MEASURES FOR REDUCING ECONOMIC DEPENDENCE

QN. ***Suggest measures that can be used to reduce economic dependence.***

1. Diversify the economy. The government should encourage investment in the various sectors and economic activities in the country so as to reduce dependence on one or a few sectors of the economy.
2. Indigenous technology should be developed. This can be done through research, innovation and invention so as to upgrade and improve upon the local technology as a way of reducing dependence on foreign technology.
3. Encourage training of local man power. This should be done so as to equip the local labour with skills needed in production in the different sectors of the economy so as to reduce dependence on foreign skilled labour.
4. Establish import substitution industries. This should be done in order to encourage production of manufactured goods and therefore reduce the dependence on importation of manufactured capital goods.
5. Diversify the export market. This should be done e.g. through regional economic integration so as to reduce on the dependence on one or a few foreign markets for the country's exports (geographical concentration of trade).
6. Diversify the country's exports. This should be done e.g. through encouraging exportation of various commodities in addition to traditional agricultural commodities so as to reduce dependence on exportation of a few commodities (commodity concentration of trade).
7. Promote entrepreneurship training in the country. This should be done in order to provide the local people with the necessary skills for organising factors of production to carry out investment. This can reduce dependence on foreign investors.
8. The government should expand the tax base in the country. This can be done through use of measures such as infrastructural development, trade liberalisation, etc. so as to raise more revenue from taxation which reduces dependence on foreign aid.
9. Encourage domestic/local saving and investment. This can be done e.g. through sensitizing the masses about the importance of saving, providing investment incentives and affordable loans to the local investors so as to reduce dependence on foreign capital for investment in the country.

REVISION QNS.

1a. Explain the demerits of economic dependence in Uganda

b. what measures are being used to reduce economic dependence in Uganda

2. Describe the different forms of economic dependence in Uganda OR

In what ways is your country economically dependant?

Answers

- Uganda mainly relies on agricultural sector for economic development or survival
- Uganda relies on other countries like USA for resources like foreign aid, foreign capital for survival or development.

- Uganda relies on the exportation of agricultural products as its major export earner for economic survival or development.
- Uganda relies on decisions and policies made by foreigners and foreign bodies like IMF for economic survival and development.

THE PRIVATE SECTOR

The private sector refers to the portion of the country's economy consisting of firms and activities that are owned, controlled and operated by private individuals and companies.

Therefore, it consists of the private enterprises some of which are operated and owned by local individuals while others are owned and operated by foreign individuals and investors.

It also consists of other organisations e.g. NGOs, private schools and other institutions etc.

FEATURES OF THE PRIVATE SECTOR IN UGANDA

1. Mainly consists of small scale enterprises or firms
2. Mainly produces poor quality goods and services.
3. Mainly produces consumer goods and services other than capital goods.
4. Mainly uses poor technology in production.
5. Mainly employs unskilled and semi-skilled labour
6. Mainly produces for the domestic market.
7. Mainly consists of sole proprietor businesses.
8. Mainly dominated by local investors/individuals other than foreign investors.
9. Mainly characterised by low productivity and low output.
10. Mainly aims at maximising profits.

QN.

1a. Distinguish between private sector and informal sector.

b. Mention any 6 similarities between the private sector and the informal sector.

ROLE OF THE PRIVATE SECTOR/ PRIVATE ENTERPRISES IN ECONOMIC DEVELOPMENT.

Positive roles.

1. It contributes towards government revenue through payment of taxes imposed by the government on the output and profits made by the enterprises in the private sector.

2. It creates employment opportunities in the country i.e. it provides job opportunities to a number of workers both skilled and un-skilled who work in enterprises in the private sector and therefore earn incomes which leads to improvement in the standard of living.
3. It creates capital inflow into the country. This is through the private foreign investors who come with capital to carry out investment in the private sector of the country's economy.
4. It promotes exploitation and utilisation of resources in the country. This is because the activities carried out in the private sector require various inputs such as raw materials for use in production of goods and services.
5. It promotes development of the country's infrastructure especially the transport and communication network, power and energy projects etc. some of these projects are set up by the government to facilitate the activities of the private enterprises while others are directly developed by companies in the private sector e.g. the telecommunication companies, construction companies etc.
6. Development of entrepreneurship skills. Some of the enterprises and organisations in the private sector are directly involved in the entrepreneurship training. But in addition, people employed in the private sector gradually acquire skills that they eventually use to start their own businesses.
7. It promotes industrialisation in the country. This is because a number of individuals and enterprises in the private sector both local and foreign carry out investment in the manufacturing industries in the country.
8. Provision of a variety of goods and services for the people in the country which widens their choices. This is because private enterprises aim at maximising profits and therefore produce a wide range of products to cater for the different tastes and preferences of the consumers in order to sell as much as possible and earn more profits.
9. It promotes development of labour skills in the country. This is because people employed in the private sector gradually acquire skills for use in carrying out activities in the private sector in addition to training I private institutions.
10. Promotes commercialisation and monetisation of the country's economy. This is because the private sector mainly aims at making profits therefore produces for the market which gradually reduces the size of the subsistence sector.
11. It promotes technological development and transfer in the country. Through innovations and inventions in the private sector, the local technology is gradually up graded and improved which increases productivity in the country. In addition, some of the investors in the private sector import modern technology from other countries which increases the level of efficiency in production.
12. Encourages diversification of the economy which reduces sectoral dependence. This is because private individuals and enterprises carry out investment in the different sectors of the economy e.g. tourism, agriculture, industrial sector etc. hence promoting development of the various sectors of the economy.
13. It improves on the country's B.O.P position. This is because some of the enterprises in the private sector produce commodities that where formerly imported from other countries which reduces the volume of imports and the country's foreign exchange expenditure abroad.

14. It promotes production of good quality goods and services. This is because of the stiff competition in the private sector as well as the profit motive for most of the enterprises in the private sector.
15. It promotes economic growth in the country. The enterprises in the private sector produce huge amounts of goods which increases the country's GDP and economic growth.
16. It promotes efficiency in production. This is due to the high level of competition which forces the enterprises in the private sector to employ modern technology and employ skilled labour so as to increase the level of efficiency in production.

Negative Roles.

1. Promotes exploitation of consumers. This is through over charging of consumers for the products they sell to them in order to maximise profits.
2. It worsens income inequalities in the economy. This is because the private enterprises aim at maximising profits and therefore do everything possible to maximise profits which enables them to earn more incomes than other individuals without businesses hence income inequalities in the country.
3. It encourages duplication and wastage of resources. This is because there are usually many individuals and enterprises carrying out the same activities which would have been carried out more efficiently by a small number of individuals or enterprises.
4. It promotes capital outflow to other countries. This is through capital repatriation by foreign investors in the country's private sector.
5. It exerts a lot of pressure on the government especially when it comes to formulation of policies regarding taxation, subsidisation etc. This is because investors in the private sector usually want such policies to be made in their favour.
6. Promotes foreign domination of the economy which arises from the foreign investors in the private sector especially where the foreign investments contribute a very big percentage to production in the private sector. Therefore, some foreign investors sometimes indirectly influence the political and economic decisions made in the country.
7. It leads to over exploitation and exhaustion of the country's resources. This is because the major aim is profit maximisation which is done at the expense of sustainable utilisation of the country's resources.
8. It results into a high level of social costs e.g. pollution and other forms of environmental degradation. This is because the activities in the private sector such as manufacturing pollute the atmosphere and water bodies because of the irresponsible disposal of the wastes.
9. It results into congestion in urban and semi-urban areas. This is because most of the enterprises in the private sector are concentrated in the urban and semi-urban areas.
10. It results into technological unemployment. This is because some of the enterprises in the private sector employ capital intensive methods to produce better quality goods and services but in the long run, this leads to replacement of human labour by machines in production.
11. Some of the enterprises and individuals in the private sector produce poor quality commodities or substandard commodities which reduce people's welfare in the country.

PROBLEMS/ CHALLENGES FACED BY THE PRIVATE SECTOR

1. Inadequate capital. Because of inadequate capital, it is impossible for some of the enterprises in the private sector to purchase modern equipment which leads to inefficiency in production hence low output and low profits made.
2. Limited skilled labour. This results into inefficiency in production within the private enterprises as well as production of poor quality commodities. But in addition, some of the enterprises are forced to import skilled labour from other countries which is expensive and increases production costs.
3. Limited market for the goods and services in the country. This results into low sales and sometimes losses but also forces the private enterprise to produce at excess capacity hence low output.
4. Poor technology. This results into inefficiency in production and production of poor quality goods which are very difficult to sell due to the competition in the market. This leads to low sales and profits.
5. Low entrepreneurship skills. This results into poor organisation of other factors of production which results into inefficiency and production of low output within the private enterprises.
6. High level of corruption. This increases the costs of production as private investors incur costs and expenditure in form of bribes in order to get or acquire operational licences.
7. Inadequate investment incentives/high levels of taxation. Absence of incentives such as tax holidays and also imposition of high taxes by the government makes private enterprises to incur high production costs hence low output and low profits.
8. Political instabilities. These result into loss of lives and property of the private investors and also scare away the potential investors. This leads to low investment, low output and low profits realised.
9. Poor land tenure system. This makes it hard and costly to obtain land for establishing investment by the private investors. It also limits expansion of the private enterprises making them produce less output and earn less profits.
10. Limited supply of raw materials. This leads to production at excess capacity which leads to high costs per unit output and also forces some of the owners of the private enterprises to import raw materials from other countries which is very expensive.
11. High rates of inflation. This leads to rising costs of inputs used in production which increases the production costs and sometimes losses to private enterprises.
12. Bureaucracy/red tape. This is in form of unnecessary delays and lengthy procedures that have to be gone through to obtain licences, certificates of operation etc. which leads to time wastage and sometimes losses.
13. Unfavourable natural factors e.g. drought, pests and diseases in the agricultural sector which lead to low yields and production of poor quality commodities by private enterprises in the agricultural sector.
14. Poor infrastructure e.g. in form of poor transport network that makes the transportation of inputs and finished goods to the market areas costly which greatly increases production costs.

MEASURES FOR EXPANDING THE PRIVATE SECTOR.

QN. Suggest measures that should be taken to improve the performance of the private sector in Uganda.

1. Improve on the political climate. The government should improve on the political climate through the use of the army police and peace talks in order to give confidence to private investors to carryout investment without fear of losing their lives and property. This increases the level of investment and output in the private sector.
2. Provide investment incentives. The government should provide investment incentives to private investors in form of tax holidays and subsidies. This reduces the production costs of the private investors which encourages them to make more investments.

***Assignment.** Explain the following points (measures that should be taken to improve the performance of the private sector in Uganda)*

3. Expand on the size of the market
4. Carryout land tenure reforms
5. Improve on the level of technology
6. Provide credit facilities or affordable loans to private investors
7. Carryout trade liberalisation
8. Promote accountability
9. Develop the country's infrastructure
10. Privatise the public enterprises
11. Carryout publicity campaigns both locally and internationally
12. Equip labour with relevant skills through training.

ROLE OF THE PRIVATE SECTOR IN INDUSTRIAL DEVELOPMENT IN UGANDA

QN. Explain the contributions of the private sector to the industrialisation process in Uganda

N.B- Link the roles or contributions to the process of industrialisation.

1. It trains labour which is employed in the industries. i.e. private institutions like universities train labour such as managers, accountants, engineers etc. and these trained workers end up working in the industrial sector.
2. It has extended loans to private investors in the industrial sector. commercial banks and other private financial institutions provide credit/loans to industrial investors which are used to set up or even expand the industrial sector.
3. Private firms under the private sector create linkages with the industrial sector e.g. some private firms provide or supply raw materials while others provide market to the products of the industrial sector.
4. It has safe guarded industries against business risks. Private insurance companies guarantee compensation/indemnity to industrial investors in case of losses from risks. This encourages investors to carry out industrial activities.

5. It promotes entrepreneurship skills in Uganda. E.g. UPSF (Uganda Private Sector Foundation) organises training workshops for industrial managers and entrepreneurs. This helps to improve their managerial skills which enable effective running of industries.
6. It has put in place basic infrastructure which is used by the industries e.g. private communication companies in Uganda such as MTN, Airtel Africell etc. have set up communication infrastructure which is being used by industrial firms to promote trade.
7. It has encouraged scientific innovation in industries. New techniques of production used in industries are developed by private firms through research. This increases efficiency in running of industries.
8. It has created competition with the industrial sector hence improvement in the quality of output.
9. It has encouraged technological transfer. Modern machines used in industries are imported by the private sector firms. This helps to increase output of industries hence promoting the process of industrialisation in Uganda.

THE PUBLIC SECTOR

This a sector consisting of activities directed and controlled by the state. E.g. it consists of public enterprises, government departments etc.

THE ECONOMIC ROLE OF THE GOVERNMENT

i. Development of the country's infrastructure
ii. Ensures even distribution of income
iii. Directs and regulates economic activities in order to achieve desirable economic objectives
iv. Mobilisation of resources from domestic and foreign sources
v. Ensures stable and conducive political climate
vi. Participates in production especially of public goods
vii. Marketing major exports of the country.

REASONS FOR THE POOR PERFORMANCE OF THE PUBLIC SECTOR IN UGANDA (CHALLENGES FACED BY THE PUBLIC SECTOR)

1. Inadequate capital. Due to inadequate capital and funding by the government, there is failure to acquire equipment to be used in production and this leads to poor performance of the public sector.
2. Poor infrastructure. This leads to inefficiency in production i.e. due to poor infrastructure which hinders transportation of raw materials to industries or finished goods to market areas. This also leads to poor performance of the public sector.
3. High level of bureaucracy. This hinders quick decision making because very many steps have to be taken before a decision is approved and implemented by the relevant government officials which wastes time.

4. Political interference in the activities of the public sector. Government officials and politicians usually dictate policies to be take in the public sector and such interference is sometimes misleading and leads to losses in the public sector.
5. Low level of accountability. This is due to poor supervision and monitoring and lack of interest in the success of the sector on the side of the employees. This limits the funds available for the expansion of the public sector.
6. Limited skilled labour. This leads to low productivity, low output and inefficiency in the activities carried out in the public sector which leads to losses.
7. Competition from the private sector. In some cases, the public sector provides goods similar to those produced by the private sector and yet those of the private sector out compete goods from the public sector because they are usually of a better quality.
8. Poor techniques of production. Due to limited funds, the public sector continues to use outdated technology which leads to poor quality goods and services produced.
9. Small market. This is mainly due to a large percentage of low income earners who have a low purchasing power. This forces the public sector to produce at excess capacity.

Revision questions.

1a. distinguish between a public sector and a private sector

b. Explain the reasons behind the poor performance of the public sector in Uganda.

2a. what are the economic roles of the government in Uganda?

b. Explain the challenges faced by the public sector in Uganda.

3a. what is meant by a public sector?

b. Suggest measures that can be taken to improve the performance of the public sector in Uganda.

FOREIGN DIRECT INVESTMENT (FDI) IN UGANDA

Foreign Direct Investment is the transfer of productive resources or capital by foreign individuals, companies and Multi-National corporations in form of business operations.

N.B

i. **Foreign Indirect investment**

Is the transfer of productive resources or capital by foreign individuals, enterprises in form of investment in stock markets or buying shares in already existing enterprises in other countries.

ii. **Multi-national corporations**

Are international companies which have headquarters in one country but they have a number of branches and areas of operation in other countries in both developed and developing countries.

Examples of Multi-national corporations include;

- Coca cola (USA)
- Shell (USA)
- MTN (south Africa)
- Toyota (Japan)
- Total (France)
- Samsung (S. KOREA)
- Panasonic (Japan)

MERITS (POSITIVE IMPACT) OF FOREIGN DIRECT INVESTMENT IN UGANDA

N.B

These points also apply for Multi-national corporations

1. It closes the foreign exchange gap. Foreign investors bring in foreign exchange in order to finance their activities. They exchange it for the local currency and this helps to close the foreign exchange gap in Uganda.
2. It leads to increased output hence economic growth. foreign investors increase the volume of goods produced in Uganda thereby contributing to economic growth.
3. It creates more employment opportunities. Business firms and enterprises set up by foreign private investors provide jobs to the local people (both skilled and semi-skilled). Those who are employed earn income in order to sustain their lives by buying their basic necessities.
4. It's a source of government revenue through taxation. The government taxes the profits of Multi-national corporations (corporate tax) and PAYE from the employees' salaries.
5. It's a means of technological transfer. Foreign direct investors bring better and efficient techniques of production from their mother countries. This leads to production of better quality products.
6. It promotes the development of local labour skills. Foreign investors train the local people through the on-job training programmes and this enables them to acquire basic skills needed in production. i.e. they train technicians, production supervisors, bookkeepers (accountants) etc.
7. It promotes the use of local resources. FDIs and Multi-national corporations make use of raw materials and other resources that would otherwise lay idle e.g. oil industries from other countries are exploiting oil wells in western Uganda which had remained untapped or unexploited.
8. It facilitates production of a wide variety of goods. This leads to increased consumer choice hence there is improved standard of living for the people in the country.
9. It promotes the development of the basic infrastructure. Foreign investors are investing in the provision of infrastructure like communication facilities, banking, electricity etc. this has promoted development of basic infrastructure in Uganda.

10. It promotes efficiency in local firms through competition. The local firms also strive to improve the quality of their products so that they are not out competed by the foreign investors. This results into increased efficiency in local/domestic firms.
11. It accelerates industrial growth in Uganda. Some foreign investors set up industrial firms e.g. manufacturing and agro-based industries and this increases the pace of industrial development in Uganda.
12. It promotes international cooperation and therefore increases volume of goods traded. By hosting foreign investors, Uganda is able to maintain stronger political ties with mother countries of those foreign investors. This has an advantage of promoting trade links with other countries hence getting other related benefits.
13. It encourages inventions and innovations. Foreign investors carry out research and try to develop better production techniques and marketing strategies. This consequently improves the quality of goods and services produced in Uganda.

DEMERITS/ NEGATIVE EFFECTS OF FOREIGN DIRECT INVESTMENT (FDI)

NB;

Negative effects of FDI also apply for Multi-national corporations.

1. It accelerates capital outflow in form of profit repatriation and this causes BOP problems.
2. It worsens income disparities. i.e. people working in such multi-national corporations earn more than other worker in other sectors like agriculture.
3. It promotes external dependence of the economy. i.e. Uganda relies on foreign investors to bring in capital, technology and skills etc.
4. Local firms may be out competed by the big foreign investors. This is because foreign enterprises produce superior goods that out compete the inferior goods produced by the local firms.
5. It gives rise to technological unemployment which arises from the use of advanced capital intensive methods or technology.
6. It leads to irrational use of resources which leads to quick depletion of some of the resources.
7. It leads to foreign domination of the economy. Foreign investors always demand for excess concessions from the government in form of tax holidays, free land etc. and this finally reduce the net benefit from such foreign investors.
8. It results into social costs such as air and water pollution. Foreign investors are investing in a number of industrial projects which dispose off their wastes in water, air and land.
9. It leads to regional imbalance in development. This is because investors prefer to locate their industries or business enterprises in urban areas and this leaves out the rural areas.
10. Promotes rural-urban migration and associated evils.
11. Erosion of cultural and moral values.

STEPS WHICH ARE BEING TAKEN TO ATTRACT FOREIGN INVESTORS IN UGANDA.

1. Offering of investment incentives e.g. tax holidays.
2. Building of strong and sound infrastructure.

3. Attaining political stability in the country.
4. Achieving macroeconomic stability e.g. ensuring stability in prices, stability in exchange rates etc.
5. Undertaking further privatisation.
6. Undertaking further liberalisation of the economy.
7. Intensifying international publicity of investment opportunities available in Uganda.
8. Training people and equipping them with skills required by the foreign investors.

Revision questions.

1a. Define the term Foreign Direct Investment.

b. Assess the implications of FDI in an economy

2a. What is meant by Multi-national corporations?

b. Assess the impact of multi-national corporations in Uganda.

c. What steps are being taken to attract FDI in Uganda?

3a. What are the objectives of promoting FDI in Uganda?

b. Explain the challenges faced by FDI in Uganda.

FOREIGN AID.

This refers to the international net transfer of resources or funds in form of loans/grants and technical assistance directly from one government to another or indirectly from multilateral institutions and agencies like IMF, World bank etc.

Bi-lateral aid.

This is the aid or assistance given directly from one government to another and its usually from MDCs to LDCs e.g. from USA government to the government of Uganda.

Multi-lateral aid

This is the aid or assistance provided by different donor countries but it is given out through multi-lateral aid agencies like IMF, World bank, USAID, UKAID etc.

FORMS OF AID

1. **Grants and Donations**. These are resource transfers given to a country without repayment obligations from the side of the recipient country.

They are usually in form of food, medicine, funds etc. which are intended to assist the recipient countries in times of catastrophes such as drought, famine, landslides etc.

2. **loans.** These are resource transfer to a given country which must be paid back with or without interest. Loans are of 2 forms;

i. **soft loans**. These are loans with very low interest rates, long repayment period and have got terms and conditions that are friendly and negotiable. Such loans are usually given by multi-lateral institutions that are not profit making.

ii. **Hard loans/ commercial loans**. These are loans with high interest rates, short repayment period and have strict terms and conditions that are not negotiable. These are usually given by countries and international organisations that aim at making profits out of lending.

3. **Technical assistance**. This is in form of experts/ skilled man power, technical advice and equipment etc. It is mainly sent to specific projects.

4**. Military aid**. This is the aid in form of fire arms and ammunitions, military experts and protection etc. Developed countries give military support in form of fire arms, uniforms, instructors to train the army of the recipient country.

5. **Direct Foreign Investment**. This is in form of transfer of resources to another country in form of business operations. This on one hand assists the recipient country but also benefits the donor country in form of profits made.

TIED AND UNTIED AID.

Tied Aid. Refers to the foreign assistance where the recipient country is required to fulfil certain conditions that are set by the donor country before or after the aid is given. Such conditions are referred to as strings attached.

TYPES OF TIED AID.

1. **Project Tied Aid.** This is the foreign assistance where the donor gives instructions to the recipient to use the aid for a specific project or function.

2**. Purchase Tied aid**. This is the foreign assistance that is given under the condition that part of or all of the aid must be used to purchase the goods from the donor country.

3**. Source Tied aid.** This is foreign assistance which requires the recipient country to implement social, economic and political conditions dictated by the donor country.

Untied Aid. Refers to foreign assistance which has no strings attached. The recipient country is therefore free to use the aid as it pleases.

DIRECTION AND FLOW OF AID.

Foreign aid largely flows from MDCs to LDCs however, this takes the following pattern or direction;

1. **Political pattern**. For instance, USA provides more aid to those countries with multi-party form of democracy and have aa free market economy.

2. **Religious/ social pattern**. i.e. the more developed Islamic countries such as Saudi Arabia, Turkey UAE etc. tend to give a lot of aid to Islamic countries in Africa such as Sudan, Egypt, Niger etc. and at the same time Italy, Britain and France also gives more aid to predominantly Christian countries such as Uganda.

3. **colonial pattern**. i.e. Britain extends more aid to her former colonies such as Uganda, Kenya etc. while France also gives more aid to her former colonies such as Ivory coast, Tunisia etc.

REASONS/ MOTIVES OF GIVING AID BY DEVELOPED COUNTRIES.

1. For humanitarian reasons (philanthropy reasons). Some aid is given so that it is used by the recipient country to reduce misery and suffering of its citizens. Such aid targets improving the welfare of the people in the recipient country and it can be given to finance improvement in areas such as education, health, sanitation etc. Such aid largely comes from Scandinavian countries e.g. Denmark, Norway, Finland, Sweden.
2. To consolidate their commercial interest such as creating market for the goods made by the donor countries. This is the reason as to why they give out purchase tied aid.
3. To continue with economic domination of developing countries. They achieve this through giving aid that has strings attached in form of economic policies to be implemented by the recipient countries.
4. To dictate or influence political policies in the recipient countries. E.g. donor countries may dictate that the recipient country implements political reforms before aid is given.
5. For purposes of extending cultural and social ideologies. This is mainly achieved by taking people from the recipient country for training in the donor countries with an aim of changing their social perceptive.
6. To create employment for their national. The donor countries always send technical staff to the recipient countries to monitor hoe the aid is used. In some cases, the technical staff is employed and paid by the recipient country.

7. To extend military influence in developing countries. This is achieved by giving aid in form of military assistance and in some cases, the donor country sets up military bases in the recipient country.
8. To undertake research in fields such as education and health. This is achieved by giving aid which is project tied in the fields of health and education e.g. Makerere Walter Reed project funded by USA to develop HIV vaccine.
9. To promote international relations between the donor and the recipient countries. This is because after receiving the aid from the donor country, the recipient country makes sure that all the decisions and policies are in favour of the donor country.

THE ROLE OF FOREIGN AID.

NOTE; Foreign aid plays positive as well as negative roles in the recipients' economy.

Positive Roles

1. Foreign aid closes/ fills the saving-investment gap. Foreign aid in form of capital or funds supplements the domestic savings which are inadequate to carry out or finance the planned investment in the country.
2. It closes/ fills the foreign exchange gap. Foreign aid in form of foreign exchange given by the donors supplements the country's foreign exchange. This foreign exchange is used for financing and paying for the imports of the country as well as other international obligations.
3. It fills the skilled man power gap. The aid in form of skilled man power or expatriates given by the donors supplement the country's locally available skilled man power in carrying out productive activities in the country.
4. It closes the technological gap. This is through aid in form of technological transfer through which the country obtains modern and more efficient technology from the donors to supplement the poor technology in the country in carrying out production activities.
5. It closes the budgetary gap (closes the government revenue-expenditure gap). In many developing countries, the revenue got from taxation is much less than the planned expenditure for the government. Aid in form of donated funds supplements the domestic revenue in financing government expenditure.
6. It alleviates/ controls effects of natural disasters e.g. floods, earthquakes, landslides etc. This is usually through food, medicine and clothing in addition to what is locally provided by the government.
7. It increases employment opportunities in the country. Foreign aid in form of funds increases the level of investment and economic activities from which people get employed. In addition, foreign aid in form of foreign direct investment results into business operations through which a number of people are employed.
8. It increases the level of resource utilisation in the country. Foreign aid in form of funds, FDI and production equipment increase the level of investment which promotes the use of local resources.
9. It facilitates development of infrastructure in the country. For instance, aid in form of loans is usually used in construction of roads, dams etc. and this accelerates the rate of economic growth and development.

10. It strengthens working relations or friendship between the recipient country and the donor country. After receiving the aid from the donor country, the recipient country makes sure that all decisions and policies are always in favour of the donor country so as to more and more aid.
11. It leads to improvement in the level of skills and productivity of labour through training. This is usually through foreign aid in form of capacity building, foreign skilled man power and scholarships given by the donor country. This improves labour skills and increases the level of productivity.
12. It accelerates industrial growth in the country. This is through foreign aid in form of foreign capital investment in the industrial sector as well as aid used in the development of the country's infrastructure which promotes industrialisation.
13. It promotes economic growth. Recipient countries use foreign aid resources to put up physical and social infrastructure which encourages investment and production which also increases the rate of economic growth.

Negative Roles of foreign aid.

1. It worsens the BOP problems. This is through foreign exchange out flow when it comes to repayment of aid and accumulated interest.
2. It leads to huge debt burden. Foreign aid in form of borrowed funds results into huge debt servicing problems in the country and sometimes debt servicing denies the nationals essential goods and services.
3. It leads to unemployment in the recipient country. This is as a result of foreign aid in form of capital intensive techniques of production that replace the use of labour. It is also due to foreign aid in form of skilled man power that takes over jobs that would be for the local population.
4. It results into laziness and kills local initiative. This is because people in the recipient country always expect more and more aid instead of working harder to sustain themselves. This kills initiative and innovation.
5. It worsens economic domination by the donors in the recipient country. This is through donors interfering in the recipient country especially when it comes to formulation of economic policies.
6. It leads to cultural erosion. People in the recipient country abandon their culture and take up foreign culture of donors since some conditions set by the donors require a change in the social set up in the recipient country.
7. It leads to underutilisation of resources. This is because foreign aid makes the recipient country to rely on foreign aid or assistance instead of exploiting the country's resources.
8. It leads to brain drain. E.g. aid in form of scholarships given by the donor countries to some people in the recipient countries. Some people who are given scholarships remain in the donor country leaving LDCs with limited skilled labour.
9. It makes planning difficult. This is because foreign aid is in most cases inconsistent. i.e.it does not come in time and in the amount promised. This distorts planning leading to failure of aided projects.

10. It undermines the political sovereignty of the recipient country. This is because donor countries start to influence and dictate political matters in the recipient countries.
11. Sometimes aid is tied to unproductive or non-priority projects in the recipient country which may not directly benefit the people in the country or may not be of immediate need to the people.
12. It undermines capital formation. This is because foreign aid in form of loans leads to huge debt servicing and repayment which reduces the funds available for investment.

<u>FACTOR HINDERING/ LIMITING EFFECTIVE UTILISATION OF FOREIGN AID IN LDCs</u>

In many LDCs, foreign aid has not been effectively utilised due to the low absorptive capacity.

NB;

<u>Absorptive Capacity.</u> Refers to the country's ability to effectively utilise foreign aid or put foreign aid to the purpose it is intended.

The following factors have hindered LDCs to effectively utilise foreign aid;

1. Rampant corruption and embezzlement of donated funds. Sometimes the donated funds are misappropriated by government officials concerned and this leads to failure of projects to which aid is extended.
2. Political instability. This is in form of strike, wars and demonstrations which hinder Implementation of the funded projects in the politically unstable areas since the project implementers fear to lose their lives and property.
3. Limited skilled labour. A big part of the labour force in the LDCs does not have the required skills to implement projects to which donor countries always extend assistance.
4. Limited political support. Members of the recipient country at times oppose the implementation of funded projects due to their limited social relevance.
5. The inconsistent nature of the foreign aid. Sometimes the foreign aid does not come in time and in the promised amount. in addition, it is sometimes withdrawn before completion of the aided projects leading to failure of such projects.
6. Over ambitious planning. Sometimes the planning machinery formulate plan that require more funds and resources than the aid received. This leads to failure of some aided projects.
7. High rates of inflation. This makes inputs very expensive which renders foreign aid inadequate. This leads to failure of projects that are aided.
8. Outbreak of natural calamities. These include; floods, earthquakes, drought, landslides etc. which always destroy the aided projects and structures to which foreign aid is extended.
9. Poor infrastructure such as poor roads makes implementation of project resources difficult thereby hindering the implementation of aided projects.
10. Hard conditions set by the donor countries. Some of the conditions set by the donor countries go against the values of the people in the recipient country which makes them unable to utilise the aid.

<u>WAYS OF MAKING FOREIGN AID MORE PRODUCTIVE IN LDCs</u>

QN. Suggest ways of making foreign aid more productive in Uganda.

1. Improve on the political climate. The government should ensure political stability in all parts of the country in order to ensure safety of lives and property of project implementers. This will make it easy to implement aided projects in all parts of the country.

<u>**Assignment**</u>; ***explain the following ways of making foreign aid more productive in Uganda.***

2. Develop the country's infrastructure.
3. Carryout effective planning
4. Acquire aid from friendly sources
5. Improve labour skills
6. Ensure accountability/ fight corruption
7. Encourage political support (sensitize the population about the importance of foreign aid and the funded projects)
8. Control inflation.