

Exchange Rate Variability and Foreign Direct Investment Flows into Agriculture in Tanzania

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An inward Foreign Direct Investment flow to the agricultural sector has not been impressive across all developing countries including Tanzania. Exchange rate variability is one of the chief concerns for this unpleasant trend. Following this obnoxious stance, this study mainly investigated the empirical evidence on the effects of exchange rate variability on FDI inflows in the agricultural development. Specifically, the study sought to; i) determine the long run equilibrium relationship between the exchange rate variability and inward FDI flow to the agricultural sector in Tanzania within the period under study. ii) analyze the impacts of exchange rate and its variability on FDI inflows to the agricultural sector in the country. iii) examine the direction of causality between the exchange rate variability and FDI inflows to the agricultural sector in Tanzania within the same period. Using monthly time-series data from 1999 to 2008, the study employed OLS techniques to estimate the Multiple Regression model, Co-integration framework and Granger causality tests. The findings indicated a significant long-run relationship with no strong evidence of causality effects between the exchange rate variability and the real inward FDI flows to the agricultural sector within the period. It was also found that the exchange rate and its variability significantly registered a strong negative effect on the inward flows of real FDI to the agricultural sector in Tanzania. Policy implications include the improvement and formulation of favourable government policies to attract foreign investors to the country's agricultural sector.