

ABSTRACT

In the wake of globalization, foreign direct investment (FDI) has emerged as a pivotal force shaping the economic landscape of developing nations. The aim of this study was to investigate the effect of FDI on poverty rate in Rwanda. Furthermore, this study investigated how political stability, employment rate and trade openness affect poverty rate in Rwanda. This study applied ARDL (autoregressive distributed lag model) to bound test cointegration and Error correction model (ECM) for econometric analysis with time series data from 1994-2022 and the regression analysis was done using Stata 17. The study showed that both FDI, political stability, employment rate and trade openness has both long term and short term effect on poverty rate in Rwanda although the results are mixed. From the results, FDI, political stability and employment rate reported a significant negative effect on poverty rate in the long run meaning they play a crucial role in reduction of poverty rate in Rwanda but both reported a significant positive effect on poverty rate in Rwanda in short run meaning both doesn't contribute in poverty rate alleviation in short run. The study also reported a significant positive effect of trade openness on poverty rate in the long run indicating that trade openness doesn't reduce poverty rate. However, a significant negative effect of trade openness on poverty rate was recorded in short run suggesting a strong contribution of trade openness on poverty rate reduction in Rwanda in short run.

Key words: poverty rate, foreign direct investment, political stability, employment rate, trade openness, ARDL, Rwanda.