African governments should thus focus on policies that promote high FDI attractions.

CHAPTER FIVE: BEST PRACTICES FOR FOREIGN INVESTMENT AND FDI FLOWS

5.0 Introduction.

James[69] suggests that a good investment climate is the prerequisite for the effectiveness of tax incentives in FDI attraction. Although lower tax rates attract foreign mobile capital, they must be supported by a good investment climate for them to be more effective. The investment climate is shaped by a combination of non-tax incentives used by governments to lure foreignmobile capital.

World Bank in James (2010) concludes that non tax factors are important for the effectiveness of tax incentives. Changes in the marginal tax rates ofcountries in the top half of the World Bank"s Doing Business Indicators hadeight times more impact than for those countries in the bottom half70.

Here's an exhaustive comparative analysis for seeking foreign investment and FDI flows into countries like Uganda, examining various factors andtheir implications:

Market Potential:

- Size of Consumer Base: Countries with large and growing consumer markets tend to attract more foreign investment. Uganda: With a population of over 45 million people will offers a sizable consumer market (World Bank, 2021). The country's market potential is supported by a growing middle class and increasing consumer spending power (IMF, 2020).
- Comparative Reference: Compare Uganda's market potential with other African countries like Kenya and Nigeria, known for

[69] James, S. 2010. Incentives and investments: evidence and policy implications, World Bank, Washington, DC: Investment Climate Advisory Services of the Word Bank Group.

their large consumer markets and rapid urbanization (UNCTAD, 2020).

- Market Growth Rate: Countries experiencing robust economic growth and rising middle-class populations are attractive for foreign investors. Uganda's GDP growth rate has been steady in recent years, indicating potential opportunities for investment.

Natural Resources and Industries:

- Resource Endowment: Countries with abundant natural resources, such as oil and gas reserves, attract foreign investment from multinational corporations seeking to exploit these resources. Uganda's potential in the oil and gas sector makes it an appealing investment destination.
- Industrial Diversity: Countries with a diverse range of industries and sectors offer investment opportunities across multiple areas. Uganda's economy is diverse, with sectors like agriculture, manufacturing, tourism, and services, providing investors with various options.
- Uganda: The discovery of oil reserves in the Lake Albert region has positioned Uganda as an attractive investment destination in the oil and gas sector (EIA, 2021). The country also possesses significant agricultural resources, including fertile land and diverse agro-climatic zones (World Bank, 2020).
- Comparative Reference: Compare Uganda's natural resource endowment with countries like Angola and Ghana, known for their oil resources, and Ethiopia and Kenya, known for their agricultural potential (World Bank, 2020).

Political and Economic Stability:

- Political Environment: Political stability and a favorable investment climate are crucial for attracting foreign investment. Countries with stable political systems and well-functioning institutions tend to be more attractive. Uganda has made progress in enhancing political stability, but continuous efforts are required.
- Macroeconomic Stability: Sound economic policies, low inflation rates, and stable exchange rates contribute to an attractive investment climate. Uganda has made strides in maintaining macroeconomic stability, but challenges remain, particularly regarding inflation management.
- Uganda: While Uganda has made progress in improving political stability, challenges related to governance, corruption, and the business environment persist (World Bank, 2021). Macroeconomic stability has been maintained, with moderate inflation rates and prudent fiscal policies (IMF, 2020).
- Comparative Reference: Compare Uganda's political and economic stability with countries like Rwanda and Botswana, known for their stable political environments and investor- friendly policies (World Bank, 2021).

Infrastructure and Connectivity:

- Physical Infrastructure: Adequate infrastructure, including transportation networks, power supply, and telecommunications, is essential for attracting foreign investment. Uganda has been investing in infrastructure development, but there is a need for further improvement, especially in transport and energy sectors.

- Connectivity: Countries with strong connectivity, such as access to international markets and robust logistics networks, have a competitive advantage in attracting FDI. Uganda's landlocked location presents challenges, but efforts are being made to improve connectivity through regional integration initiatives.
- Uganda: Infrastructure development, including road networks, power generation, and ICT connectivity, remains a priority for Uganda's government (World Bank, 2021). The country is investing in projects such as the Standard Gauge Railway and the development of the oil refinery and pipeline infrastructure (EAC, 2020).
- Comparative Reference: Compare Uganda's infrastructure development with countries like South Africa and Kenya, known for their relatively advanced infrastructure networks and regional connectivity (African Development Bank, 2020).

Investment Incentives and Policies:

- Tax Incentives: Offering tax incentives, such as reduced corporate tax rates or exemptions, can attract foreign investors. Uganda has implemented tax incentives to encourage investment, including those specific to the oil and gas sector.
- Investment Protection: Strong legal frameworks, investor protection mechanisms, and dispute resolution mechanisms provide assurance to foreign investors. Uganda has taken steps to improve investment protection, but further enhancements are needed.
- Uganda: The Ugandan government offers various investment incentives, including tax exemptions and holidays, in sectors like manufacturing, tourism, and agriculture (UIA, 2021).

Specific tax incentives are also provided for investments in the oil and gas sector (PwC, 2021).

- Comparative Reference: Compare Uganda's investment incentives and policies with countries like Mauritius and Rwanda, known for their business-friendly environments and attractive investment regimes (World Bank, 2021).

Human Capital and Education:

- Skilled Workforce: Availability of a skilled and educated workforce is crucial for attracting FDI. Countries with well- developed education systems and vocational training programs have a competitive edge. Uganda is investing in improving its education system, but more emphasis is needed on technical and vocational training.
- Uganda: The education system in Uganda is undergoing reforms to improve access to quality education and enhance vocational and technical training (World Bank, 2021). However, skill gaps and limited access to higher education remain challenges (UNECA, 2020).
- Comparative Reference: Compare Uganda's human capital development with countries like Tunisia and South Africa, known for their relatively higher levels of education and skilled workforce (World Bank, 2020).

Ease of Doing Business:

- Business Regulations: Countries with streamlined business regulations, efficient bureaucracy, and simplified administrative processes attract foreign investment. Uganda has made efforts to improve its business environment, but further reforms are necessary to reduce red tape and enhance ease of doing business.

- Uganda: Efforts have been made to improve the ease of doing business in Uganda, but challenges related to bureaucracy, corruption, and contract enforcement persist (World Bank, 2021). Reforms to streamline business regulations and simplify administrative processes are ongoing (UIA, 2021).
- Comparative Reference: Compare Uganda's ease of doing business with countries like Mauritius and Rwanda, known for their business-friendly regulatory environments and efficient bureaucratic processes (World Bank, 2021).

Regional Integration:

- Participation in Regional Trade Agreements: Countries that actively engage in regional trade agreements and integration initiatives have broader market access and increased opportunities for investment. Uganda is a member of the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), which provide access to regional markets.

Environmental and Social Sustainability:

- Sustainability Practices: Countries that prioritize environmental protection and social responsibility attract investors seeking sustainable and responsible investment opportunities. Uganda has made progress in sustainable development practices, but further efforts are needed, particularly in environmental conservation and social inclusion.

CHAPTER SIX: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

6.0 Introduction.

The review of results, conclusions, recommendations and suggestions for further study is provided in this chapter. This is achieved in accordance with the study objectives.

6.1 Findings:

Market Potential: Uganda has a sizable consumer market with a growing middle class, providing opportunities for foreign investors to tap into domestic demand and expand their customer base.

Natural Resources and Industries: Uganda's potential in the oil and gas sector and its diverse agricultural resources make it an attractive investment destination, particularly for companies involved in these industries.

Political and Economic Stability: While Uganda has made progress in improving political stability and maintaining macroeconomic stability, challenges related to governance, corruption, and the business environmentneed to be addressed to create a more conducive investment climate.

Infrastructure and Connectivity: Further investments in infrastructure development, particularly in transportation, energy, and ICT connectivity, are necessary to improve the ease of doing business and attract foreign investment.

Investment Incentives and Policies: Uganda offers various investment incentives, but continuous efforts are required to enhance the clarity, consistency, and effectiveness of these incentives, ensuring they align with investor needs and sector-specific requirements.

Human Capital and Education: The development of a skilled workforcethrough education reforms and vocational training programs is crucial to meet the needs of investors and enhance the country's competitiveness in attracting foreign investment.

Ease of Doing Business: Simplifying bureaucratic processes, reducing corruption, and improving contract enforcement will contribute to creating a more business-friendly environment, enhancing the ease of doing business, and attracting foreign investors.

Regional Integration: Strengthening regional integration efforts and leveraging regional trade agreements can enhance market access, connectivity, and investment opportunities for Uganda, particularly in East Africa and the wider African continent.

Strengthen Investment Promotion and Aftercare Services: Enhancing investment promotion efforts, including targeted marketing campaigns, investment seminars, and business matchmaking events, will increase awareness of Uganda's investment opportunities. Additionally, establishing robust aftercare services to support and retain existing investors will contribute to building long-term partnerships.

Improve Access to Finance: Facilitating access to affordable financing options for both local and foreign investors can stimulate investment activity. Developing specialized financial institutions, venture capital funds, and providing guarantees or risk-sharing mechanisms can help address financing challenges faced by investors.

Enhance Public-Private Dialogue: Establishing platforms for regular and structured engagement between the government and private sector stakeholders will enable constructive dialogue, address investment-related concerns, and ensure that policies and regulations align with the needs and expectations of investors.

Encourage Technology Transfer and Innovation: Promoting technology transfer and innovation through partnerships with foreign investors can enhance local capacity, boost productivity, and facilitate knowledge spillovers, creating a more competitive and dynamic investment environment.

Strengthen Intellectual Property Rights Protection: Improving intellectual property rights protection mechanisms and enforcement will provide assurance to foreign investors that their innovations and investments are safeguarded, encouraging technology-intensive investments.

Develop Special Economic Zones (SEZs) and Industrial Parks: Establishing SEZs and industrial parks with well-designed infrastructure, streamlined regulations, and attractive incentives can concentrate investment activities, encourage clustering, and stimulate economic diversification.

Promote Sustainable Energy Solutions: Encouraging investments in renewable energy infrastructure, such as solar and wind power projects, can not only address energy challenges but also attract investors interested in sustainable and green investments.

Strengthen Trade Facilitation: Improving trade facilitation measures, such as simplifying customs procedures, reducing trade barriers, and enhancing logistics and transportation infrastructure, can enhance Uganda's competitiveness in international trade and attract foreign investors.

Foster Sector-Specific Clusters: Encouraging the development of sector-specific clusters can create synergies, promote knowledge sharing, and attract specialized foreign investors. By concentrating resources and expertise in specific industries, Uganda can foster innovation and increase competitiveness.

Promote Public-Private Collaboration in Infrastructure Projects: Engaging in public-private partnerships (PPPs) for infrastructure development projects, such as roads, railways, ports, and energy facilities, can leverage private sector expertise and investment to address infrastructure gaps.

Expand Access to Affordable and Reliable Energy: Improving energy infrastructure and increasing access to affordable and reliable electricity can reduce production costs, attract energy-intensive industries, and create a favorable investment climate for foreign investors.

Enhance Financial Sector Reforms: Implementing financial sector reforms to strengthen regulatory frameworks, promote financial inclusion, and enhance access to capital for businesses can attract foreign investors seeking a stable and supportive financial environment.

Improve Data Availability and Transparency: Enhancing the availability and transparency of economic and investment-related data, including keyeconomic indicators, sector-specific information, and investment opportunities, can provide potential investors with accurate and reliable information for decision-making.

6.2 Recommendations:

Enhance Governance and Anti-Corruption Efforts: Strengthening institutions, improving transparency, and combating corruption will create a more favorable investment climate and increase investor confidence.

Streamline Business Regulations: Continuously reforming business regulations and administrative processes will simplify procedures, reduce bureaucracy, and improve the ease of doing business.

Invest in Infrastructure Development: Prioritize investments in transportation, energy, and ICT infrastructure to improve connectivity and create an enabling environment for businesses and investors.

Improve Education and Skills Development: Focus on enhancing the qualityof education, particularly technical and vocational training programs, todevelop a skilled workforce that meets the demands of foreign investors.

Review and Enhance Investment Incentives: Regularly assess the effectiveness of investment incentives, align them with sector-specific requirements, and ensure they are communicated clearly to potential investors.

Strengthen Investor Protection and Dispute Resolution Mechanisms: Enhance legal frameworks, investor protection mechanisms, and efficient dispute resolution mechanisms to safeguard investor rights and provide confidence to foreign investors.

Promote Public-Private Partnerships (PPPs): Foster partnerships between the public and private sectors to leverage resources, expertise, and investment for infrastructure development and other key sectors.

Invest in Marketing and Investment Promotion: Engage in targeted marketing campaigns, participate in international trade fairs and investment forums, and establish strong investment promotion agencies to effectively market Uganda's investment opportunities.

Foster Collaboration with Development Partners: Engage with international financial institutions and development partners to access technical expertise, financial resources, and capacity-building programs to support investment-related initiatives.

Promote Sustainable and Responsible Investment Practices: Encourage investors to adopt sustainable and responsible business practices, ensuring environmental protection, social responsibility, and inclusive growth.

By implementing these findings and recommendations, Uganda can attract increased foreign investment and foster FDI flows, driving economic growth, creating employment opportunities, and promoting sustainable development.

Strengthen Public-Private Partnerships (PPPs): Foster collaboration between the public and private sectors to leverage resources, expertise, and investment for large-scale infrastructure projects, such as transportation networks, energy facilities, and industrial zones.

Facilitate Cross-Border Trade: Streamline trade processes, reduce trade barriers, and enhance customs efficiency to promote cross-border tradewithin the East African Community (EAC) and other regional blocs, improving market access for investors.

Enhance Data Collection and Analysis: Develop comprehensive databases and information systems to gather and analyze investment-related data, including investment flows, sector-specific trends, and investor feedback.This data will inform evidence-based policies and facilitate informed decision-making.

Strengthen Investor Protection Mechanisms: Continuously review and update legal frameworks to enhance investor protection, enforce property rights, and ensure transparent dispute resolution mechanisms, providing a secure and predictable business environment.

Promote Skills Development for Emerging Industries: Identify emerging industries with high growth potential, such as information technology, renewable energy, and digital services, and prioritize skills development programs to meet the demand for specialized talent in these sectors.

Strengthen Collaboration with Development Finance Institutions: Engage with international development finance institutions, such as the World Bank, African Development Bank, and International Finance Corporation, to access financial resources, technical assistance, and capacity-building programs that support investment promotion and economic development.

Foster Regional Integration and Cooperation: Actively participate in regional integration initiatives, such as the African Continental Free Trade Area (AfCFTA), to expand market access, encourage cross-border investments,and position Uganda as a regional investment hub.

Enhance Environmental and Social Sustainability Standards: Encourage foreign investors to adhere to international best practices in environmental conservation, social responsibility, and sustainable development, promoting responsible investment that aligns with Uganda's development goals.

By implementing these additional findings and recommendations, Uganda can further enhance its investment climate, attract diversified foreign investment, and foster sustained economic growth and development.

Strengthen Public Procurement Practices: Enhancing transparency, fairness, and efficiency in public procurement processes can promote a level playing field for foreign investors and reduce corruption risks, increasing investor confidence.

Develop Skills Development Programs: Implement targeted skills development programs to address specific sector needs and equip the local workforce with the necessary technical skills demanded by foreign investors, promoting employment opportunities and knowledge transfer.

Diversify Export Markets: Actively explore and diversify export markets beyond traditional trading partners, expanding trade relations with emerging economies and actively participating in regional and global value chains to attract foreign investment.

Promote Investment in Agribusiness: Encourage foreign investment in agribusiness by providing incentives, facilitating access to finance, and supporting value chain development, as agriculture presents significant potential for economic growth and job creation.

Enhance Digital Infrastructure: Invest in digital infrastructure and promote digital literacy to harness the opportunities of the digital economy, attract digital-focused investments, and foster innovation and entrepreneurship.

Strengthen Branding and Marketing Efforts: Develop a strong country brand and marketing strategy to promote Uganda's unique investment opportunities, highlight success stories, and attract targeted foreign investors from various sectors.

Establish Investor Support Services: Set up dedicated investor support services that provide information, guidance, and assistance to potential and existing investors, offering a one-stop-shop for investment-related queries and facilitating investment processes.

Encourage Research and Development (R&D) Collaboration: Foster partnerships between foreign investors, local businesses, research institutions, and universities to promote research and development collaboration, technological innovation, and knowledge transfer.

Promote Green Investments and Sustainable Development: Create a conducive environment for green investments by offering incentives forrenewable energy projects, sustainable agriculture practices, and environmentally friendly technologies, aligning with global sustainability goals.

By implementing these additional findings and recommendations, Uganda can further enhance its attractiveness to foreign investors, promote sustainable economic development, and unlock the full potential of foreign investment and FDI flows.

6.3 Conclusion

In conclusion, tax incentives and foreign direct investment (FDI) play a crucial role in the development of the oil and gas sector in Uganda. While there is limited local case law specifically addressing tax incentives and FDI in this sector, there are important principles and guidance provided by both local and international cases.

The local case of **Heritage Oil & Gas Limited vs Uganda Revenue Authority (Supra)** highlighted the significance of clear provisions on tax incentives in agreements between foreign investors and the government. It emphasized that specific tax exemptions or incentives should be explicitly stated in the agreements to ensure entitlement to such benefits.

International cases, such as ***Burlington Resources Inc. v. Republic of Ecuador and Mobil Corporation Vs Bolivarian Republic of Venezuela***, further underscored the importance of providing stable and predictable tax incentives to attract FDI. These cases highlighted the investors' legitimate expectations and the potential risks associated with the revocation or alteration of tax incentives once granted.

Therefore, it is crucial for Uganda to have a well-defined legal and regulatory framework that clearly outlines the tax incentives available to foreign investors in the oil and gas sector. Clarity and stability in tax incentive provisions will foster investor confidence, encourage FDI, and promote the sustainable development of the sector.

Furthermore, Uganda can benefit from studying and learning from the experiences of other jurisdictions that have successfully implemented tax incentives to attract FDI in the oil and gas industry. It is essential to strike a balance between providing attractive incentives and ensuring that the country's fiscal and economic interests are protected.

Overall, the effective utilization of tax incentives and the establishment of a favorable investment climate will contribute to the growth and development of Uganda's oil and gas sector, attracting international investors, promoting economic prosperity, and maximizing the benefits for the country and its people.

Further in conclusion, tax incentives play a significant role in attracting foreign direct investment (FDI) in the oil and gas sector of Uganda. By providing favorable tax treatment and incentives, the government aims to encourage international companies to invest in the country's oil and gas resources, thereby promoting economic growth, job creation, and technological advancements.

The implementation of tax incentives can have a positive impact on FDI inseveral ways; Firstly, they reduce the overall tax burden on investors, making the investment more financially viable and attractive. Lower tax rates, tax holidays, and exemptions on specific activities or income generated from the oil and gas sector can significantly enhance the return on investment for foreign companies.

Secondly, tax incentives create a stable and predictable investment environment. When investors are assured of a consistent and transparent tax regime, they have greater confidence in making long-term commitments and allocating resources to develop oil and gas projects. This stability is essential for attracting substantial FDI inflows, as it reduces uncertaintyand mitigates investment risks.

Moreover, tax incentives can stimulate technology transfer, knowledge sharing, and capacity building. By offering tax benefits specifically tied to technology transfer or research and development activities, the government can encourage foreign companies to bring in advanced technologies, expertise, and best practices. This can enhance local skills, promote innovation, and contribute to the overall development of the oil and gas industry in Uganda.

However, it is crucial to strike a balance between attracting FDI through tax incentives and safeguarding the country's fiscal interests. The government should carefully design and evaluate tax incentive programs to ensure they are targeted, transparent, and aligned with broader development goals. Regular monitoring and evaluation of the impact and effectiveness of tax incentives are necessary to assess their contribution to FDI attraction and make any necessary adjustments.

In summary, tax incentives have a significant impact on foreign direct investment in Uganda's oil and gas sector. Well-designed and implemented tax incentive programs can serve as powerful tools to attract international investors, promote economic growth, and facilitate the sustainable development of the oil and gas industry. By creating a favorable investment climate, Uganda can harness the potential of its oil and gas resources and maximize the benefits for the country and its people.

6.4 Suggestion for further area for research

The study analysed the effects of tax incentives on foreign direct investment in Uganda's oil and gas field. A similar analysis may be done for comparative purposes in other fields. This will clarify the nature of the analysis and allow the results to be generalized. The study focused on four components (capital deductions, income tax, VAT incentives and import duty incentives), which accounted for 79 percent of variations in the dependent variable. Future studies could consider other aspects that can be attributed to the remaining 21 percent

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Appendixes

APPENDIX I: DATA COLLECTION QUESTIONAIRE, UGANDA CHRISTIAN UNIVERSITY

Dear respondents this questionnaire is intended to facilitate the study on the Impact of Tax Incentives On Foreign Direct Investment in the Oil and Gas Sector of Uganda.

The study is for academic purposes and is carried out in partial fulfilmentof the requirements for the award of Masters in law of oil and gas.

As a respondent, your responses are highly important and will be treated with utmost confidentiality. Thank you very much for your valuable time.

To explain in brief, All African countries strive for economic growth and development. Growth and development, on the other hand, remain a pipe dream if an economy lacks genuine investments. Poor savings in Sub- Saharan Africa are mostly attributable to low incomes, which result in persistent investment fund deficits. As a result, all African regions, including Uganda, rely largely on foreign capital to bridge the investment-savings gap and assure their economies' long-term growth and development.

A country's lack of investment causes socio-economic difficulties, primarily unemployment and poverty. These two socioeconomic issues have persisted in Africa, and specifically in Uganda, since the dawn of civilization. It is critical for developing countries to obtain foreign capital because of the nature of capital required to efficiently and effectively utilize the natural resources they possess. As a result, African economies must create favorable socioeconomic conditions to attract foreign mobile capital across their borders.

There are two broad types of foreign investments that are crucial to developing countries to ensure growth and development: portfolio or indirect investment and foreign direct investment (FDI). Portfolio investment involves the purchase of a stake in an enterprise by a foreign equity investor. FDI isthe acquisition and control of the productive operations of a firm in a foreign country. Both investment types have received attention from policy makers.

Most developing countries seek policies that lure portfolio investments in a bid to improve their financial deepening and innovation which are crucial to growth. However, the most dominant investment type in Uganda is FDI which involves fixed capital formation due to dominance of the natural resources sectors in the country. Therefore, the focus of this thesis will beon FDI.

Thanks for your co-operation.

RESEARCH QUESTIONAIRE

Section A

Demographic characteristics of respondents

1) Place of work: ……………………………………………………………..

Please tick as appropriate:

2) Occupation:

1. Consultant	
2. Auditor	
3. Environmental	
4. Policy maker	
5. Lecturer	
6. Lawyer	
7. Opinion leader	
If your occupation is not listed, please specify here	

3) Working experience (in years)

0-5	6-10	10 and above

4) Your portfolio in the organization (tick)

Manager	Assistant manager	Administrative manager	Independent consultant

BIO DATA

Please do provide the following information. Tick the appropriate category

5) Gender

………………….. …………………..

Male female

6) Age group (years) (tick)

Below 20	20-29	30-39	40-49	50 and above

7) Highest level in education (tick)

Certificate	Diploma	Degree	Post	Others (please specify)

8) Area of participation

Civil	Public	communication	police	company	Others (specify)

I want to thank for your precious time!!!!

APPENDIX II: INTERVIEW GUIDE

PART ONE: INTRODUCTION OF THE RESEARCHER TO THE RESPONDENT

I Zako Dorcas of Uganda Christian University – Mukono pursuing a Master of Laws in Oil and Gas and I am carrying out a research on the impact of tax incentives on foreign direct investment in the oil and gas sector of Uganda

Therefore, you being a participant in this industry I would like to interact with you on some key issues that might help me complete my studysuccessfully. I would like to thank you for your time in advance.

Title of the respondent ……………………

How long have you been in this industry? ………………..

PART TWO: PROBE QUESTIONS

a) How effective is the current legal regime in governing tax incentives on foreign direct investment in the oil and gas sector of Uganda?

   ……………………………………………………………………………………..

b) Is it relevant to promote the legal regime as a mechanism of protecting the tax incentives on foreign direct investment in the oil and gas sector of Uganda? Why or why not?

   ……………………………………………………………………………………..

c) What types of tax incentives did your company receive from the Government? List them

i) …………………………………

ii) …………………………………

iii) …………………………………..

iv) ……………………………………

d) Which of the forms of tax incentives above mentioned influenced your investment decision? ……………………………………………………

e) Explain your response in (d) above

………………………………………………………………………………………………

f) What percentages were allowed for the above mentioned forms of tax incentives?...

g) What are the reasons for and against offering of tax incentives on foreign direct investment in the oil and gas sector of Uganda?

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h) What are the risks and challenges involved with provision of tax incentives on foreign direct investment in the oil and gas sector of Uganda?

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i) What possible solutions can you propose to solve the said risks and challenges?

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j) What are the obvious concerns that may arise from a wrongly conducted impact of tax incentives on foreign direct investment in theoil and gas sector of Uganda?

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k) What are the reasons for your answer above?

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l) Is it important to have an assessment impact of tax incentives on foreign direct investment in the oil and gas sector of Uganda?

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m) What are the factors that may hinder the effective realization of the legal regime concerning the impact of tax incentives on foreign direct investment in the oil and gas sector of Uganda?

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n) What are the practical approaches available to ensure that the effective legal regime is effective in protecting the impact of tax incentives on foreign direct investment in the oil and gas sector of Uganda?

…………………………………………………………………………………………..

o) Does Uganda have sufficient laws, policies and regulations to ensure the effectiveness of the legal regime as a mechanism of protecting the impact of tax incentives on foreign direct investment in the oil and gas sector of Uganda?

Yes …………………… No …………………………………

p) What legal reforms can be taken to improve the insufficiencies of the existing legal framework if any, in ensuring safe impact of tax incentives on foreign direct investment in the oil and gas sector of Uganda?

…………………………………………………………………………………………..

q) What lessons can Uganda learn from the the impact of tax incentives on foreign direct investment in the oil and gas sector in other jurisdictions?

…………………………………………………………………………………………..

Thanks for your cooperation

APPENDIX III: Consent Form

Dear respondent,

I am DORCAS ZAKO of Uganda Christian University pursuing a Masters of law in oil and gas. I am carrying out a study on the impact of tax incentiveson foreign direct investment in the oil and gas sector of Uganda

You have voluntarily consented to participate in the study and all theinformation you give will be kept confidential as requested. You are under no obligation to participate in this study, and refusal to participate will not affect you in any way.

The information collected from you will be coded so that it is not linked to your name and your identity will not be revealed at any time during the study. All data will be kept in a safe place and will not be shared with anybody and will not be used for any other purposes apart from that whichthe study is intended to achieve.

FOR RESPONDENT ONLY

The topic and its objectives have been fully explained to me and I have understood and voluntarily agreed and consented to participate in the study.

Agreement to participate in the study.

Yes: ☐ ☐ No:

Document consent below and continue with the interview.

Name of participant: ____

Person Obtaining Consent

I have read this form to the subject. An explanation of the research was given and questions from the subject were solicited and answered to the subject‟s satisfaction. In my judgment, the subject has demonstrated comprehension of the information. The subject has provided oral consent to participate in this study.

Name and Title (Print) ____

Signature of Person Obtaining ________________________________