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Effects of Foreign Direct Investment and Institutional Quality on Poverty Reduction in Uganda.

Gideon Mugulusi [1], Bernard Ojonugwa Anthony [1], Muhammad Kibuuka [1*]

[1] Department of Economics and Statistics, Kampala International University, Kampala, Uganda

*Corresponding Author: muhammed.kibuuka@kiu.ac.ug

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Abstract

This study examines how foreign direct investment (FDI) and institutional quality shape poverty reduction in Uganda between 1996 and 2024. Based on dependency theory, this paper challenges the prevailing perception that FDI necessarily increases welfare in developing countries. Welfare is determined by two factors: poverty headcount ratio (PHCR) and household consumption expenditure (HCEX). Employment and population are employed as control variables. This research makes use of Autoregressive Distributed Lag (ARDL) approach following the unit root test which suggests that variables have a mixed order of integration. The bounds test establishes long-run cointegration in both poverty models. The results show that employment and population significantly reduce PHCR in the long run, whereas FDI and institutional quality have no significant long-run effect. In the short run, institutional quality improves poverty outcomes by reducing PHCR and increasing HCEX. By contrast, FDI worsens poverty outcomes: it raises PHCR and reduces HCEX, suggesting that foreign capital inflows may operate through enclave structures with weak domestic linkages. The error correction terms indicate rapid adjustment toward equilibrium, with speeds of 0.804 and 0.929 in the PHCR and HCEX models, respectively. The diagnostics reveal the models to be adequate with neither serial correlation nor heteroskedasticity problems, and normally distributed residuals. Labour-intensive industrialization, institutional development, improved targeting of sectors for FDI inflows, and policies to turn the population growth in Uganda into a demographic dividend have been recommended.

Keywords: *Foreign Direct Investment; Institutional Quality; Poverty Reduction; ARDL; Decent Work and Economic Growth.*

1. Introduction

Poverty reduction is still considered a key development goal in Sub-Saharan Africa and in low-income countries like Uganda, structural change has been uneven while economic growth has been steady. Over the last 30 years, Uganda has experienced relatively stable macro-economic growth since the economic liberalization measures implemented in the late 1980s and early 1990s. However, this steady growth has not led to commensurate economy-wide improvements in welfare; a large segment of the population continues to face poverty, vulnerability and regional disparities (UBOS, 2022; World Bank, 2023). The observed gap between economic growth and poverty reduction has thus warranted increased scholarly attention on the structural and institutional drivers of inclusive development. Uganda's economy has

historically been agrarian based. The contribution of the agricultural sector to economic activity at the time of independence was about 41%, and industrial production largely limited to small-scale agro-processing and light manufacturing (Ssenoga & Matovu, 2013). Recognizing the limitations of an agrarian economy, since 1980, the Ugandan government has prioritized industrialization as a means of stimulating diversification, creating jobs and poverty reduction. Policies driven by Structural Adjustment programmes emphasized liberalization, privatisation of state-owned companies, and promotion of private sector investment and industrial growth with a view to attracting FDI (Obwona et al., 2014; Siggel & Ssemogerere, 2004).

In an attempt to facilitate industrialisation, Uganda has developed several policy instruments to support the industrial sector, such as The National Industrial Policy (2008) which was revised in 2020, as well as national development plans such as Uganda Vision 2040, and the Third National Development Plan (UNDP, 2021; Uganda National Industrial Policy, 2008). The priority policy focus areas of the National Industrial Policy are agro-industrialization, extractive industry sector, and knowledge-based sector, which have been supported with policy instruments such as industrial parks, tax incentives and value addition support programs to enhance productivity and competitiveness (UIA, 2022; UNIDO, 2021). The result of all these industrialization efforts is a gradual expansion in the contribution of the industrial sector, with manufacturing, construction and extractive industry contributing 26 percent of GDP during the FY2022/23 (MFPED, 2024). Industrial centers such as Kampala Industrial and Business park and Jinja Industrial Area have had a key role in attracting investment and job creation.

Although such progresses are evident, the contribution of industrialization to poverty reduction in Uganda is hampered by structural issues, such as underdeveloped infrastructure, limited access to finance, technological gap and inadequate skills (World Bank, 2023; Olkeba et al., 2024). More specifically, industrialization in Uganda is urban-centered, thus not accessible by majority rural poor where extreme poverty is highest (World Bank, 2023; Olkeba et al., 2024). How industrialization could turn into pro-poor growth is therefore being contested. Within this general context of economic development, FDI has been identified as a vital source of industrialization and transformation, not only by injecting capital but also transferring technology, providing management skills, and integrating developing countries into global value chains. In Uganda, FDI inflows has increased in oil and gas, telecommunication, manufacturing and infrastructure, contributing to economic growth and industrial development (UNIDO, 2021). In theory, FDI will decrease poverty by providing employment, increasing productivity, and households income. However, empirical results are mixed; FDI helps to reduce poverty in few cases through its effect on job provision and income gains while on the other hand, studies suggests FDI only contributes little to poverty reduction when it is located in capital-intensive sector, and when backward linkages are weak (Fan & Zhang, 2008; World Bank, 2023).

With this regard, the importance of the quality of institutions in determining how FDI can contribute to poverty reduction is recognized. Quality of institution includes, good governance, efficient regulation, rule of law and absence of corruption; quality of institution determines the extent to which FDI would have beneficial impact on development (Ggoobi et al., 2017; UNDP, 2021). Although Uganda had substantial success in reducing poverty from over 56% in 1992/93 to around 20.3% in 2019/20, there has been an uneven development pattern across different regions and socio-economic groups (UBOS, 2022). Poverty remains prevalent in the rural areas due to lack of basic infrastructure, access to market and product resources. One in four Ugandan still live below the extreme poverty line. More integrated development approach, based on improvement in human capital, employment and equal access to opportunity, would be required for sustained poverty reduction (Carter & Barrett, 2006).

A successfully managed process of industrialisation can speed up poverty reduction through the generation of jobs, increased productivity and structural transformation. Investments in the manufacturing sector and industrial parks, for instance, have helped to generate alternative livelihood opportunities and improve household incomes (UNIDO, 2021; MFPED, 2024). Human capital development through education and training increase workforce participation in the industrial and service sectors and hence

increase the poverty reduction capacity of growth (Wallenborn, 2010). However, the successfulness of these policies relies on interactions between FDI, institutional quality and policy making process.

Although there is an increasing literature on FDI, institutional quality and poverty reduction, little research has looked into how the impact of FDI on poverty depends on institutional quality. Many studies analyze these three variables independently and disregard their interactive effects on poverty in general, and in the case of Uganda in particular, where the country is going through processes of industrialization and attracting foreign investment as part of a long-term strategy for economic development. Given this context, this paper investigated the impact of FDI and institutional quality on poverty reduction in Uganda. The study is built on the premise that while FDI may promote growth and industrialization, its capacity to alleviate poverty may be critically dependent on robust institutional structures in the sphere of resource allocation, policy making and income distribution.

2. Literature Review

2.1. Theoretical Framework

The relationship between FDI, institutional quality and poverty reduction in Uganda necessitates the use of more than one theory to interpret the situation. Endogenous Growth Theory (Romer, 1986; Lucas, 1988) emphasizes that FDI has the ability to contribute to long-run poverty reduction by enhancing technological diffusion, knowledge spillovers, and human capital formation if domestic absorptive capacity is present. Endogenous Growth Theory asserts that the cause of long-run growth relies more on internal factors than exogenous flows of foreign capital; they involve incentives, human capital formation and innovation (Romer, 1990; Grossman & Helpman, 1991). Supporting this concept is institutional economics (North, 1990; Acemoglu & Robinson, 2012), which argues that institutional quality-defined as having established rules of law, effective regulations, strong property rights, and low levels of corruption-is an exogenous cause of development, not a mediating factor. According to Acemoglu, Johnson and Robinson (2005) "institutions are the root cause of long run growth" as they determine the incentives which mold the accumulation of both physical and human capital, along with the rate of technological change. Under this perspective, the relationship between institutional quality and poverty reduction is direct because institutions control the allocation of resources and are responsible for the enforcement of contracts, accountability in management of public resources, and fostering of conditions conducive to inclusive growth.

While endogenous growth and institutional economics theories explain mechanisms of FDI and institutional quality on poverty reduction under particular conditions, it is Dependency Theory (Frank, 1967; Wallerstein, 1974) that is chosen for this study as it offers the most suitable explanation for the lack of clear connection between FDI flows and poverty reduction in Uganda. While Endogenous Growth and institutional economics approaches assumes the mutual benefits from foreign investment, assuming the appropriate institutional quality, Dependency theory emphasizes the inherent inequalities in the global capitalist system. William (1974) argued that peripheral economies like Uganda's only join the system as providers of raw materials hence there is always unequal exchange because capital from the periphery flows towards the center. Frank (1967) introduces the idea of "development of underdevelopment" where capitalist processes result in development of the core and underdevelopment of the periphery because of the extraction of capital surplus.

In the case of Uganda, FDI has not focused on diverse economic activities like human capital-intensive industries, rather on extraction, and export based sectors with low employment effects for locals and large dependence on the informal sector (Bibi, 2024; UNIDO, 2021). The interaction between dependent institutional quality and FDI shows that while FDI is bringing in the capital for economic development, weak institutional quality is failing to capture that capital and use it for the reduction of poverty (using, for example, local content requirement mechanisms) by channeling it for development or creating positive spill over effects. Dependency Theory is selected as the appropriate theory for analysis

of the connection between FDI and poverty reduction because it correctly points to the structurally dependent nature of periphery economies within the global capitalist system which Endogenous Growth Theory fails to account for and which institutional economics neglects as a basic factor. Petras (1981) notes that dependency theory presents a structural perspective for an examination of the relationship between FDI and institutional reforms on the one hand, and poverty reduction on the other, where the context of power asymmetries at the global level has significantly undermined any potential effects.

2.2. Empirical Review

The empirical literature on industrialization, FDI, institutions and poverty reduction is extensive and rather mixed, reflecting variation in country contexts, methodologies, and underlying structural conditions. While a first strand generally confirms the conventional wisdom that FDI promotes poverty reduction, acting directly via job creation and technology transfer and indirectly via growth (Muturi 2023, Rossi and Dupont 2020; Yusufua et al., 2022; Tsaurai, 2023; Topalli et al. 2021), a second strand contests this positive view, highlighting that the effect of FDI is context-dependent and that it does not automatically benefit the poor, even potentially worsening poverty (Musakwa & Odhiambo 2020; Nguea et al., 2020). Based on a desk-based review of evidence on the link between FDI, economic growth, employment and technology diffusion, Muturi (2023) finds that the presence of FDI improves economic growth by injecting funds and boosting productivity and technology diffusion, which, in turn, creates employment and increases incomes.

By utilizing panel data for ECOWAS, Rossi and Dupont (2020) similarly find a positive and significant impact of FDI inflows on poverty reduction in a broad regional scope. Consistent with these observations, Tsaurai (2023) also finds a significant positive effect of FDI on poverty reduction in BRICS countries both directly and indirectly through economic growth, and that the interaction of FDI and growth is even stronger in reducing poverty. Topalli et al. (2021) show similar results with FDI reducing poverty significantly in Western Balkan economies and with strong effects in countries with high quality institutions, human development and openness of the economy. However, evidence of the negative impact of FDI has also emerged. In relation to the dependency thesis, Musakwa and Odhiambo (2020) discover that, due to poor causality from FDI to poverty, it may take a long time for any positive FDI impact on poverty to emerge.

Using a VAR analysis for Cameroon, Nguea et al. (2020) show that FDI has only minor impact on poverty reduction in the short term. In the long-term, although they find a positive impact of FDI on poverty reduction, the results remain insignificant after accounting for possible causality issues between the variables. Therefore, it may not necessarily mean that the presence of FDI improves welfare and alleviates poverty in all contexts. A third, and more nuanced, literature posits that it is institutionality and the appropriate complement structure of policies that drives the beneficial FDI effect on poverty reduction (Aloui, et al. 2024; Olowookere et al. 2021). According to Aloui et al. (2024), when coupled with strong governance quality, such as through regulatory effectiveness, the rule of law, and accountability, FDI promotes poverty reduction effectively. They report that institutional quality exacerbates FDI's poverty-reducing effect significantly in Sub-Saharan Africa and Latin America. Similarly, Olowookere et al. (2021) found that although foreign capital inflows (which include FDI) have a positive relationship with poverty reduction in Nigeria in the long-run, causality typically runs from poverty reduction to FDI (indicating that the attraction of foreign investment depends on positive domestic conditions rather than the reverse).

Further confirming the indirect channel is Tobondo et al. (2021), where it is observed that foreign direct investment poverty reduction impact works indirectly through growth rather than direct impact. Similarly, in Do et al.'s (2021) study, although FDI directly influences poverty in Vietnam, it does indirectly influence it through human capital accumulation. However, it is found that the relationship between foreign direct investment and poverty can have negative influences through trade linkages, confirming that both indirect channels are not without flaws, but rather structure is key and absorptive capacity is necessary. A more recent study focuses specifically on Uganda and Sub-Saharan Africa and reinforces the idea of a conditional relationship. Esaku and Mugoda (2026) showed that foreign direct

investment indeed leads to poverty reduction in Uganda when using consumption and health measures but the impact is not consistent using other welfare measures. Similarly, in Uganda, Nanteza (2025) observed that poor institutional quality, bad infrastructure and the concentration of foreign direct investment into the extractive sector in the Ugandan context reduces the positive poverty impact of FDI. In support of this are the findings of Arogundade et al. (2022) and Okoh (2024), which show that institutional quality not only drives foreign direct investment inflows but also determine whether foreign direct investment inflows lead to inclusive growth. It was found that weak governance reduces FDI influence on growth and may cause capital flight and enclave investments (Adegboye et al., 2020).

Comparatively, the differences in findings are due to (i) variations in institutional quality, (ii) sector distribution of FDI, and (iii) use of different methodologies in the research work. Cross country panel works show positive mean impacts whereas country specific time-series studies display weak or negative impacts; implying structure constraints the country specific country. The research show that it is neither the FDI inflows nor their outflow that determines how it contributes to poverty reduction. Rather it is the way it interacts with institutions, host country structures and value chain domestic linkages. For Uganda, this means that attracting foreign direct investment alone is not a cure for poverty reduction but efforts must be made to strengthen institutions and support allocation into appropriate sectors and value chains.

3. Material and Methods

3.1. Research Design

This study adopts a quantitative, explanatory research design using time-series data to investigate the dynamic relationship between Foreign Direct Investment (FDI), institutional quality, and poverty reduction in Uganda. The design is appropriate because it allows for the estimation of both short-run and long-run effects, consistent with prior studies such as Victor et al (2026) and Musakwa and Odhiambo (2020).

3.2. Model Specification

Autoregressive Distributed Lag (ARDL) model, developed by Pesaran et al. (2001), is employed in this study. It is chosen due to the following factors; ARDL can deal with series integrated of order I(0) and I(1); It has sound estimate property for small samples that is characteristic in developing countries such as Uganda; It captures both the short-run dynamic relationships between variables and long-run equilibrium relation; The ARDL approach has been broadly applied in FDI-poverty nexus literature (see, for example Madueke et al, 2022; Saleem, 2021). Unlike it, the poverty line in Uganda is constructed from a specified basket of minimum required consumption needs and measured from the poverty headcount ratio calculated from UNHS data (UBOS, 2020; UBOS, 2024). Additionally, both poverty headcount ratio and household consumption expenditure have been broadly considered better measure for welfare rather than income for developing countries (Deaton, 1997; World Bank, 2022).
Based on these operational definitions of poverty, the present study disaggregating poverty reduction into two dependent variables, poverty headcount ratio and household consumption expenditure, each measured against key indicators of industrialization in Uganda. This approach offers a clearer understanding of how poverty is measured in relation to industrial development. The baseline functional relationship is specified as:

$$Pov_t = f(FDI_t, INSQ_t, , INEM_t, , POPU_t,) \quad (1)$$

Were Pov is poverty reduction, FDI is foreign direct investment, INSQ is institutional quality, INEM is employment rate, POPU is total population.Disaggregating poverty level to capture poverty head count ratio and house hold consumption expenditure to have the following:

$$PHCR_t = f(FDI_t, INSQ_t, , INEM_t, , POPU_t,) \quad (2)$$

$$HCEX_t = f(FDI_t, INSQ_t, , INEM_t, , POPU_t,) \quad (3)$$

Where PHCR is the poverty head count ratio and HCEX is house hold consumption expenditure. Other variables were as defined in equation 1. The functional form in equation 2 and 3 is further specified in econometric form:

$$PHR_t = \alpha_0 + \alpha_1 FDI_t + \alpha_2 INSQ + \alpha_3 INEM_t + \alpha_4 POPU_t + \varepsilon_t \quad (4)$$

$$HCE_t = \beta_0 + \beta_1 FDI_t + \beta_2 INSQ_t + \beta_3 INEM + \beta_4 POPU + +\varepsilon_t \quad (5)$$

Where ε is the stochastic error term and t is the time period 1996 to 2024. ε_t is assumed to be normally distributed, with absence of serial correlation and heteroscedasticity. To standardize the variables and to allow for elasticity, the model in equation (4) and (5) were transformed in log-log Model.

$$PHCR_t = \alpha_0 + \alpha_1 \ln FDI_{t-i} + \alpha_2 INSQ_{t-i} + \alpha_3 \ln INEM_{t-i} + \alpha_4 \ln POPU_{t-i} + \varepsilon_t \quad (6)$$

$$\ln HCEX_t = \alpha_0 + \alpha_1 \ln FDI_{t-i} + \alpha_2 INSQ_{t-i} + \alpha_3 \ln INEM_{t-i} + \alpha_4 \ln POPU_{t-i} + \varepsilon_t \quad (7)$$

In order to further investigate the impact of FDI and INSQ on poverty reduction in Uganda, this study adopted the Autoregressive Distributed Lag (ARDL) framework introduced by Pesaran *et al.* (2001). The unrestricted ARDL estimation, simultaneously estimate both long-run and short-run model. Therefore, the short-run and long-run form of equation (6) and (7) is given as:

$$PHCR_t = \alpha_0 + PHCR_{t-i} + \alpha_1 \ln FDI_{t-i} + \alpha_2 INSQ_{t-i} + \alpha_3 \ln INEM_{t-i} + \alpha_4 \ln POPU_{t-i} \quad (8)$$
$$+\phi_{1i}\sum_{i=1}^{k}\Delta PHCR_{t-i} + \phi_{1i}\sum_{i=1}^{k}\Delta \ln FDI_{t-i} + \phi_{1i}\sum_{i=1}^{k}\Delta INSQ_{t-i} + \phi_{1i}\sum_{i=1}^{k}\Delta \ln INEM + \phi_{1i}\sum_{i=1}^{k}\Delta \ln POPU_{t-i} + \lambda \text{ect}_{t-i} + \varepsilon_t$$

$$\ln HCEX_t = \alpha_0 + \ln HCEX_{t-i} + \alpha_1 \ln FDI_{t-i} + \alpha_2 INSQ_{t-i} + \alpha_3 \ln INEM_{t-i} + \alpha_4 \ln POPU_{t-i} \quad (9)$$
$$+\phi_{1i}\sum_{i=1}^{k}\Delta \ln HCEX_{t-i} + \phi_{1i}\sum_{i=1}^{k}\Delta \ln FDI_{t-i} + \phi_{1i}\sum_{i=1}^{k}\Delta INSQ_{t-i} + \phi_{1i}\sum_{i=1}^{k}\Delta \ln INEM + \phi_{1i}\sum_{i=1}^{k}\Delta \ln POPU_{t-i} + \delta \text{ect}_{t-i} + \varepsilon_t$$

The ect_{t-1} represents the lagged error correction term. The coefficients λ and γ attached to ect_{t-1} in both equations measure the speed of adjustment toward long-run equilibrium. For the error correction mechanism to be valid, these coefficients must be negative, statistically significant, and lie between -1 and 0. This indicates how quickly the model corrects short-run disequilibrium and returns to its long-run path. Therefore, Equations (8) and (9) were estimated using the ARDL error correction framework.

4. Results and Discussion

4.1. Descriptives

Table 1. Descriptive Statistics

	PHCR	LNHCEX	LNFDIN	INSQ	LNPOPU	LNINEM
Mean	31.38103	4.309201	20.21441	0.041034	17.29723	2.435496
Median	31.3	4.299101	20.41898	0.951008	17.29339	2.400368
Maximum	56.2	4.39573	21.90413	1.854089	17.72784	2.937047
Minimum	16.1	4.190728	18.6113	-3.36388	16.871	1.914792
Std. Dev.	11.45214	0.04834	0.969392	1.812438	0.260726	0.436084
Skewness	0.299402	-0.3231	-0.10701	-0.79574	0.031218	-0.04684
Kurtosis	1.871093	2.42968	2.026259	1.901425	1.82286	1.186262
Jarque-Bera	1.973207	0.897601	1.201053	4.518781	1.679047	3.985592
Probability	0.372841	0.638394	0.548523	0.104414	0.431916	0.136314
Sum	910.05	124.9668	586.2178	1.19	501.6196	70.6294
Sum Sq. Dev.	3672.242	0.06543	26.31216	91.97809	1.903384	5.324743
Observations	29	29	29	29	29	29

Source: Researcher's Computations using E-Views 13.

The descriptive statistics presented in Table 1 summarize the key variables used in the analysis of poverty reduction in Uganda, based on 29 observations. The mean value of the Poverty Headcount Ratio (PHCR) is 31.38, with a standard deviation of 11.45, indicating substantial variation in poverty levels across the sample period. Log-transformed household consumption expenditure (LNHCEX) has a mean of 4.31 and very low variability (Std. Dev. = 0.05), suggesting relative stability in consumption patterns. Log-

transformed Foreign Direct Investment (LNFDIN) shows a mean of 20.21 and considerable dispersion (Std. Dev. = 0.97), reflecting fluctuations in FDI inflows over time. Institutional quality (INSQ) exhibits a mean near zero (0.04) but a wide range from -3.36 to 1.85, indicating significant institutional variability, including negative values that likely represent poor governance scores. The skewness and kurtosis values for all variables fall within acceptable ranges for near-normal distribution, which is further supported by the non-significant Jarque-Bera probabilities (all $p > 0.05$), confirming that the data meet the normality assumption required for parametric regression analysis.

4.2. Unit Root Test

Table 2. Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variable	Method	Level	First Diff.	Order of Integration
		Stat. (Prob.)	Stat. (Prob.)	
PHCR	ADF	-3.321** (0.010)		I(0)
lnHCEX	ADF	-0.232 (0.974)	-10.216*(0.000)	I(1)
lnFDIN	ADF	-0.679(0.974)	-10.216*(0.000)	I(1)
INSQ	ADF	-1.520(0.520)	-10.666*(0.000)	I(1)
lnPOPU	ADF	-0.184 (0.936)	-3.154*(0.0019)	I(1)
lnINEM	ADF	-0.682 (0.846)	-10.950*(0.000)	I(1)

Note: *, ** Indicates stationary at the 1% and 5% level. Source: Researcher's Computations using E-Views 13.

From Table 2, Household Consumption Expenditure (HCEX), Foreign Direct Investment (FDIN), Institutional Quality (INSQ), Population Growth POPU, and employment (lnINEM) are stationary after first differencing; according to the conventional test of the Augmented Dickey-Fuller (ADF). However, the variable, poverty headcount ratio (PHCR), is stationary at the level. The variables were all found to be integrated at different orders; hence, they all satisfied the ARDL-bound testing approach, which requires each variable in the equation to be static either at the level, in first difference, or in modified form. The essence of testing for the stationarity test or properties of the variables in the bounds approach to co-integration is that the (ARDL) bounds test approach becomes applicable when variables integrated at level *I*(0), first difference *I*(1) or when they are mixed. This means that the assumption of bounds testing will collapse in the presence of I(2) variable. The Augmented Dickey-Fuller (ADF) unit root results presented in Table **2** imply that the bounds testing approach is applicable in this study, as all the variables are a mixture of I(1) and I(0).

4.3. ARDL Estimation of the Poverty Head Count Model

The co-integration test helps to establish the existence of long run equilibrium relationships among variables of interest. If co-integration is found among variables, the ARDL error correction model becomes applicable. Giving that the variables for both models are I(1) and I(0), the study progressed by estimating both models (PHCR and HCEX) differently. The result of the cointegration test of PHCR is presented in Table 3.

Table 3. Result of ARDL Bounds Test for Cointegration

Null Hypothesis: No Long-run Relationships Exist		
Test Statistic	**Value**	**K**
F-Statistic	5.926	4
Critical Value Bounds		
Significance	Lower Bound	Upper Bound
5%	2.560	3.490

Source: Researcher's Computations based on E-Views 13

Table 3 reports the ARDL bounds test result for cointegration. The F-statistic, which is 5.926, is greater than the values of the upper and lower bounds, which are 2.56 and 3.49 at 5% level critical level. This shows that there is a long-run equilibrium relationship between the dependent variable and the explanatory variables in the PHCR model. Having established that there is a long-run relationship between the variables, the study proceeds to estimate the Error Correction Model.

Table 4. ARDL Long Run Result

Dependent variable (PHCR)				
Variable *	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
LNFDIN(-1)	3.194646	4.277061	0.746926	0.4568
INSQ	-1.329364	1.145065	-1.160951	0.2483
LNINEM(-1)	-1.699764	0.643686	-2.640673	0.0096
LNPOPU	-55.54674	17.72972	-3.132973	0.0023
C	945.5578	259.1168	3.649157	0.0004

Source: Researcher's Computations based on E-Views 13

Based on the ARDL long-run results in Table 4, the coefficients reveal the long-term relationships between the independent variables and the Poverty Headcount Ratio (PHCR) in Uganda with careful attention to logged versus non-logged variables. Institutional quality (INSQ) has a negative but statistically insignificant coefficient (-1.329, p = 0.248), indicating that a one-unit increase in the institutional quality index is associated with a 1.33-unit reduction in PHCR, though this effect is not robustly confirmed. Also, total employment (LNINEM) is negative and significant (-1.700, p = 0.010), meaning that a one percent increase in employment reduces PHCR by approximately 0.017 units. Total population (LNPOPU) is also negative and significant (-55.547, p = 0.002), implying that a one percent increase in population reduces PHCR by about 0.555 units. Foreign direct investment (LNFDIN) is positive but insignificant (3.195, p = 0.457), suggesting that a one percent increase in FDI is associated with a 0.032-unit increase in PHCR, though this relationship lacks statistical significance. Thus, only employment and population emerge as statistically significant long-run determinants of poverty reduction in Uganda.

Table 5. ARDL Short Run Result

Dependent Variable: D(PHCR)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
COINTEQ*	-0.803847	0.126876	-6.335700	0.0000
D(PHCR(-1))	0.503853	0.114966	4.382632	0.0000
D(LNFDIN)	19.19458	4.108979	4.671373	0.0000
D(LNINEM)	2.098813	1.162983	1.804680	0.0744
D(LNPOPU(-1))	8.808197	4.309683	2.043816	0.0437
D(INSQ(-1))	-0.225078	0.091915	-2.448756	0.0163
R-squared	0.466449			
Adjusted R-squared	0.372638			
F-statistic	4.972219			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	2.072818			

Source: Researcher's Computations based on E-Views 13

The short-run ARDL results in Table 5 reported a well error correction model. The error correction term (ect) as indicated by the COINTEQ* is negative and significant (-0.804, p = 0.000). This clearly confirmed the speed of convergence to long-run equilibrium, giving a short term shocks. That is, approximately 80.4% of any disequilibrium in poverty headcount ratio (PHCR) model is corrected within one period. The result further revealed that the estimated coefficient of the changes in the lagged dependent variable D(PHCR(-1)) is positive (0.504) and significant (p = 0.000), showing that poverty dynamics show some persistence. The estimated coefficient of the changes in foreign direct investment D(LNFDIN) has a significant short-run effect (19.195, p = 0.000) on PHCR, implying that immediate FDI inflows unexpectedly raise poverty by 19.20 percent. Changes in employment (D(LNINEM)) is marginally significant (p = 0.074) with a positive coefficient (2.099). This suggest that, in the short-run employment gains do not instantly reduce poverty. Similarly, the estimated coefficient of population (D(LNPOPU (-1))) is positive and significant (8.808, p = 0.044). This indicates that in the short-run, population increases worsen poverty. Importantly, the estimated coefficient of institutional quality (D(INSQ (-1))) is negative and significant (-0.225, p = 0.016). This means, improvements in institutional quality reduce poverty in the short run. The explanatory power of the model measured by the R-squared

has a moderate explanatory power (R-squared = 0.466, Adjusted R-squared = 0.373), an F-statistic of 4.972 (p = 0.000) confirming overall significance, and a Durbin-Watson statistic of 2.073 indicating no serious serial correlation.

The study conducted a few diagnostic tests to assess the model's stability and applicability as well as the validity of the results; as presented in Table 6.

Table 6. Diagnostic Test Results

Test	Null Hypothesis	F-Statistic	Prob
Jarque-Bera	There is a normal distribution	1.062	0.588
Serial Correlation: Breuch-Godfrey LM	No Serial correlation	1.489	0.242
Heteroskedasticity: Breusch-Pagan-Godfrey	No conditional heteroscedasticity	2.580	0.092

Source: Researcher's Computations based on E-Views 13

Table 6 present the residual diagnostic test of the poverty head count model in equation(8). The model estimated ARDL model revealed that the error term is normally distributed. This is indicative of the p-value for the Jarque-Bera normality test is greater than 0.05. Also, the result did not display the presence of serial correlation and heteroskedasticity during the study period. This is evidence as their probability values are greater than 0.05. The results of the diagnostic tests for serial correlation suggested that the data is reasonably well behaved.

4.4. ARDL Estimation of the Household Consumption Expenditure Model

The results of the ARDL limits test for cointegration in the household consumption expenditure (HCEX) model are shown in Table 7.

Table 7. Result of ARDL Bounds Test for Cointegration

Null Hypothesis: No Long-run Relationships Exist		
Test Statistic	**Value**	**K**
F-Statistic	5.343	4
Critical Value Bounds		
Significance	Lower Bound	Upper Bound
5%	2.560	3.490

Source: Researcher's Computations based on E-Views 13

Table 7 reveal that at the 5% level critical level, the F-statistic of 5.343 is higher than the upper and lower bounds of 2.56 and 3.49. This demonstrates that the dependent variable and the explanatory factors in the HCEX model have a long-term equilibrium connection. The study then estimates the Error Correction Model after establishing a long-term link between the variables.

Table 8. ARDL Long Run Result for HCEX Model

Dependent variable (HCEX)				
Variable *	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
LNFDIN(-1)	-0.003705	0.016983	-0.218144	0.8277
INSQ	0.006307	0.005115	1.233140	0.2202
LNINEM(-1)	0.001519	0.002655	0.572239	0.5683
LNPOPU	-0.133595	0.078153	-1.709408	0.0902
C	6.675909	1.141319	5.849291	0.0000

Source: Researcher's Computations based on E-Views 13

Table 8 ARDL long-run results for the HCEX model show that none of the independent variables, LNFDIN (log of foreign direct investment), INSQ (institutional quality), LNINEM (total employment), and LNPOPU (log of population), are statistically significant at the 5% level. However, LNPOPU is marginally significant at the 10% level (coefficient = -0.1336, p = 0.0902), suggesting that a 1% increase in population reduces household consumption expenditure by approximately 0.13 units, implying higher poverty in the long run. All other predictors have p-values well above 0.05: LNFDIN (p = 0.8277), INSQ

(p = 0.2202), and LNINEM (p = 0.5683), indicating they do not have a robust long-run relationship with household consumption expenditure in this model. Only the constant term is highly significant (6.6759, p = 0.0000), capturing baseline consumption expenditure levels.

Table 9. ARDL Short Run Result

Dependent Variable: D(lnHCEX)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
COINTEQ*	-0.928551	0.137744	-6.741161	0.0000
D(PHCR(-1))	0.563732	0.109016	5.171093	0.0000
D(LNFDIN)	-0.030092	0.012657	-2.377565	0.0196
D(LNINEM)	0.009546	0.004228	2.257602	0.0264
D(LNPOPU(-1))	-0.011280	0.003597	-3.136115	0.0024
D(INSQ(-1))	-0.012765	0.003823	-3.339223	0.0013
R-squared	0.695229			
Adjusted R-squared	0.633590			
F-statistic	11.27901			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	2.114119			

Source: Researcher's Computations based on E-Views 13

Table 9 present the short-run ARDL results for the Household Consumption Expenditure (HCEX) model. The results show a highly significant error correction term (COINTEQ* = -0.929, p = 0.000), indicating that approximately 92.9% of any disequilibrium in household consumption expenditure is corrected within one period, an extremely rapid speed of adjustment. The lagged dependent variable (D(LNHCEX(-1))) is positive and significant (0.564, p = 0.000), showing persistence in consumption expenditure dynamics. A 1% increase in LNFDIN (foreign direct investment) reduces household consumption expenditure by 0.030% (p = 0.020), implying that FDI inflows actually worsen poverty in the short run. A 1% increase in lagged institutional quality (D(INSQ(-1))) increases consumption expenditure by 0.010% (p = 0.026), meaning better governance reduces poverty. A 1% increase in LNINEM (employment) raises consumption expenditure by 0.011% (p = 0.002), indicating job creation reduces poverty. Finally, a 1% increase in lagged population (D(LNPOPU(-1))) increases consumption expenditure by 0.013% (p = 0.001), suggesting short-run population growth is associated with lower poverty.

The model has strong explanatory power (R-squared = 0.695, Adjusted R-squared = 0.634, F-statistic = 11.279, p = 0.000) and no serial correlation (Durbin-Watson = 2.114). In the short run, institutional quality, employment, and population growth all improve household consumption expenditure (reduce poverty), with population having the largest coefficient (0.013%). However, FDI unexpectedly increases poverty (-0.030%), possibly due to capital-intensive investments displacing labor or enclave effects. The extremely fast error correction (-0.929) means policies targeting short-run poverty reduction will have rapid and lasting effects.

Table 10. Diagnostic Test Results

Test	**Null Hypothesis**	**F-Statistic**	**Prob**
Jarque-Bera	There is a normal distribution	0.082	0.960
Serial Correlation: Breuch-Godfrey LM	No Serial correlation	1.090	0.350
Heteroskedasticity: Breusch-Pagan-Godfrey	No conditional heteroscedasticity	0.017	0.898

Source: Researcher's Computations based on E-Views 13

The residual diagnostic test of the poverty head count model in equation(9) is shown in Table 10. The error term is normally distributed, according to the predicted ARDL model. This shows that the Jarque-Bera normalcy test p-value is higher than 0.05. Additionally, the results did not show heteroskedasticity

or serial correlation during the research period. Given that their probability values are higher than 0.05, this is proof. The data appears to be quite well-behaved, according on the results of the serial correlation diagnostic tests.

4.5. Discussion of Findings

The findings from the ARDL long-run analysis reveal that employment (LNINEM) and population (LNPOPU) significantly reduce the poverty headcount ratio (PHCR) in Uganda, while foreign direct investment (LNFDIN) and institutional quality (INSQ) show no statistically significant long-run effect on poverty reduction. Specifically, a 1% increase in total employment reduces PHCR by 1.70 percentage points, and a 1% increase in population reduces poverty by 5.55 percentage points. These results align with Muturi (2023), Yusufua et al. (2022) and Rossi and Dupont (2020), who found that FDI-driven employment enhances poverty reduction, but contradict their optimistic FDI findings since FDI itself is insignificant in the current study.

The insignificance of institutional quality in the long run supports Nanteza (2025) and Okoh (2024), who argue that weak governance in Uganda limits the developmental impact of institutions. However, the short-run results for PHCR show that improvements in institutional quality (D(INSQ(-1))) significantly reduce poverty (coefficient = -0.225, p = 0.016), while FDI unexpectedly increases poverty (19.195, p = 0.000), consistent with Madueke et al. (2022) and dependency theory (Frank, 1966; Wallerstein, 1974), where FDI operates as an enclave with limited domestic linkages. For the household consumption expenditure (HCEX) model, long-run effects are weak except for LNPOPU (p = 0.090), but short-run results show that institutional quality (0.010%), employment (0.011%), and population (0.013%) all improve HCEX (reduce poverty), while FDI reduces HCEX (-0.030%, p = 0.020), corroborating Aloui et al. (2024) and Arogundade et al. (2022), who emphasize that FDI's poverty impact is conditional on strong institutions and sectoral allocation.

The study's primary contribution to knowledge lies in its dual-dependent variable approach, simultaneously examining poverty headcount ratio and household consumption expenditure within a unified ARDL framework for Uganda. This disaggregation reveals that the determinants of poverty reduction differ depending on the poverty measure used and the time horizon considered. Unlike previous studies that treat poverty as a monolithic concept (e.g., Topalli et al., 2021; Tsaurai, 2023), this study demonstrates that while employment and population drive long-run poverty reduction measured by headcount, institutional quality only matters in the short run and for consumption-based poverty measures. Furthermore, the finding that FDI reduces household consumption expenditure in the short run while having no long-run effect challenges conventional optimism about FDI's poverty-reducing potential and instead supports dependency theory, which posits that FDI in peripheral economies like Uganda reinforces structural inequalities and enclave development. The high error correction coefficients (80.4% for PHCR and 92.9% for HCEX) also contribute methodologically, showing that Uganda's poverty dynamics are highly responsive to policy interventions, offering a clear policy targeting window.

These findings advance the literature by showing that poverty reduction in Uganda depends less on FDI volume than on the institutional and labour-market conditions that convert investment into welfare gains. At the long-run level, employment remains central to reducing the poverty headcount, while institutional quality shows its strongest effect in the short run by improving consumption-based welfare. This evidence qualifies the optimistic FDI-growth view and supports institutional economics, which argues that governance, contract enforcement, and credible rules shape development outcomes (Acemoglu et al., 2005; North, 1990). It also aligns with studies showing that FDI reduces poverty only when it is governed, sectorally targeted, and embedded in domestic linkages (Adegboye et al., 2020; Aloui et al., 2024; Arogundade et al., 2022). The policy priority, therefore, is to link FDI to decent work, inclusive growth in the bid to advance SDG 8; as illustrated in Figure 1.

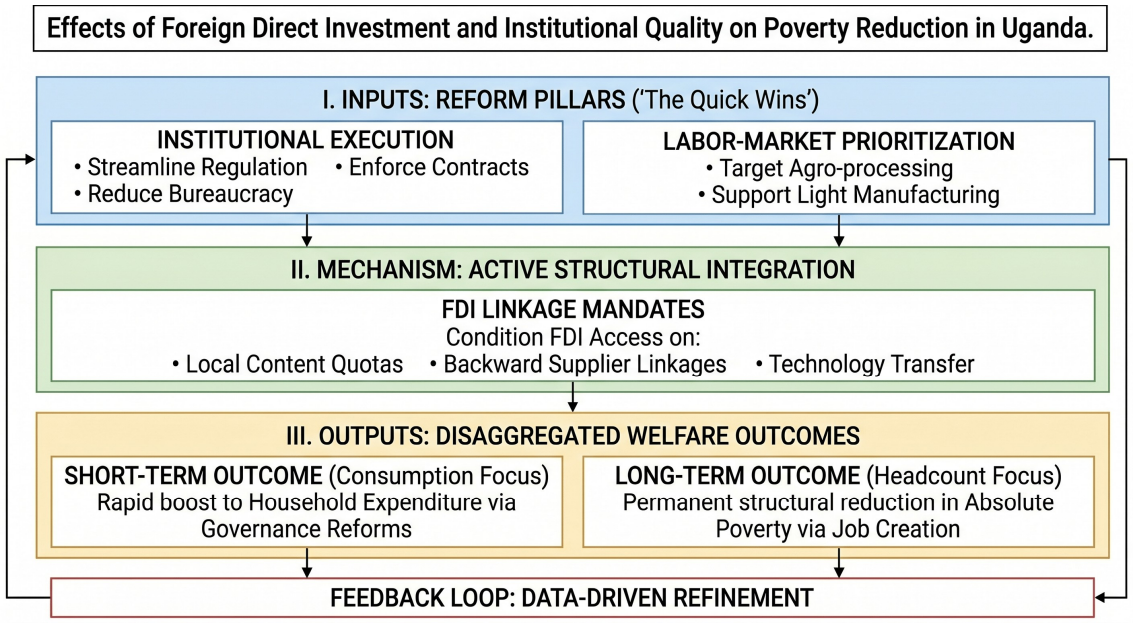

Figure 1. *Policy framework for linking FDI, institutional quality, and decent-work-led poverty reduction in Uganda.*

Figure 1 represents a framework useful for developing economy like Uganda, which shows that poverty reduction requires more than passive FDI attraction. Institutional execution and labour-market prioritisation form the reform inputs needed to discipline foreign capital. FDI linkage mandates then convert investment into domestic supplier networks, technology transfer, and local content gains. These mechanisms support short-run welfare through higher household consumption and long-run poverty reduction through decent work, employment creation, and inclusive economic growth. The feedback loop emphasises continuous policy refinement based on welfare evidence.

5. Conclusion and Recommendations

This study examined the effects of foreign direct investment (FDI), institutional quality, employment, and population on poverty reduction in Uganda using two poverty measures—poverty headcount ratio (PHCR) and household consumption expenditure (HCEX), within an ARDL framework over the period 1996 to 2024. The findings reveal that employment and population significantly reduce poverty in the long run when poverty is measured by headcount ratio, while institutional quality and FDI show no long-run effects. However, in the short run, institutional quality improves both poverty measures (reducing PHCR and increasing HCEX), whereas FDI unexpectedly worsens poverty by increasing PHCR and reducing HCEX, supporting dependency theory arguments that FDI in Uganda operates as an enclave with weak domestic linkages. The exceptionally high error correction coefficients (80.4% for PHCR and 92.9% for HCEX) confirm that poverty dynamics in Uganda are highly responsive to policy interventions, with rapid adjustment back to equilibrium following short-run shocks. The contrasting results between the two poverty measures underscore the importance of disaggregating poverty when evaluating development policies, as employment and population drive long-run headcount reduction, while institutional quality matters only for consumption-based poverty and only in the short run.

Based on these findings, the following recommendations are made: First, the government should prioritize employment generation through labor-intensive industrialization, support for small and medium enterprises, and skills development programs, given that employment consistently reduces poverty in both the long and short run across both poverty measures. Second, institutional quality reforms, including anti-corruption measures, regulatory efficiency, and rule of law enforcement, should be accelerated, as they yield rapid poverty-reduction benefits in the short run, even though their long-run effects are not statistically significant. Third, FDI attraction policies must be reoriented away from capital-intensive extractive industries toward labor-intensive, export-oriented manufacturing with strong

backward linkages to the domestic economy, given that current FDI inflows unexpectedly increase poverty. Fourth, population growth should be viewed as a demographic dividend rather than a burden, with investments in health, education, and infrastructure to harness the observed poverty-reducing effects, particularly in the long run. Finally, policymakers should adopt a dual-track approach: immediate institutional strengthening and targeted social protection programs to address short-run poverty, complemented by sustained employment creation and population-inclusive planning to secure long-run poverty reduction. Future research should explore sectoral-level FDI disaggregation and the mediating role of institutional quality through interaction terms to further clarify the conditional effects observed in this study.

Declarations

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Conflict of Interest

The authors declare no conflict of interest.

Data Availability

The data supporting the findings of this study are available from the corresponding author upon request.

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