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Investment Policies and Promotion of Foreign Direct Investment in Telecommunication Industry in Rwanda: A Case Study of Tigo Co. and Business Community

Ms. Kayitesi Janet Peace, Mayange Micheal

Kampala International University, Entebbe, Uganda

1. GENERAL INTRODUCTION

This chapter presents the general Background information regarding the topic chosen which is," Investment policies and promotion of foreign direct investment in Telecommunication Industry. A case study TIGO Company and Business Community (Head office).It covers the background of the study, Statement of the problem, Purpose of the study, Research objectives, Research questions, Scope of the study, Significance of the study, and Conceptual frame work.

1.1. BACKGROUND OF THE STUDY:

1.1.1. HISTORICAL PERSPECTIVE:

According to Allan. C. shapiro looks at investment as means of creation or acquisition of new business assets and the expansation, restructuring or rehabilitation of an existing business enterprise. And it may also mean the convention of money into claims on money and use of funds for productive and income earning assets. While according to Jeffrey P. Graham and R. Barry Spaulding Foreign Direct Investment as a company from one country making a physical investment into building factory in another country. The direct investment in buildings machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. In recent years, given rapid growth and changes in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country.

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Sunitakikeri and Thomas Kenyon (2006) define investment promotion as a service and policy choice by government aimed to encourage investments, particularly private capital, and necessary to fuel economic growth. Investment can be classified into two categories which are foreign direct investment and local investment. It is from this perspective that this study will focus on the investment policies and promotion of foreign direct investment in telecommunication Industry in Rwanda.

According to Frank. K. Reilly 1982 looks at investment is a vehicle for new entrepreneurs and business people to continuously investment ideas. It is the life blood of all economy of any country because it primarily complements other economic activities to generate national income. Investment is charactized by creativity as new ideas and concepts are manifested in different businesses initiated by the investors in different sectors of the economy and by continuous change. An analysis **of past investment decisions. An investment analysis is a look back at previous investment decisions and the thought process of making the investment decision. Key factors should include entry price, expected time horizon, and reasons for making the decision at the time. From: http—www. Investopedia. com on 10.Jan.2011According to Larry Seruma (2012),** looks at investment on global perspective as an important key to the development of the countries.

It plays a big role in terms of employment, balance of payment, financial and material expertise. Considering Investment he says forget the BRIC Countries of Brazil, Russia, India, and China. Larry Seruma, says many retail investors are missing a tremendous opportunity for growth in Africa. Larry Seruma, points out risks and reasons for investing in the African continent. Seruma says more investors will begin to look outside of developed markets like the United States for growth, because those markets aren't expected to grow as fast as they have in the past. "It's only much more recently you're beginning to see these huge disparities coalesce," he says. "The U.S. is going to have very low investment opportunities going forward. "Investing in Africa involves plenty of risks. The biggest, Seruma says, is liquidity. "Liquidity is really the ability to trade frequently," he says. "When you want to get out of a position, it's not easy to get out of a position." Executing trades can be difficult because some African stock markets aren't as transparent and not as much trading takes place compared with, say, the S&P 500. There are other concerns, including the threat of government and corporate corruption. Many African countries have become functioning democracies, however, according to Seruma. There are a number of other funds that give investor's access to Africa and other "frontier" markets, which are also sometimes called pre-emerging markets. Here are Seruma's reasons for investing in Africa 'Ground-floor opportunity' Seruma says many investors have already missed what he calls a "ground-floor opportunity" in Africa. For the decade ending Dec. 31, 2009, an African composite index made up of eight countries, including South Africa, Nigeria, and Egypt, returned about 14 percent annualized. South Africa alone returned an average of 13 percent per year over that period. Compare that with the MSCI Emerging Markets Index, which returned about 7 percent annualized, or the S&P 500, which lost about 3 percent over the same time period. He compares the risk versus return ratio in Africa today with emerging markets like China, India, and Brazil in the late 1900s—meaning that investors who enter a new high-growth market first reap the highest returns over time because they're willing to take on more risk.

The Opportunity in Africa, Low correlation. Correlation is a measure of how investments perform in relation to each other. A low correlation, for example, means that two securities will frequently move in opposite directions. According to Serum's research, from January 2002 through June 2009, an African composite index of eight countries had a correlation of 0.59 with the S&P 500, 0.66 with the MSCI EAFE Index (which measures developed markets outside of North America), and 0.60 with the MSCI Emerging Markets Index. That means that 59 percent of the time, the returns of the African index differed from those of the S&P 500. Investors can use correlation statistics to find out how to better diversify their portfolios. "The African markets have a very low correlation with domestic or other emerging markets, so [you have a] good opportunity to actually reduce risk in the overall portfolio," he says. Diversifying your portfolio among uncorrelated assets can help offset big losses.

Strong growth expected. According to projections from the World Bank, nine of the 15 countries in the world with the highest rate of five-year economic growth are in Africa. Seruma estimates that Africa is likely to grow by 4.7 percent over the next five years. Economists expect much slower growth in places like the United States and U.K. over the next few years. "It's a pretty huge growth differential," he says, from: http—www. Investopedia. com on 10.Jan.2011

Considering Investment on the national level is the engine of economic growth in any country that is why it has become widely recognized by Rwanda over the past seventeen years ago as a major contribution to growth and development of the country. Investment brings capital Technology, Management Expertise, and access to new markets. It is more stable with long term commitment compared with other business activities in generating capital flows. This is mostly the domain of an active dynamic and entrepreneurial public and private sector. Rwanda is among the under developing countries in the World and much of its population lives on subsistence agriculture. The formal industrial and services sectors are little developed and almost non-existent outside the few larger urban areas (essentially Kigali, followed by smaller urban Centres such as Butare, Cyangugu, Gisenyi, Gitarama or Kibuye). The high population density, pressure on limited and fragile arable land, and the reliance of a large share of the population on subsistence agriculture mean that the transformation of the economy will be essential to improve living conditions for the majority of the country's inhabitants. Although the structures of the economy and past policies have been such that little foreign direct investment (FDI) has been attracted, the government of Rwanda has made remarkable progress over the past decade. Foreign Direct Investment and local investors flow into Rwanda have grown rapidly since introduction of investment policy regime after 1994. The government also established tax incentives as a measure for the provision of more favorable tax treatment of certain activities or sectors compared to what is granted to general industry. In case of Rwanda, Tax incentives are provided under the investment code, law number 26/2005 of 17/12/2005 relating to investment, export promotion and facilitation and more are provided in the tax law. The government of Rwanda's commitment to create a favorable investment climate is deeply enshrined in its vision 2020, where it has one of its strong pillars. 'Development of entrepreneurship and the private sector."

The investment climate in Rwanda is increasingly becoming favorable due to different reforms taking place in the economy and government initiatives to make it more welcoming to investors.

Investment climate has been considered as a key factor to the economic growth. According to Nick Stern, former chief economist of WORLD BANK, ‘‘ investment climate is a menu of policy, institutional, and behavioral environment both present and expected that in fluencies the returns and risks, associated with investment’’ From the above statement investment climate includes three broad categories. The first is macroeconomic including fiscal, monetary, and exchange rate policies. The second includes governance and institutions, including bureaucratic harassment and the financial and legal systems. The final category includes infrastructure necessary for productive investment, including transportation, electricity, and communications. The quality of the investment climate plays an important role in the location decision of many investors.

A favorable investment climate encourages businesses to improve efficiency and productivity in order to increase revenues and capital available for investment. It also gives investors confidence in the market and encourages them to invest more capital. Rwanda aims to increase its GDP per capital from 250USD to 900 USD and become a middle income country by 2020 according to Rwanda Vision 2020 “Economic Development and Poverty Reduction Strategy. This ambitious target implies that Rwanda’s economy needs to expand by over 600% and requires a vibrant private sector, massive local and foreign direct investment that should create several millions of new jobs in the formal sector as well as the increase and diversification of exports. The government of Rwanda has mandated the Rwanda Development Board to increase investment, and to increase and diversify exports. This is to be achieved through promotion and facilitation of trade and investment in Rwanda. The government of Rwanda has put into place incentives as attractive points for investors in general and for foreign investors in particular.

1.1.2. THEORETICAL PERSPECTIVE:

This study was guided by three dimensions the Economic, Financial and Personal advanced by Donalde FISHER and Ronald J.JORDAN. The theory postulates that Investment can be defined through three dimensions: Economic, Financial and Personal. In the Economic perspective investment would refer to as resources injected within the economy for additional stock. With this regard government may commit more funds for structural activities so as to improve investment environment. Not only the government can make economic investments but also business managers can do so by deciding to increase share capital in order to acquire additional machines on ware houses. Secondly Investment as Financial term, it would refer to that kind of resources put into the business with the main objective of getting direct return or profit. In this case therefore, the commitment of funds by businessmen in order to acquire additional stock of raw material for example, is considered as financial investment.

Also Personal Investment on its side would imply that type of investment that individual person may make for his or her own facilities. Such an investment does not generate any return other than the joy that the person can deliver from benefiting those facilities. Those investments are usually found in house hold expenditures. In whatever dimension investment can be made either in physical assets (like plant or houses, financial assets like shares and debentures). This study will be guided by the theory of investment climate is a menu of policy, regulatory and institutional factors that provide incentives sufficiently robust to induce the private sector to invest in socially desirable projects by Weingast, 1992.This theory was adopted because it elaborates the term investment in all aspects which is the main concern in this study.

1.1.3. CONCEPTUAL PERSPECTIVE:

According to Louis T. Wells, Jacques Morrisset (2001) defines investment as sacrifice of certain present value for uncertain future reward. it entails arriving at numerous decisions such as type, mix, amount, timing, grade of investment and dis investment while according to the article written by Jeffrey P. Graham and R. Barry Spaulding copy right at Citibank foreign direct investment in its classic definition, is defined as a company from one country making fiscal investment into building a factory in another country. The direct investment in buildings machinery and equipment is in contrast with a portfolio investment, which is considered as direct investment. In recent years, given rapid growth change in global investment patterns the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country.

1.1.4. CONTEXTUAL PERSPECTIVE:

According to Allan. C. Shapiro. Investment means creation or acquisition of new business assets and the expansation, restructuring or rehabitation of an existing business enterprise. It also means the convention of money into claims on money and use of funds for protective and income earning assets. In essence it means the use of funds for productive purpose for securing some objectives like income, appropriation of goods and services with objectives of resuring profits. While foreign direct investment according to economist refers to investment where the foreign investor (from country A) owns or controls the assets in (country B).Therefore this study will focus on investment policies and promotion of direct investment in telecommunication industry. According to the International Monetary Fund, foreign direct investment, commonly known as FDI, "... refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.

1.2. STATEMENT OF THE PROBLEM:

The last decade has witnessed an extensive growth in foreign direct investment (FDI) and increase in local investment activities to developing countries including Rwanda. Nevertheless in Rwanda they remain small when measured as a proportion of GDP and as compared to the East African Community region particularly in the Telecommunication Industry whereby for the last 10years only two Companies of Telecommunication have been operating in Rwanda, therefore this calls the attention to the researcher to find out the cause for this gap. That is to say MTN RWANDACELL and RWANDATEL which closed its operations of recent. Telecommunication is an excellent model of business for the people in developing countries where citizens can have easy means of Communication. And whenever there is a variety of a Telecommunication Companies it becomes easier for the people to get choice. Therefore it is in this respect that my study was focusing on the Investment Policies and Promotion of Foreign Indirect investment in Telecommunication Industry in Rwanda. A case study TIGO Company and Business Community this leaves a gap that this study will cover.

1.3. PURPOSE OF THE STUDY:

The purpose of the study was to establish investment policies and promotion of foreign direct investment in telecommunication industry in Rwanda. A case study TIGO Company and Business Community.

1.3.1. THE OBJECTIVES:

The objectives of the study are;

1. Analyzing the relationship between economic growth and investment policies made by the government of Rwanda in Telecommunication Companies.
2. Finding out the impact of investment climate in Telecommunication Companies in Rwanda and Investment Promotion;
3. Showing the role of incentives on the investment in Telecommunication Companies;

1.4. RESEARCH QUESTIONS:

The study sought to answer the following the questions:

1. What are the relationships between economic growth and Investment Policies made by government of Rwanda in Telecommunication Companies?
2. What is the impact of investment climate in Telecommunication Companies and Investment Promotion in Rwanda?
3. What is the role of incentives offered to promote investment in Telecommunication Companies?

1.5. SCOPE OF THE STUDY:

The scope of the will focus on investment policies and promotion of foreign direct investment in Telecommunication Industry in Rwanda, A case study TIGO Company the headquarters are located at Muhima in Kigali –City. The study will be conducted mainly in Kigali city at Muhima office and Nyarutarama office between March to July2012.

1.6. SIGNIFICANCE OF THE STUDY:

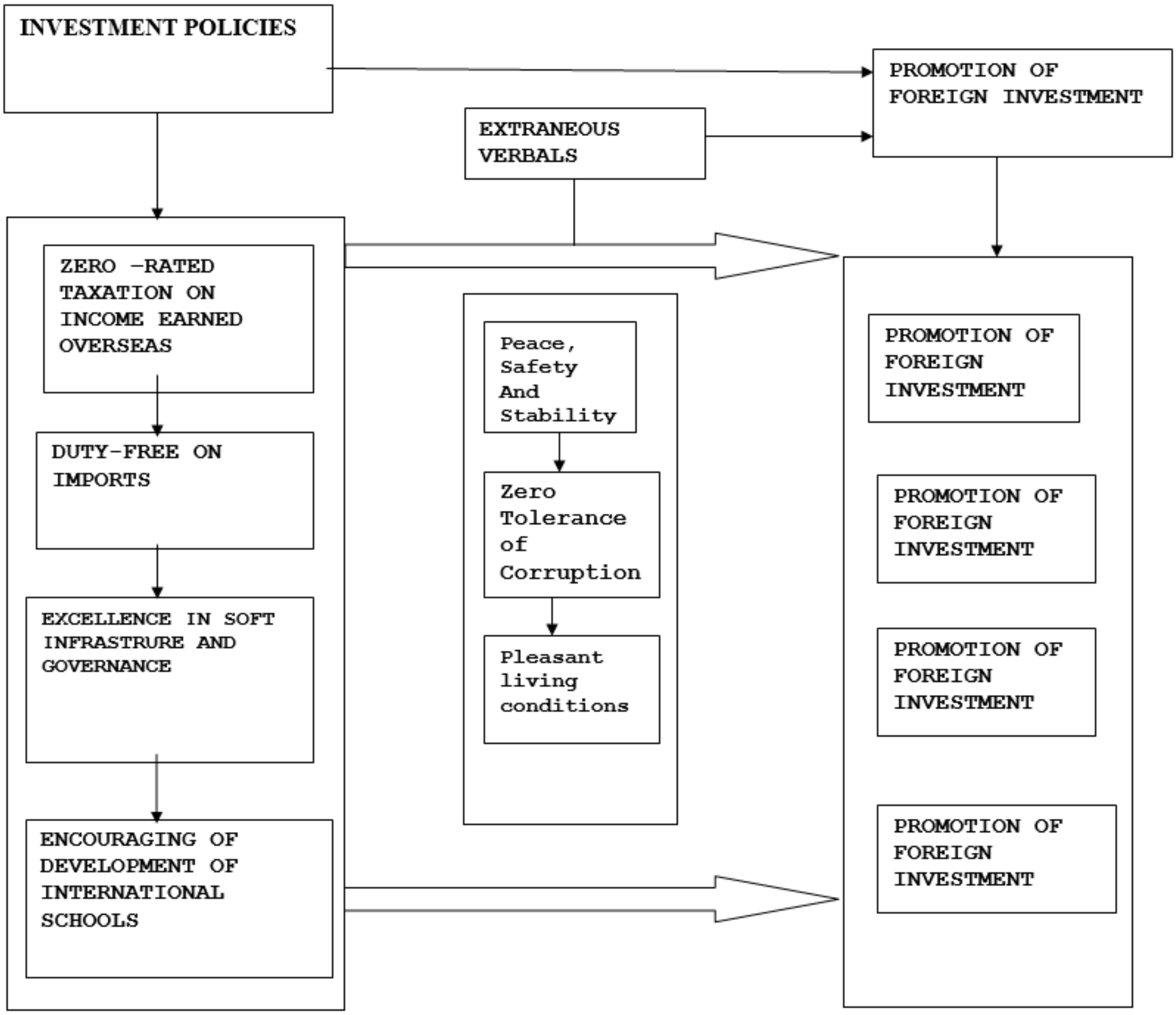
The target of the study was especially to the Investors affected by high costs of energy and the transport cost due to the geographical location of the country. This study benefits the government of Rwanda where it can reverse on some policies that would assist in attracting more investors in the country.

The study would also benefit policy makers on the national level by formulating and adapting strategies that are appropriate to benefit both local and International Investors who intend to invest in Rwanda hence boosting the economy of the country.

The study would also benefit future academic researchers who will conduct the research in similar field, Rwanda Development Board (RDB), and other management officers to consider recommendations and improve their performance, the Government of Rwanda while designing future Investment policies in the Telecommunication Industry.

FIGURE1.1

1.7. CONCEPTUAL FRAMEWORK.



SOURCE:
The above investment policies were provided by Rwanda Development Board (RDB) investor info pack 2011. Gishushu –Nyarutarama, www.rdb.rw, info@rwandainvest.com,
Tel:+250252580804,
Kigali- Rwanda.

According to the above diagram, all investors enjoy the zero taxation on income earned over seas and Duty free on Imports hence these policy has persuaded more foreign direct investors to prefer Rwanda because of peace, safety and stability and zero tolerance of corruption which is positive indicator of friendly investment climate in the Country hence leading to quick economic growth of the nation. Also Excellence in soft Infrastrures and Governance is also major tool in investment requirements where it also easier facilitates the safe movement of goods and services within the country without difficulties during transportation hence boosting the economy faster.

Lastly Encouraging the development of international Schools helps foreign direct investors to continue with the syllabus since their qualifications are recognized without changing the from one system to another hence leading to pleasant living conditions for example Green hills, Ecole Belgium and Ecole Congelaise.

2. LITERATURE REVIEW

2.0. Introduction

This chapter reviews the literature available in the areas of the study which reflects the number of studies carried out by several researchers and authors. It also reviews the literature from the work researchers put forward in books, reports and other published documents.

2.1. DEFINITION OF KEY CONCEPTS:

According to Rwanda's investment code defines investment as the creation or acquisition of new business assets or the expansion, restructuring or rehabilitation of existing business enterprise.

A cross the world, investment are seen as critical drivers of economic growth. Investment promotion has become a battle to every nation around the world and countries claim their share of global investment flows. In the economy, every sector is touched by investments and different opportunities exits through innovation by appropriately responding to trends in market movements, technological changes and consumer behavior. This reflects the objective of analyzing the relationship between economic growth and investment policies made by the government of Rwanda.

Sunitakikeri and Thomas Kenyon (2006) define investment promotion as a service and policy choice by government aimed to encourage investments, particularly private capital, and necessary to fuel economic growth. Investment can be classified into two categories which are foreign direct investment and local investment.

According to Nick Stern (2004), Investment policies are being made to encourage Foreign Direct Investment inflows by signing different investments agreements both at the local and international levels in order to promote and protect investors. Therefore it now becomes important to study a fresh what determines investment promotion and inflow of Foreign Direct Investment. In this regard there is a need to detect the role played by the governments' policies and investment agreements in attracting investors.

2.2. Investment

According to V.K.BHALLA (1984), investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type, mix, amount, timing, grade of investment and disinvestments. Further, such decision-making has not only to be continuous but rational too. Broadly speaking, an investment decision is a tradeoff between risk and return. All investment choices are made at point of time in accordance with the personal investment ends and in contemplation of uncertain future.

Under this theory they are basically three concepts of investment: economic investment, i.e. economist's definition of investment; Investment in more general or extended sense, which is used by the man on the street and financial investment.

The term economic investment has a rather precise meaning in the literature of economic theory typically it includes net additions to the capital stock of society; by capital stock of society we mean these goods which are used in the production of other goods. This is a gross, societal, or aggregate point of view.

In society there are number of goods such as building and equipment which are used to produce other goods, and that these means of production are considered part of the capital stock of the society. For a number of reasons, economists also include inventories of goods as part of capital stock. Thus, a net addition to the capital stock –an investment – means an increase in buildings, equipment or inventories over the amount of equivalent goods that existed, say one year ago at the same time.

The man on the street it is usually refers to a money commitment of some sort. For example; a commitment of money to buy a new car is certainly investment.

Financial investment is a form of this general or extended sense of the term. It means an exchange of financial claims stock and bonds (securities), real estate mortages, etc. Financial investment would imply the employment of funds with the objective of realizing additional income or growth of value of investment in a future date.

According to Richard A.Stevenson and Edward H. Jennings 1984, Investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation, and also for the uncertainty involved in the future flow of funds. This encompasses all types of investment, whether they are corporate investments in machinery, plant and equipment, government in flood control, or investment by individuals in stocks, bonds, commodities or real assets.

In all cases the investors is trading a known dollar amount to day for some expected future stream of payments or benefits that will exceed the current out lay by an amount which will compensate the investor for the time the funds are committed, for the expected changes in the prices during the period and the uncertainty involved in expected future cash flows.

The alternative investments that are considered by various investing units (corporations, governments, and individuals) only refer with regard to the institutional characteristics of the investment and some unique factors, which must be considered in analysis of different taxes.

Investment can be defined as the purchase of the assets expected to provide a return in the future. An individual or an organization may do two things with income i.e. consume or save.

The asset acquired in the investment process is obtained by foregoing current consumption. One is willing to forego consumption now in the expectation that the return from investing will result in greater consumption later. Making prudent and financially rewarding investment management decision requires the acquisition of knowledge about investment alternatives and the development of skills needed to evaluate these alternatives.

The skills are therefore needed to evaluate the potential risk and return associated with an investment decision. We know what we can consume now, but any investment alternative we use as a saving vehicle to enhance our future consumption may not fulfill our return expectations. Our future consumptions may be less than our present consumptions if prices are low when we liquidate and we would have been better off consuming now (Richard A. Stevenson and Edward H. Jennings, 1984).Investment also means the creation or acquisition of new business assets and the expansion, restructuring or rehabilitation of an existing business enterprise.(Law no 21/87 August 5,1987).

Investment is a term of several closely related meanings in finance and economics. It refers to be accumulation of some kind of asset in hopes of getting a future return from it. In theoretical economics, investment means the purchase (and thus the production) of capital goods –goods that are not consumed but instead used in future production.

The investment function in that aspect is divided into non-residential investment such factories machinery etc and residential such as new houses.

Investment is the function of income and interest rates. An increase in income will encourage higher investment, where as a higher interest rate will discourage investment as it becomes costlier to borrow money. Even if a firm chooses to use its own funds, the interest rate represents the opportunity cost of loaning out the money. (http://www.bivio.com).

According to TIM VALENTINE, 1991 Investment is the purchase of capital equipment such as the purchase of machine, equipment, factories that firms need to enable them to produce.

It is usually split into two parts:

By replacement investment, where companies buy new machinery and equipment that simply replaces something they had already that was worn out or inefficient. Depreciation is often used as an approximation for this.

By net investment where companies buy new machinery or equipment. It is this type that actually adds to the capital stock of the economy.

The term is also commonly used to describe the flow of expenditures devoted to increasing or maintaining the real capital stock. In fact a more accurate definition, which clearly encompasses the above, is that investment is the flow of expenditures devoted to projects producing goods, which are not intended for challenges for investment promotion in Rwanda, immediate consumption.

These investment projects may take the form of adding to both physical and human capital as well as inventories. (Pearce1996).

Investment is a flow, the volume of which is determined by all those projects, which yield a positive net present value, or an internal rate of return greater than the interest rate. The former is known as the net present value(NPV) criterion and the latter as the investment.(Bonehead,2000).Investment is also defined as the money put in property or other venture with the expectation of making a profit, with sufficient security to return and protect the capital, not speculation.

2.3. Determinants of Investment

The level of investment in the economy is determined by:

Income:

When house hold's income increase, consumption demand increase and investment increases to satisfy the increase in demand.

Marginal efficiency of capital

This refers to the percentage of profit expected from an investment on a capital asset. MEC is the rate of return of capital asset. If MEC is high, entrepreneurs are encouraged to invest in capital assets.

Interest rate:

When the rate of interest is low, it becomes less costly for investors to borrow money and buy capital goods.

Business expectations

When there is expectation of increase in business activity, investors would purchase more capital goods to earn more profit. Expectation of a depression would discourage investments.

Inventions and Innovations:

These leads to more efficient methods of production which reduces costs, increase marginal efficiency of new capital and encourage firms to invest in new capital. They also encourage new investments in housing, storage, and roads etc they lead to change in fashions, tastes, and demand which call for further investment.

Growing of markets
This may be the result of increase in population or increase in foreign demand which induce investment. A decline in markets reduces inducement to invest.

Existing capital stock
If there is enough capital stock, or excess capacity in existing plants, investment in new capital is discouraged. If plants are working at full capacity, any increase in demand would increase investment in new capital assets.

Government Policy
This encourages both domestic and foreign investment. Example; Corporate taxes and taxes on importation of capital would discourage investment if they are high. Taxes holidays for new investors encourage investment.

Clients of the Financial System
We can classify the clientele of the investment environment into three groups: The households sector, the corporate sector, and the government sector.

The House Holds Sector
Households constantly make economic decisions concerning such activities as work, job training, retirement planning, and savings versus consumption. Essentially, we concern ourselves only with what financial assets households desire to hold. Most households are potentially interested in a wide array of assets, and the assets that are attractive can vary considerably depending on the house hold's economic situation.

Risk consideration also creates demand for a diverse set of investment alternatives. At an obvious level, differences in risk tolerance create demand for assets with a variety of risk return combinations. Individuals also have particular hedging requirements that contribute to diverse investment demands. Risk motives also lead to demand for ways that investors can easily diversify their portfolios and even out their risk exposure.

The Business Sector
Whereas house hold financial decisions are concerned with how to invest money, businesses typically need to raise money to finance their investment in real assets. Plant, equipment, technological know –how and so forth. Broadly, they are two ways for businesses to raise money. They can borrow it, either from banks or directly from households by issuing bonds, or they can take in new partners by issuing stocks, which are ownership shares in the firm.

The Government Sector
Like businesses, governments often need to finance their expenditures by borrowings. Unlike businesses, government cannot sell equity shares; they are restricted to borrowing to raise funds when tax revenue is not sufficient to cover expenditures. Government have a special advantage in borrowing money because their taxing power makes them very credit worthy and therefore, able to borrow at the lowest rates.

The Environment Response to Clientele Demands
When enough clients demand are willing to pay for a service, it is likely in a capitalistic economy that a profit seeking supplier will find a way to provide and charge for that service. This is the mechanism that leads to the diversity of financial markets.

Financial Intermediation
Recall that the financial problem facing households in how best is how best to invest their funds. The relative smallness of most households makes direct investment difficult. A small investors obviously cannot advertise in the local news paper his or her willingness to lend money to businesses that need to finance investment.

Instead, financial intermediaries such as banks, investment companies, insurance companies or credit unions naturally evolve to bring the two sectors together. Financial intermediaries sell their own liabilities to raise funds that are used to purchase liabilities of other corporations.

For example a bank raises funds by borrowing (taking in deposit) and lending that money to other borrowers. The spread between the rates paid to depositors and the rates charged to borrowers is the source of bank's profit. In this way, lenders and borrowers do not need to contact each other directly. Instead, each goes to the bank, which acts as an intermediary between the two.

The problem of matching lenders with borrowers is solved when each comes independently to the common intermediary. The convenience and cost saving the bank offers the borrowers and lenders allow it to profit from the spread between the rates on its loans and the loans on its deposits.

2.4. UNDERSTANDING THE INVESTMENT CLIMATE

According to Weingast, 1992, investment climate is a menu of policy, regulatory and institutional factors that provide incentives sufficiently robust to induce the private sector to invest in socially desirable projects.

Nick Sterns, former chief economist, World Bank, defines investment climate as ‘’policy, institutional, and behavioral environment both present and expect that influences the returns, and risks, associated with in investment.” The author gave three main features of investment climate which are; Macro-Economic factors (including political stability), Governance, Infrastructure (quality and quantity; physical and financial) and Economic Fundamentals as determinant of FDI and local investors.

2.5. OVERALL ECONOMIC POLICY

According to different researchers like Loius T.Wells and Jacques Morisset(2001) and **Campbell R. Mc Connel (1993**), foreign direct investors are attracted by different economic fundamentals including; The size of market, Quality of human capital, Macro- Economic factors (including political stability),Infrastructure (Quality and Quantity; Physical and Financial),Cost variables (e.g., labor cost, energy cost) and the Political Will.

2.6. INVESTMENT INCENTIVES

Referring to Rashmi Banga (1900) and Anwar Shah (2005), Investment incentives are country’s schemes aimed at stimulating investors in specified types of capital expenditure, or investment. These incentives may take the form of direct subsidies or corporate income tax credits that compensates the investors for their capital costs. The impact of incentives on inward FDI flows is expected to be positive. There too many categories of FDI incentives offered by developing countries to attract foreign direct investment inflows:

Fiscal incentives include policies that are designed to reduce tax burden of investors. These incentives include reduction of the standard corporate income tax rate, exemption from import duties and duty drawbacks on exports. Financial incentives including direct capital subsidies or subsidized loans from **Anwar Shah (2005)** Fiscal Management, 3rd edition, page 5.This reflects the objective of the role of incentives on the investment in the telecommunication industry in Rwanda.

2.7. REMOVAL OF RESTRICTIONS.

Referring to Associate Professor Rashmi Banga (1900), various forms of restrictions were applied. These include legislation of investment and minimum capital requirements. Ownership and control restrictions existed in various forms. For example allowing only a fixed percentage of foreign owned capital in an enterprise, mandatory transfer of ownership to local private firms, usually over a period of time and restrictions on reimbursement of capital upon liquidation. However, in the World Trade Organization (WTO) regime, due to the enforcement of trade related investment measures, many of these restrictions have now been withdrawn and the types of restrictions relating to Foreign Direct Investment have been greatly liberalized in large number of countries.

2.8. RISKS OF INVESTMENTS

We recognize that no organization is an island and every investment is likely to be affected by issues in the environmental context that the social, economic, political, technological, ecological, and legislative contexts in which a project or organization operates. According to Tomoko **Mutsukawa (2003),** Risks rise when a profitable investment faces political, legislative, and bad regulatory climate and unpredictable future. Other types of risks particularly these associated with investment in foreign securities are the monetary value risk, the political and environment risk by **V.K.BHALLA.**

2.9. THE EFFECT OF A BETTER INVESTMENT CLIMATE:

According to Craig Bunside (2005), better investment climate will contribute to improvements in the performance of the firms and more importantly to higher growth rates. In principle, this effort will require concerted action along several fronts. The two fundamental drivers of growth are the ability to make investments happen and the productivity of investment. These two drivers are in turn determined by the quality and scale of financial institutions, and human capital of the people of the nation, in other words, the investment climate. On the whole, the governance agenda appears as a key priority for policy makers.

The access to finance, innovation, technological change, and human capital are also found to be critical for productivity, growth, and poverty alleviation. In context of increasing globalization, we have to remind that economic performance is the result of individual actions to create an appropriate environment for innovation, productivity growth, and job creation by **Craig Bun side (2005).**

2.10. PURPOSES OF INVESTMENT:

According to the theory of choice, investments are undertaken for the purpose of changing the amount and pattern of an individual’s income available for consumption overtime. An individual may purchase a bond for $ 1000 available for consumption a year from now. With this purpose in mind, think of an investment as anything, this is expected to alter the owner’s claims to consumption in present and future period. The individual’s purchase of a bond does this by reducing consumption in the current period by $ 1000, and by increasing expected consumption by $1100 in future period.

The purpose of an automobile has its investment character as well. The expenditure of $ 8000 now for purchase of a car that will provide services over time (say 5 years) results in expenditure for transportation services in year two through 5 being lower than they would be if the car were not purchased now. If the car's value at the end of 1 year is expected to be $ 6500 now enables the consumer investor to consumer a higher rate in these future periods. Thus, the purchase has all characteristics of an investment. Indeed, in comparing alternatives investments the individual should consider other uses for $ 6500 invested in the car.

2.11. FEATURES OF INVESTMENT PROGRAM

According **to V.K.BHALLA;** points out some features of an investment program, by choosing specific investment, investors will need to define ideas regarding features, which their portfolio should possess. These features should be consistent with the investor's general objectives and in addition should afford them all the incidental conveniences and advantages, which are possible under the circumstances. The following are the suggested features as the ingredients from which many successful investors compound their selection policies.

1. SAFETY OF PRINCIPLE;

The safety sought in investment is not absolute or complete; it rather implies protection against loss under reasonably likely condition or variation. It calls for careful review of economics and industry trends before deciding types and timing of investment. Thus, it recognizes that errors are unavoidable for which extensive diversification is suggested as an antidote. Adequate diversification means assortment of investment commitment in different ways. Those who are not familiar with the aggressive approach nevertheless often carry out the theory of hedging against inflation-deflation. Diversification may be geographically, whenever possible, because regional or local storms, floods, drought etc. can cause extensive real estate damage, vertical and horizontal diversification can also be opted for the same. Vertical diversification occurs when securities for various companies engaged in different phase of production from raw material to finished products are held in the portfolio.

On the other hand, horizontal diversification is the holdings by an investor in various companies all of which carry on activity in the same stage of production. Another way to diversify securities is to classify those according to bonds and shares and reclassify according to types of bonds and types shares. Again they can also classify according to the issuers, according to the dividend or interest, income dates, according to the product, which are made by firms represented by securities. But over diversification is undesirable. By limiting investment to few issues, the investor has an excellent opportunity to maintain knowledge of the circumstances surrounding each issue. Probably the simplest and most effective diversification is accomplished by holding different media at the same time having reasonable concentration in each.

2. SECONDARY ADEQUATE LIQUIDITY AND COLLATERAL VALUE;

An investment is liquidity asset if it can be converted into cash without delay at full market value in any quality. For any investment to be liquid it must be reversible or marketable. The difference between reversibility and marketability is that reversibility is the process whereby the transaction is reversed or terminated while marketability involves the sales of investment in the market for cash.

To meet emergencies, every investor must have a sounds portfolio to be sure of the additional funds which may be needed for the business opportunities, whether money rising is to be done by sale or by borrowing it will be easier if the portfolio contains a planned proportion of high –grade and readily saleable investment.

3. STABILITY OF INCOME:

Stability of income must be looked at in different way just as was security of principle. An investor must consider stability of monetary income and stability of purchasing power of income. However, emphasis upon income stability may not always be consistent with other investment principles. if monetary income stability is stressed; capital growth and diversifications will be limited.

4. CAPITAL GROWTH

Capital appreciation has today become an important principle. Recognizing the connection between corporation and industry growth and every large capital appreciation; investor and their adviser constantly are seeking ''growth stock". It is exceedingly difficult to make a successful choice. The ideal 'growth stock" is the right issues in the right industry, bought at the right time.

5. TAX BENEFITS:

To plan an investment program without regarding one tax status may be costly to the investor. There are really two problems involved here, one concerned with the amount of income paid by the investment and other with the burden of income taxes upon that income. When investor's incomes are small, they are anxious to have maximum cash return on their investment and are prone to take excessive risks. On the other hand, investors who are not pressed for cash income often find that income taxes deplete certain types of investment incomes less than other thus affecting their choices.

6. PURCHASING POWER STABILITY:

Since an investment nearly always involves the commitment of current funds with the objectives of receiving greater amount of future funds, the investors should consider the purchasing power of funds. For maintaining purchasing power stability, investor should carefully study the degree of price level inflation they expect, the possibilities of gains and loss in the investment available to them and the limitation imposed by personal and family consideration.

7. CONCEALABILITY

To be safe from social disorders, government confiscation or unacceptable levels of taxation, property must be concealable and leave no record of income received from its use or sale. Gold and precious stones have long been esteemed for these purposes because they combine high value with small bulk and are readily transferable.

2.12. QUALITIES FOR SUCCESSFUL INVESTMENT

According to PRASSANNA CHANDRA (2002), the game of investment as any other games requires certain qualities and virtue on the part of investors, to be successfully in the long run. The following are these qualities:

A. CONTRARY THINKING

Investors tend to have a herd mentality and fellow the crowd. Two factors explain this behavior. First there is natural desire on the part of human beings to be a part of groups. Second, in a complex field like investment; most people do not have enough confidence in their own judgment. This impels them to substitute opinions for their own.

B. PATIENCE

As a virtue, patience is strangely distributed among investors. Young investors with all the time in the world to reap the benefit of patient and diligent investing seem to be the most impatient. They look for instantaneous results and often check prices on daily basis. Old investors on the other hand, display a high degree of patience even though they have little chances of enjoying the fruits of patience. Whatever may be there are compelling reasons for cultivating patience. The game of investment requires patience and diligence.

C. COMPOSURE

Rudyard Kipling said that an important virtue for becoming a mature adult is to keep your head when all around you are losing theirs. The ability to maintain composure is also a virtues required to be successful investor. Conscious of this, as an investor you should try to:

1. Understand your own impulses and instinents towards greed and fear.
2. Surmount these emotions that can wrap your judgments
3. Capitalize on the greed and fear of other investors.

D. FLEXIBILITY AND OPENNESS

Nothing is more certain than change in the world of investment. Macroeconomics conditions changes, new technologies and industries emerge, consumer tastes and preference shifts. Investment habits alter and so on. All these development have a bearing on industry and company prospects on the other hand and investor expectation on the other. Since an open mind, not blocked by prejudices and biases is crucial for success in investing, conscious and deliberate efforts should be made to re-examine old premises assimilate new information and cultivate mental flexibility. **Barton M**. Brings put it this way “flexibility of thinking and willingness to change is required for successful investors”.

E. DECISIVENESS

An investor often has to act in face of imperfect information and ambiguous signals. Investment decisions generally call for reaching conclusion on the basis of inadequate premises. To successes in investment games the investor should be decisive. If they procrastinates they may miss valuable opportunities if they dillydallies they may have to forgo gains.

2.13. SOME OF INVESTMENT CODE THAT ATTRACTS INVESTMENT PROMOTION IN RWANDA

Rwanda’s investment code provides a package of incentives designed to attract both public and private investment in priority activities.

Some of the articles that are very crucial include Articles 29 to 42 of the RDB statutes 1998.

An investor intending to new investment, rehabilitate, expand, renovate or restructure existing business enterprises is exempted from tax. And for that purpose import plant, machinery or equipment, which is zero import tax, rated under the commodity code called: (Tariff de douanes du Rwanda), shall be exempted from sales tax otherwise payable on those goods. An investor who import plant, machinery, equipment and raw materials for the operations of a registered business enterprise, and you find that are not zero import tax, are rated under the commodity code. This investor shall pay a single flat fee of 5% of the CIF value of the imported items, in lieu of all taxes, including import duties, sales tax and others, which would normally be imposed on such goods.

Despite of the above benefits, an investor as a holder of a certificate of registration shall benefit from:

- The fiscal incentives provided in law number 8/97 of 26th June 1997 on the code of direct
- taxes of different profits and professional income, attached and incorporated in this law;
- Investment allowance of 30% of the value of invested capital during the first year of operations;
- Additional deduction from taxable income of 50% of training, research and product development costs.
- The right to fully expand the cost of providing infrastructure to the site of the business operations.
- Duty drawback for all duties and taxes paid on imported raw materials if he is an importer who is operating outside free export economic zones, and the exporter shall then be facilitated by the Rwanda Development Board (RDB) to have access to foreign markets, training promotion and trade exhibitions.
- Tax –free export operations

On the recommendation of the Board of the RDB, the cabinet may accord additional incentives and facilities to projects, which, because of their nature, national importance, location, or volume of capital investment, would not get meaningful benefits from the incentives, and facilities provided under this law.

A registered business enterprise shall be entitled to recruit expatriate workers on the following conditions:

- An industrial enterprises that makes capital investment of USD 100.000 and above shall automatically be entitled to three work permits
- Enterprises intending to provide professional services, such as accountants architects, doctors, engineers and lawyers shall, on investment of USD 50.000 in capital assets or more, be entitled to three work permits
- A business enterprise that needs to hire additional expatriate workers shall apply to the RDB, which is its sole discretion may grant the request on specific terms and conditions.

In addition to the incentives set forth therein above, an investor operating in a free export economic zone shall be entitled to:

- Pay a company income tax of 10% within a period of ten years from the coming into force of this law
- Importation of the plant, machinery, equipment, building materials and inputs free of duty and sales taxes
- Exemption from all other taxes normally levied on a business enterprise operating in the country

One –stop centre service by RDB for facilitation at beginning of process and after wards as long as he will be operating within this regime;

- Tax free externalization of funds
- Flexible work permits allowance to enable the investor to hire quality expatriate staff
- Exemption from with holdings taxes and taxes on dividends
- The right to purchase locally produced goods and services free of duty and sales taxes as inputs in its production process

The RDB shall, in considering an application for registration of a business enterprise, which wishes to operate in a free economic zone, carry out an appraisal of the business enterprise to contribute to the following objectives:

- Creation of high quality jobs
- Attraction of modern technology and new investment
- Transfer of technology and skills
- Diversification of the export sector
- Utilization of locally produced raw materials
- Creation of back ward and forward linkages within the economy

The following business enterprises shall qualify for registration to operate in the free export economic zones;

- Enterprises that export at least 80% of their production
- Enterprises manufacturing under bond that export 10% of their production
- Enterprises engaged in the export of services

All these are to ensure the export promotion strategy introduced by the **Bretton Woods** Institution is fulfilled. Also, this strategy intends to reduce the deficit in the export sector.

2.14. LICENSING AND TAXATION

All profit oriented enterprises such as artisans, large scale manufacturers, retailers, importers and suppliers of services are required to register with the register of commerce. But many small artisans are not enrolled in the register of commerce, nor are they pressured to do so by the authorities up to rate 1980s.

Registration in the registrar of commerce is required only once during the enterprise life. All enterprises and person enrolled in the register of commerce are automatically members of the chamber of commerce and industry and must pay annual dues. In recent years, under liberalization policy, the authority is trying to give autonomy to chamber of commerce and industry such that any business enterprise or person may be free to decide either to be a member of chamber of commerce and industry or not.

Also procedures for licensing, registration and other requirements are at the moment directed under the act of the RDB introduced in 1998.

At the moment, the taxation system is characterized by many different types of taxes and fees levied against business operating in Rwanda. These include registration fees, annual dues, patent tax (lump-sum tax), income tax, wealth tax, import taxes, and in year 2000 the VAT method of tax collection was introduced to replace some of the existing taxes. A one –time registration fees must be paid by all business when they enroll with the register of commerce and is ranging from RWF 500.000.

Annual dues must be paid to the CCI by all business enrolled at the register of commerce. The membership charges vary in magnitude form of RWF 2.000 annually for unincorporated retails in rural areas to RWF 1.000.000 per year for Banks and large manufacturing industries. The patent tax is also a lump-sum tax paid by all profit –oriented businesses and professionals. Salaried employees, farmers and state enterprises are exempted. The patent tax varies from RWF 250.000peryear for importers and industrialists in Kigali.

The income tax is also paid annually for tax purposes, income is divided into three different categories, and each category of income is taxed at different rate. The rental income is taxed on a progressive scale with marginal rate ranging from 10% to 25%. Income from stocks, interest and dividends is taxed on a flat rate of 20% while income from other sources is taxed with marginal rates ranging from 10% to 25% for corporations and from 0 to 25% for individuals. An annual wealth tax is also imposed on all person or corporations owning certain forms of wealth, that is, square meters of buildings, land, boats, vehicles and mines.

A different per unit fee is charged annually for each category of wealth. Under the Rwanda Revenue Authority, the wealth tax is, expected to be, extended further to every resident. Import taxes are also charged on wide variety of imports, they range from 0% on basic consumer goods and investment materials to over 150% on luxury goods.

It was on October 31st, 2000, Rwanda like other COMESA member states, created a common market by abolishing all tariffs to the goods from COMESA member countries. This act was done after the introduction of another form of tax system called value –added tax (VAT), which is widely used, by many countries of the region.

2.15. Foreign direct investment:

2.16. Introduction:

According to the International Monetary fund, foreign direct investment, commonly known as FDI, "... refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.

Foreign direct investment (FDI) refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long-term capital, and short-term capital as shown in the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares.[2] FDI is one example of international factor movement.

According to Stanley L. Brue (1993), foreign investment occurs when a firm invests in facilities to produce and or market a product in a foreign in a foreign country. Thus, in 1991, purchase of **Hungary's Lehel** by Electrolux and its 196 acquisition of Brazil's Refipar are both examples of foreign investment, as are the company's investments in joint ventures to manufacture products in China and in wholly owned production facilities in Russia, Poland and Czech Republic by Sunitakikeri and Thomas Kenyon (2006).

The US Department of commerce has come up with a more precise definition of according to the department, foreign investment occurs whenever a US citizen, organization, or affiliated group takes an interest of 10 percent or more in a foreign business. Once a firm undertakes foreign investment it becomes a multinational enterprise.

Foreign direct investment (FDI) has played an important-if at time controversial –role in the growth of emerging economies. From time to time, developing countries have expressed serious misgiving about the economic, social and political consequences of foreign investment. Most commonly, they have feared losing control to foreigners over important parts of their economies which is no longer the case.

On the whole, government policies toward foreign investors have been based on straight forward objectives: maximizing economic gains while minimizing any socioeconomic and political costs. In the 1960s and 1970s, but to some extent now too, governments' developing countries have faced a series of dilemmas in shaping their policies toward foreign investment. For instance, permitting multinationals to repatriate most of their profits could be taken as unprofitable to the host country. Forcing multinationals to invest their profits locally, however, would in effect allow them to increase their control over the national economy. Similarly, if multinationals paid local wage rates they would be ''exploiting local labor''. If they paid higher than average wages, they would skim off the best labor to the disadvantages of local firms **by Francois Bourguignon (2003).**

2.17. THE ROLE OF FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES

According to Francois Bourguignon and Luiz A and Pereira (2003), foreign direct investment in developing countries has a long history. It has fluctuated over time, as investors have responded to change in the environment for investment, including government policies towards foreign direct investment and the broader economic policy frame work.

Foreign Direct Investment in developing countries has flowed mainly into manufacturing and processing industries. It has traditionally been concentrated in a small group of countries, which partly reflects the size of their economies and partly their attractiveness as a location for Foreign Direct Investment. In the past, attractiveness has been closely linked to possession of natural resources or a large domestic market. With the shift toward globalized production and trade, competitiveness as a location for investment and exporting has become the main determinant of attractiveness.

The largest developing country host for Foreign Direct Investment is China, but Eastern Europe has emerged as an important new location for Foreign Direct Investment. Foreign Direct Investment has reached the poorest countries. Although the actual amounts invested are generally low, reflecting the small size of their economies, Foreign Direct Investment flows relative to GDP in poorer Countries are as high as richer countries for a long time, Foreign Direct Investment came almost exclusively from the major industrial countries. Recently, the sources of Foreign Direct Investment in developing countries have widened, and many developing countries have emerged as source in their own right, particularly for their own regions. Regional links are also important for Foreign Direct Investment developed economies by Stanley L. Brue (1993). Recent trends towards globalization of production and consumption patterns have led to a sharp increase in global Foreign Direct Investment. At the same time, trade and investment liberalization has brought more developing countries into the globalized economy by Moses J.W.Wesonga Economics: Basics Text.

2.18. FOREIGN INVESTMENT IN THE WORLD ECONOMY

2.19. THE THEORY OF INVESTMENT IN WORLD ECONOMY.

According to Frank Mc Donald, Heiz J.Tulemann, Anne Heise (1987), foreign Investment for business practice is straightforward. First, the location –specific advantages argument does not explain why firms prefer foreign investment to licensing or to exporting. From both an explanatory and a business perspective, perhaps the most useful theories are those that focus on the limitations of exporting and Licensing. These theories are because they identify how the relative profitability of foreign investment, exporting and licensing vary with circumstance.

Another study tests three theories that have been advanced to explain why some firms invest directly in foreign countries and other firms do not. An econometric model of the probability that a firm will invest directly abroad –become multinational is developed and then is estimated using a random sample of 300 U.S. firms. The results are sensitive to the choice of functional forms. In particular, a result of an earlier study, Horst(1972),are found not to hold when a statistically more appropriate functional form is used the theory that firms become multinational in order to exploit intangible assets of the firm overseas as well as at home is supported. The implications of this result for other statistical studies of multinational firm's behavior are considered.

In the last two decades the growing importance of multinational enterprises (MNEs) has been much discussed both in the populx press and in the writings of economists. Several hypotheses have been suggested to account for why a company would choose to become multinational. One such hypothesis (e.g., Macdougal (1960) views the multinational corporation essentially as a firm that engages in capital arbitrage. **As Hymer (1960),** has pointed out, however, in the world of perfect competition that is assumed in the general equilibrium analysis of Mac Douglas, it is hard to develop a role for the firm to play.

Hymer, suggested viewing the MNE as an oligopolist. Among a firm's possible strategies for competing with its rivals is to produce its product in various countries. A third theory of the determinants of direct foreign investment has been built along the lines of coase (1937), discussing the nature of the firm (See Dunning 1977) and Rugman (1981). This theory emphasizes the intangible assets firms have acquired. Given the difficulties in selling such assets in markets-the transactions costs would be high – these firms can only gain a return on these assets by producing the goods themselves.

This view of the MNE has been central to much recent analysis of MNEs role in the economy (e.g., **Helpman (1984) and Marcuse (1984),** Each of these three hypothesis implies something different about the relationship between whether a firm is multinational and the characteristics of the firm itself. The capital arbitrage hypothesis would predict no significant difference between firms that have become multinational and those that have not, except the cost of Received for publication May 31.1984. Revision accepted for publication April 4, 1986.

2.20. WHY FOREIGN INVESTMENT:

The question is an important one because foreign investment may both be expensive and risky when compared to exporting and licensing. According to Guillermo E. Perry and Owar S. Anas (2005), foreign investment is expensive because a firm must establish production facilities in a foreign country or acquire a foreign enterprise.

Foreign investment is risky because of problem associated with doing business in a different culture where the rules of the game may be very different. Relative to firms, there is a greater probability that a foreign firm undertaking foreign investment in a country for the first time will make costly mistakes because of ignorance.

When a firm exports, it needs to bear the costs associated with foreign investment, and the risk of associated with selling abroad can be reduced by using a native sales agent. Similarly, when a firm allows another enterprise to produce its products under license it need not bear the cost of risks of foreign investment, since these are born by the license.

2.21. PROMOTING FDI THROUGH POLICY ADVICE:

IFC was established to promote private investment in developing countries, including Foreign Direct Investment, It was one of many international initiatives that promoted Foreign Direct Investment, including bilateral trade agreements, and investment promoting programs. Together with other members of the World Bank Group, IFC set up the Foreign Investment Advisory Service **(FIAS) in 1985** to advise developing countries on policies to promote Foreign Direct Investment.

Since then, it has assisted more than a hundred countries in various ways.

Its advice takes many forms, from diagnostic studies giving an overview of constraints to Foreign Direct Investment, to investment policy studies giving specific solutions for specific issues or sectors or for building institutions to accompany policy change and promotional strategies. Dialogue on the policy framework for Foreign Direct Investment also occurs in the context of other IFC advisory work and project financing by **Guillermo E. Perry:** Poverty Reduction and Growth Vituous and Vicious circles, W.B, page 87**.**

According to Owar S. Anas and William F. Raloney, many factors influence the flow of foreign direct investment to developing countries, but the most obvious one is often overlooked: namely, the willingness of developing countries to allow it. Historically, many countries have place onerous limitations on the scope for FDI, even when seeking to promote. Inevitably, this has acted as a deterrent.

Restrictions on inflows of FDI have taken many forms, including limits on entry to certain sectors, complex approval mechanisms, high taxes and complex incentives regimes, restrictions on use of land and expatriate labor. Restrictions have been imposed for many reasons, including concerns over excessive foreign influence and loss of national wealth, desire to promote indigenous entrepreneurship and workers, and desire to achieve transfer of technology and management technique only fairly recently have a number of developing countries reduced their restrictions. Wider policies also matter.

A liberal trade and payment regime encourages FDI. Often, imports lead to investment and production for the world market. Liberal payments systems allow foreign investors to take advantage of these opportunities. A number of other administrative barriers, often long unrecognized, have deterred FDI. Important barriers include the exclusion of foreign investors from land ownership, restrictions on the use of expatriate labor, and requirements for sundry permits and approvals.

Foreign investment can take two forms. Foreign equity investors can simply buy a stake in an enterprise or take a direct interest in its management. The first, indirect form of investment is called foreign portfolio investment. Foreign direct investment (FDI) involves more than just buying a share or a security.

It is the amount of financing provided by a foreign owner who also is directly involved in the management of the enterprise. For statistical purposes, the international Monetary Fund (IMF) defines foreign investment as direct (FDI) when the investor holds 10 percent or more of the equity of an enterprise. As a rule of thumb, this is usually enough to give the investor a say in the management of the enterprise. Sometimes an investor with a smaller share plays an active role or a larger investor may remain passive. Both foreign portfolio and direct investment were quite small until the -1980s, but have grown rapidly. With portfolio investment, the enterprise benefits from the finance and (in the case of equity) a sharing of risk.

Direct investment can bring additional benefits to improve investment productivity; Involvement in management may provide access to better management techniques. Access to technology: technology owners are often unwilling to make technology available to a partner unless they can retain some degree of management control which Foreign Direct Investment provides. Access to marketing expertise and market links: The FDI partner may be a customer for the products or may have better access to export markets or better marketing skills.

2.22. FOREIGN DIRECT INVESTMENT AND ECONOMIC GLOBALIZATION:

Referring to World Bank(2007): Development and next generation report (2007) page 9,economic liberalization, combined with advances in communications and transport, has led to growing integration of world markets for goods, services, and capital. This process has emerged in the 1990s and is expected to continue for some time to come. Foreign Direct Investment has given the global integration process a major impetus by helping link markets for capital and labor and raise relative wages and productivity of capital in recipient countries.

Multinational firms have adopted increasingly global strategies based on greater specialization and dispersion of activities and have aimed to capture the substantial economies to which they give rise. The growing multiplicity of linkages is reflected in a sharp rise in intra-firm trade across national boundaries, between foreign affiliates in developing countries and parent companies in developed (and sometimes other developing) countries as well as between foreign affiliates within developed countries by **Dennis J. Encarnation and Louise T. Wells, Jr**. Competition in Global Industries,ed. Michael E. Porter (Boston: Harvard Business School Press), 1986.

2.23. POSITIVE IMPACT OF FOREIGN DIRECT INVESTMENT:

According to Aitken, B., A.E. Harrison and R. Lipsey (1996), firm will favour foreign direct Investment over exporting, when transportation costs or trade barriers make exporting unattractive. The firm will also favour foreign investment over licensing when it wishes to maintain control over its technological know-how, or over its operations and business strategy, or when the firm capabilities are simply not amenable to licensing, as may often be the case.

2.24. HOST COUNTRY EFFECTS: BENEFITS:

There are three benefits of inward foreign investment for a host country:

The resources transfer effects, the employment effect, and the balance of payment effects.

2.25. RESOURCE TRANSFER EFFECTS:

Foreign Investment can make a positive contribution to the host economy by supplying capital, technology and management resources that would otherwise not be available. If such factors are scarce in a country, the foreign investment may boost the country's economic growth rate. Many Multi National Enterprises, by virtue of their size and financial strength, have access to financial resources not available to host country. These funds may be available from internal company sources, or because of their reputation, large Multi-national enterprises may find it easier to borrow from capital markets than the host country.

2.26. EMPLOYMENT EFFECTS:

The beneficial employment effect for foreign investment is that it brings jobs to the host country that would otherwise not be created there. Employment effects are both direct and indirect:

Direct effects arise when a foreign multi -national enterprise directly employs host country citizen. Indirect effects arise when jobs are created in local suppliers as a result of the investment and when jobs are created because of increased spending in the local economy resulting from employees of multi -national enterprise. The indirect employment effects are more often as large as, if not larger than, the direct effects.

2.27. BALANCE OF PAYMENT EFFECTS:

The effects of foreign investment on a country balance of payment accounts are an important policy issue for most government. A country's balance of payment accounts keeps track of both its payment to and its receipts from other countries. Governments normally are concerned when their country running a deficit on the current account of their balance of payment.

The current accounts track the export and import of goods and services. A current account deficit arises when a more better in goods and services than it's exporting. The only way in which a current deficit can be supported in the long run is by selling assets to foreigners. Because governments dislike seeing the assets of their country fall into hands of foreigners, they prefer a current account surplus foreign investment can help a country try achieving this goal in the two ways; First, if the foreign investment is substitute for imports of goods and services, it improves the current account of the host country's balance of payment. A second potential benefit arises when the multi-national enterprise uses a foreign subsidiary to export goods and services to other countries.

2.28. HOST COUNTRY EFFECTS: COSTS:

2.29. ADVERSE EFFECTS ON COMPETITION:

Host country worry that subsidiaries of foreign multi –national enterprise operating in their country may have greater economic power than indigenous competitors because they may be part of large international organizational.

As such the foreign multi- national enterprise may be able to draw on funds generated elsewhere to subsidiariaries its costs in the market, which could drive indigenous companies out of the business. This concern tends to be greater in countries that have few firms of their own that can compete with subsidiaries of multi-national enterprise. It is a relatively minor concern in most developed nations. Another variant of completion is to the infant industry concern. Imports control may be motivated by desire to let a local industry develop to a stage where it is capable of competing in the world markets. The same logic suggests that foreign investment should be restricted.

If a country with potential comparative advantage in a particular industry allows foreign investment in that industry, indigenous firms may never have chance to develop. The above argument are often used by inefficient indigenous competitors when lobbying their government to restrict foreign investment. Although a host government may state publicly in a case that restrictions on inward foreign investment are designed to protect indigenous competitors from the market power of foreign investors, they may have been enacted to protect inefficient but politically powerful indigenous competitors from foreign competition.

2.30. ADVERSE EFFECTS ON THE BALANCE OF PAYMENTS:

The possible adverse effects of foreign investment on a host country's balance of payment position are twofold. First, set against the initial capital inflow that comes with foreign direct investment must be the subsequent of out flow of income as the foreign subsidiary repatriate earnings to its parent company. Such out flows show up as a debit on the current account of the balance of payments. A second concern arises when a foreign subsidiary imports a substantial number of its inputs from a broad, which also results in a debit on the current account of the host country's balance of payment.

2.31. NATIONAL SOVEREIGNITY AND AUTONOMY:

Host country worry that foreign investment is accompanied by some loss of economic independence. Key decision that can affect the host country s economy will be made by a foreign parent that has no real commitment to the host country and over which the host country's Government has no real control.

2.32. NEGATIVE IMPACT OF FOREIGN DIRECT INVESTMENT:

The host country worries that subsidiaries of foreign MNEs operating in their country may have greater economic power than indigenous competitors because they may be part of larger international organization. As such, the foreign MNE may be able to draw on funds generated elsewhere to subsidiaries its costs in the market, which could drive indigenous companies out of the business. This concern tends to be greater in countries that have few large forms of their own that can compete with subsidiaries of MNE.

It is a relatively minor concern in most developed nations. Another variant of completion is related to the infant industry concern. Imports control may be motivated by desire to let a local industry develop to a stage where it is capable of competing in the world markets. The same logic suggests that foreign investment should be restricted.

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2.33. INTERNATIONAL INVESTMENT POLICY AND SUPPORT FOR FDI

Number of trading agreements has been signed on the level of bilateral and regional to real with investments protection and transfer of funds. Bilateral Investment Treaties (BITS) also cover a number other areas in particular, non discrimination in the treatment, and in some cases the entry of foreign –controlled enterprises and other related fields. BITS generally recognize the effects of national low in FDI and accept the right of governments to regulate entry of FDI. By providing protection; BITS are expected to promote FDI.

Several other non –binding models, guidelines, and other instruments have influenced the international investment environment. These include: Guidelines on investment and bribery by the International Chamber of commerce, a private group. The United Nations model double taxation convention and set of principles for controlling restrictive business practices. The World Bank / International Monetary Fund Development Committee guidelines on the treatment of foreign direct investment.

2.34. TAXES AND INCENTIVES:

In some countries, taxes and tariffs were so high that only investment incentives could make a project viable, and obtaining incentives often constituted an additional approval. For example, in countries with high import tariffs on capital goods and raw materials, a tariff exemption may have been required to allow an investment to compete in world markets. In many such cases, approval of the exemption constituted an approval of the investment. In Thailand, for example, no investment approval was required, but tariff exemptions were important to investors. These were given based on a positive list of ‘’promoted industries’’.

2.35. MOTIVES FOR RESTRICTIONS:

Why have developing countries built such barriers to foreign direct investment when most developed countries today have few restrictions. The reasons cited usually involve fear of foreign control, a desire to build up domestic industries, and anxiety over division of profits.

2.36. INVESTMENT PROMOTION IN DEVELOPING COUNTRIES:

During the years, which follow independences; most African countries began to think of important medium and long term plans where by all public Enterprises should strive in order to expand economic dependences. Latter on; the African governments recognized that in order to succeed it was of a great importance to put private investments mostly foreign on the first place.

In most African countries, investment promotion consisted essentially to promulgate the investment codes of fiscal’s policies.

A part from these investment codes. African countries with the help of some financial Institution, NGO’s began to participate in international trade. Some countries began create centers of investment promotion and creation of commercial banks, which could offer the investment opportunities for such countries. Promoting investment is not an easy task that why it necessitate the government to play an important role;

By maintaining a stable macroeconomic situation, such as acceptable inflation, real and fixed exchange rate, stable fiscal and monetary policies;

By maintaining a moderate level of revenue inequality;

By improving the banking system and developing the capital market;

By improving infrastructure by providing transport facilities and communication network;

By providing qualitative and quantitative resources necessary for investment;

By creating a competitive market by improving productivity and human resources.

Furthermore, these African governments put more efforts in the privatization process of public enterprises to the private sector. However, privatization process played an important role in the promotion of investment in LDCs.

2.37. STRATEGIES FOR PROMOTING FOREIGN INVESTMENT:

From the Annual Reports of Ministry of Finance 2000-2003, and Activity Report of 2002 to 2003, strategies used to attract FDIs can vary from country to country. Generally, such strategies should consist of creating a favorable investment climate by creating a national investment regime and a liberalized economy by reducing entrance obstacles, by creating a favorable relationship with foreign countries.etc. Other measures consist of going every far and attract actively the FDIs by exposing all the possible opportunities and incentives to the countries. This will bring to the creation of Institution in charge of promoting investments.

In case of Rwanda, the Institutions such Rwanda Development Board and Rwanda Private Sector Federation. Rwanda has established such Institutions as an Instrument, which shall facilitate, promote and encourage investors to invest in the country.

The following are the measures adopted in order to promote and attract foreign investors in Rwanda:

Rwanda has fully embraced the principles of free market economy; and the government embarked on a comprehensive liberalization of its economy;

It initiated appropriate legislation reform and emphasized peace stability and promoted free trade, pursued regional integration targets as set out under the cross –border initiative (CBI), COMESA and EAC integration. In keeping regional integration commitments, Rwanda has reduced her tariff rates and eliminated all exports taxes and other non tariff barriers. Apart from the above strategies, Rwanda is keeping on attracting FDI by improving the human resources through education, training which constitute an important factor for the economic development.

2.38. HOW TO ATTRACT FOREIGN INVESTMENT

The U.S. chamber of commerce, through extensive surveys of its member companies, has conducted considerable research on what American MNCS look for when evaluating a foreign country as a potential investment site. a survey of major American MNCS in brazil (conducted by the brazil U.S. business council in 1989) identified 12 major criteria.

LOCAL MARKET CHARACTERISTICS

The single most important factor centered on the attractiveness of the host country as a market for the MNC'S products and services. The size of the local market, relative wealth o purchasing power of the population and growth potential of these variables, as well as of the economy as a whole, comprise the most basic criteria that MNCS use to decide if a potential site merits further consideration. The country's natural-resource base and geographic location are also important in this regard.

MARKET ACCESS

Local laws and regulations that grant or do not unduly restrict a firm's access to local markets may enhance its earnings potential and profitability. Countries where the state exerts a large degree of control over economic activity and restricts the private sector's freedom to conduct business are not attractive to potential investors. The regulatory environment must also allow MNC'S to compete on an even footing against local companies (foreign firms are often monitored more closely than their local counterparts).

LABOR FORCE

Foreign investors examine the quality of the local force because they must recruit their potential employees from that labor force. In many industries, particularly industries that use a high amount of labor to create a finished product (e.g. textiles, apparel), MNCS seek to establish plants in developing countries to take advantage of their lower wage rates. As part of their overall global strategy, MNC'S may locate the labor-intensive phases of production, for almost any type of product, in low –wage countries.

It is important to note, however, that pay scales are not the only determinant of the attractiveness of the labor force. Investors also look at the quality of education in the host country, because better educated workers will be easier to train and will reach their peak output sooner than workers who are not as well educated. Still another factor in labor-force productivity is the degree of worker absenteeism. The costs and productivity of labor are key ingredients in product competitiveness in the international market place.

CURRENCY RISK

The cost of local currencies in relation to the major currencies (such as the yen, deutschemark, and especially the dollar) relates directly to the costs and profits of MNCS, which evaluate their financial results on a consolidation global basis against the major currencies. Since MNCS make investments in local currencies, the risks of currency devaluation affects the value of their financial assets after taxes as well as of their earnings and profits expressed in hard currencies. When the local subsidiaries of MNCS pay for imports or remit interest payments, the local currency cost will rise as the dollar and other hard currencies grow stronger relative to the local currency.

Exports from host countries may serve as a hedge against currency devaluations, but MNCS can do little to combat the devaluation of assets. Appropriate exchange –rate policy adjusts the value of the local currency on a steady, predictable basis, which contributes to economic stability and investor confidence. The valuation of the currency is important for MNCS that want to export from host countries as well as for the countries themselves, which seek to generate export earnings. Local currencies that are overvalued (i.e. that cost too much when measured in hard currencies) hurt exports from the local country, because such exports are more expensive than exports from competing countries.

CAPITAL REPATRIATION

Investors focus on the regulations affecting their ability to take invested capital and profits out of the host country, which they may do in a variety of ways. Relevant regulations may consist of tax rates, restrictions on the ability to take hard currency out of the country, or burdensome procedures for doing so (e.g. requiring permits or approvals from the central bank). Typically, local subsidiaries will transfer profits to the parent company through dividends, interest payments, or royalties and technical assistance payments. MNCS may also wish to sell some of their holdings of the local company. Countries that restrict these activities have less attractive investment climates than countries that allow the free movement of capital and profits.

PROTECTION OF INTELLECTUAL PROPERTY RIGHTS:

Intellectual property refers to a company's ownership of the intangible as well as tangible products of its research. These include its manufacturing processes, soft ware, and marketing techniques.

In the major industrialized countries, a company's ownership rights are protected through the use of patents, copy rights trademarks, protection of trade secrets, and other laws covering proprietary technical data.

Given that a significant proportion of their assets consist of intangibles, the protection of intellectual property is a high priority for MNCs, particularly in dynamic industries such as computers, telecommunications, and pharmaceuticals, in which technology is a major competitive weapon in the development of new products and is of the highest priority, because they offer the highest potential benefits in terms of technology transfers and the development of a local high technology industrial base.

However, to attract investment in these industries, host governments must ensure the effective enforcement of intellectual property rights, avoiding the compulsory licensing of registered technology and other interventions in technology –licensing agreements between private firms.

Some countries are lax in the protection of intellectual property because companies that use proprietary technology illegally may spring up quickly and provide jobs and growth for the host country.

In the entertainment industry (through illegally produced videos, movies, and music) and the pharmaceutical industry (through illegally copied drugs), this practice is widespread and costs the rightful owners of the patents and copy rights hundreds of millions of dollars in lost revenues. Because of the stakes involved, the protection of intellectual property has become a major trade issue between countries.

TRADE POLICIES:

Trade policies affect the cost and ease or difficulty of moving imports into and exports out of the host countries. This ability is important for MNCS, who use foreign facilities to export to other markets as part of their global production and distribution strategy, thereby maximizing their efficiency on a global basis. As an example, part of the appeal of regional trade agreements for an MNC centers on the access to neighboring countries that would come with investment in a member country. The cost of imported products is affected by the applicable tariff rate as well as by the local currency exchange rate.

Import costs are important for manufacturers who use imported inputs in producing a finished product. Tariff rates that are higher compared to those compared to those in other countries raise the cost of an MNC'S finished goods. Since cost is a crucial factor in the competitiveness of exports on international markets, high tariffs make countries unattractive to foreign investors.

Similarly, quotas, burdensome licensing or approval procedures, and other non –tariff barriers for imports may also raise costs or slow the production cycle and consequently dampen competitiveness and investment. Licensing procedures also affect the ability to export goods out of the host country.

Many countries require exporters to go through several steps before they can ship their products. For example, they may have to get permission from the central bank, clear their goods through customs, or secure other approvals. Fees may also be charged for exporters to obtain the necessary licenses and permits. These requirements may raise costs and delay the appearance of the finished products at the market; given the intense competition among the global producers in numerous industries, higher costs and delays make host countries less competitive and less attractive.

GOVERNMENT REGULATION

They regulatory climate a term used to describe how government regulations affect business operations, may have a very significant impact on operating efficiency and cost and therefore on firms profitability and competitiveness, an attractive regulatory climate is an important consideration in the investment site decision. It is important to note that some degree of degree of government regulation is essential in protecting the interests of producers and consumers and thereby ensuring the integrity and smooth functioning of the market place.

However, from the standpoint of foreign investors indeed, of all economic actors too many regulations can create distortions that raise costs and cause markets and firms to function less efficiently. for example, many governments have labor laws designed to protect workers job by making it difficult for firms to dismiss workers despite changing market conditions. other laws may dictate wage rates for workers (such as the minimum wage law in the united states) or may require firms to provide a host of benefits.

These laws may raise costs for foreign investors, who often look for competitive edges in labor costs in assessing potential investments. Thus, laws intended to help workers may actually hurt them by discouraging investors from investing their capital and creating jobs. Government regulations in other areas also discourage potential investors. Policies may dictate interest rates or designate priority sectors where available capital should be invested.

Governments may create numerous procedures for getting foreign investments approved or establish other bureaucratic requirements or restrictions that may hamper investor's ability to move their capital or profits into and out of the country quickly again, investors seek flexibility to enable them to respond to rapidly changing market conditions, a consideration that is of growing importance in the competitive economy of the 1990s,regulations that hamper firms flexibility thus serve as a deterrent to investment. Restrictions on firm's activities, such as when governments reserve specific sectors for state –owned enterprises, have the same effect.

TAX RATES AND INCENTIVES

A Key factor in the investment decision involves how taxation affects a firm's normal operating environment. Excessive tax burdens on investments and profits will discourage MNCS from investing in a prospective host country. The tax burden involves not only tax rates, but the tax treatment of dividends, royalties, remittances and other transactions between local subsidiaries and their parent companies. To improve their attractiveness relative to competing countries, many countries offer packages of tax and other incentives for foreign investors. These incentive programs, which will be described in more detail below, may be helpful for host countries in attracting investment, provided that the other key investment criteria are in place.

POLITICAL STABILITY

This element is a fundamental aspect of the investment decision: investors simply will not risk their capital in an environment that is perceived as unstable, because the risk of losing their investment will be perceived as too high. Stable political environments give investors confidence that the "rules of the game" or laws and regulations governing their investment and the markets in which they operate, will remain basically the same over the long term.

This confidence is important, because when capital is risked in a direct foreign investment, a long –term time horizon is usually required for the investment to generate the expected profits. Investors' confidence reflects not only their perceptions of the current climate but their expectations about the political as well as economic outlook over the medium and long term.

Aside from the characteristics of the political regimes, the attitudes of government officials, labor leaders, and private –sector leaders in the host countries also affect perceptions of the host country's stability and attractiveness as a site for foreign investment. Some countries may espouse a policy of encouraging foreign investment on one level, while at other levels officials may seek to impede such investment through bureaucratic obstructions and other means.

Similarly, labor leaders who hold nationalistic views and who threaten strikes or other forms of upheaval against MNCS help create a climate of instability that undermines foreign investment. Private-sector leaders may wish to keep MNCS Out of their local markets for fear of not being able to compete with them. These groups may take advantage of weak political systems and change the rules of the games in ways that are unfavorable to foreign investors.

MACROECONOMIC POLICY FRAME WORK

Macroeconomic policy management has a large impact on investor confidence in the host country, as countries that are economically well managed are less likely to experience turbulent economic performance, which may exercise a negative impact on profitability for both local and foreign owned firms. Economic volatility raises uncertainty for investors.

Foreign investors respond to economic uncertainty in countries in which they have already invested by diminishing the size of their investment (and their exposure to potential negative risk) or by withdrawing from the country altogether. In countries where they are not exposed, foreign investors will not risk their capital until the economic situation becomes more stable.(domestic investors often respond to economic turbulence in their home country by depositing their money in foreign bank accounts or otherwise investing abroad. This phenomenon is known as capital flight). The most important aspect of macroeconomic policy stability centers on a low, predictable rate of inflation. Hyperinflation causes difficulties for firms in managing their operations. For example, in devising accounting procedures accounting procedures and managing cash flow. When countries impose shock programs in an attempt to control inflation, recessions often result. For example, in Brazil in 1990 implemented a severe shock program to control repeated episodes of hyperinflation, and as a result, many foreign firms' sustained major losses.

INFRASTRUCTURE /SUPPORT SERVICES.

A host country's physical resources-roads, ports, airports, telecommunications networks and facilities, availability and cost of energy have a great impact upon the cost and efficiency of production and transportation. Countries must strive to keep these resources modern and defect –free in order to maximize their attractiveness as a site for foreign investment.

Regardless of how well a country may rate in term s of investment criteria, one with a poor infrastructure may have difficulties in capturing a significant amount of foreign investment. Infrastructure also consists of the services necessary to support manufacturing operations.

These services include those provided by law, insurance, and accounting firms; commercial and investment banks; and transportation facilities via air, sea, and land. Raw materials and other manufacturing inputs must be available in sufficient quantities and at the competitive prices.

Stable, secure relationships with local suppliers are important. Strong local service and supply companies both benefit from and contribute to attracting foreign investment.

2.39. ECONOMIC IMPLICATION OF FOREIGN DIRECT INVESTMENT

According to Moses J.W.wesonga, foreign direct investment plays a major role in the development of an economy. it brings about foreign exchange in the economy's financial system through wages and salary payment and taxation. It creates the tendency to make follow up on the funds appropriation by both the donor and recipient.

To achieve economic growth, nations set policies designed to improve output overtime and this lead to high investment and capital formation. Nations with high investment and capital formation have higher average annual economic growth rate (GDP) than nations devoting smaller amounts of their output to capital formation. Local investors get exposed to business and economic issues of global nature especially if left to mediate between foreign investors and government.

Employment opportunities are created leading to improvement in income per capital. Mediation by local businessmen leads to fair dealings with foreign investors. There are productivity gains, technologic transfers, and improved and new process of production, improved managerial skills and know-how in the domestic market, employees training and access to international production networks and new product. Some authorities point out the weakness of foreign direct investment.

Problems of investment in under the developed world stem from among the many, under savings and conspicuous consumption and the fact that potential local investors instead of investing funds locally, they instead unlawfully or lawfully pipe up their savings abroad, making them unavailable for local development purposes.

Also when it comes to mobilizing investment, most government and indeed investors' focus themselves on services that have less impact, leaving out more complex areas like water and electricity generation and distribution. It is often because such investment attracts government interference. Perhaps more staining is the amount of criticism thrown at foreign direct investment.

Many acknowledge the role of foreign direct investment in the economic growth and development but are quick to caution against over reliance on it. It involves for more than the transfer of capital, or the establishment of facilities in the developing countries. There are extra activities, which have little to do with the development aspiration of the recipient country. While foreign direct investment could on a long – term basis bring about economic development, or be seen in the light of development, it's worth nothing that it is not an end of poverty in its self.

In fact most of privatized co-operations are bought by foreign nationals who in addition to having interests of exploiting our weak laws on things like taxation; environment and labor etc. use their capital to dictate policies and terms to our unsuspecting government. Also, a country's economic benefit out foreign direct investment will depend on country's trade policy.(Samuelon: economics 10th edition, **Michael P. Todaro**, economics for developing country 3rd edition).

Countries are either open or closed in their trade policy. Open countries are those that make efforts to trade with neighboring countries, open their market for others while taking advantages of other countries markets themselves while closed countries are the direct opposite. There will be positive effects when country is closed.

Closely related is that for a recipient to take good advantage of foreign direct investment there has to be a fully developed and functioning financial market to facilitate the currency conversion and transfers. Countries with well-developed markets gains significantly from foreign direct investment. Well-developed market by lowering costs of conducting transactions ensures that capital is allocated to the projects that yield highest returns and therefore enhance growth rates.

The alternatives to foreign direct investment are of course locally mobilized investment. Mobilizing the unemployed to work on such projects like constructing of dams and roads, irrigations etc. would be a good alternative to foreign direct investment and its effects.

With such an alternatives it's possible to increase investment without tampering with productivity or consumption. Another one would be raising taxation as a source of funding for investment although in the underdeveloped world; incomes of majority of the people are almost un taxable, being so low. The high –income earning minority usually political and may not be willing to pay.

3. RESEARCH METHODOLOGY:

3.0. Introduction:

This chapter covers research design, population and sampling, target and accessible population, sample, sampling techniques, data collection instruments, research procedure, data analysis, assumptions and limitations and ethical considerations.

3.1. RESEARCH DESIGN

The researcher used a descriptive research during the study. A particular concern was put on investment policies and promotion of foreign direct investment in Telecommunication industry in Rwanda. The study analyzed the attitude of investors in Telecommunication industry and how they perceive the investment policies and the level of their satisfaction. There are different research methodologies that were used to find out the reality of the fact. Besides the researcher used analytical, qualitative techniques to conduct the study because the results gained were real and unbiased. Both numerical and non numerical (respondents, opinions and views about the study) had been qualified for easy interpretation. A quantitative analysis was applied with data collected on dependent variable and the independent variables.

3.2. POPULATION AND SAMPLING:

Population was the complete set of individual's objects or measurements that have some common goals, objectives and observable characteristics. William and Grinnell (1990) defined population as the totality of persons or objects with which a study is concerned.

3.2.1. TARGET OR ACCESSIBLE POPULATION:

The total population of employees working for TIGO Company was 160. The targeted population was a combination of employees for TIGO and Business Community only 25 employees of TIGO were consulted and remaining 15 were business people dealing with telecommunication adding to 40 respondents. It was composed of females and males both mid managers, senior managers, supporting staff and business community dealing in Telecommunication Business with the knowledge of Telecommunication Industry. Given the fact that TIGO Company main headquarters are located in Kigali and other concerned Ministries and Institution also located in Kigali, this prompts the researcher to conduct the study in Kigali city where all institutions dealing with investment policy and promotion of foreign direct investment are located.

3.2.2. SAMPLE SIZE:

A sample was a smaller group obtained from accessible population. This group was carefully selected so as to be representative of the whole population with relevant characteristics. (Olie M. and Abel G. Mugenda 1999).

In this regard, out of 160 employees working with TIGO Company only 25 respondents were selected and 15 were also considered from the Business Community dealing with Telecommunication Industry totaling to 40 respondents out of 240 people and these people were considered because they have the knowledge of incentives provided by Rwanda Development Board in charge Investment Promotion.

3.2.3. SAMPLING TECHNIQUES:

This study adopted a sample that was viewed approximation of the population other than the whole.

The study used two techniques: According to Stays (1969), when purposive techniques are used: In this case informants chosen know a great deal about the subject of the research basing on their knowledge and their qualifications because for example there was some information that must be provided by directors of various companies. Simple random sampling technique: this is a probability sampling technique where every member is known and has equal chance of being selected and the population has to be homogeneous.

3.2.4. DATA COLLECTION INSTRUMENTS:

Under this data was drawn from primary and secondary sources:

Table 3.1 Target population and Sample size

Types of Respondents	Target Population	Sample Size
Staff members in TIGO	160	25
Business Community in Kigali City	80	15
Total	240	40

Source: Primary date

3.3. Data Collection technique:

During the course of the study, the researcher used both primary and secondary data sources. Primary data was collected through the use of questionnaire. Secondary data was obtained from existing information from RDB reports, documentation resources from the library, and internet was used also to enlarge the scope of the study. Below are some of the tools used to obtain data from both primary and secondary source, Kendol et AL (1992).

3.3.1. Primary data:

QUESTIONNAIRE:

This is a written list of questions which are related to the topic. These questions were given to the sample selected of which information required was extracted from the answers given by the respondents. A standard questionnaire was designed to target investors with two types of questionnaire that is the open ended and closed ended questionnaires. The researcher to collect the information from the respondents used self-administered questionnaire. Here a set of related questions were prepared and respondents were requested to answer.

INTERVIEW:

Interview was used in collecting primary data where communication with the respondents was conducted and this is believed to be the best source of data. Here the respondents provide data through verbal response.

3.3.2. SECONDARY SOURCE OF DATA COLLECTION:

The researcher used the already collected data and processed by some agency or persons and taken over from these and used by any other agency for their statistical work. Secondary data may be in form of different reports, historical events, academic journals related to the investment policy, and works done by other authors about investment published or unpublished materials were considered (Kiplinger1964).

DOCUMENTARY RESEARCH:

During the study, the researcher documented different written materials from books, reports, in the view to obtain comprehensive information related to the problem understudy. The data obtained from the secondary source.

3.3.3. RESEARCH INSTRUMENT:

In the process of the data collection, the researcher used questionnaires, interview schedules and documentary study.

3.3.4. RESEARCH PROCEDURE:

During the research procedure data was collected using both qualitative and quantitative techniques through the use of questionnaires and well documentary review, in the study qualitative data was collected through use of questionnaires, the respondents were asked to give their views in relation to the problem under the study where their views were collected and presented in tabular/statistical manner to facilitate easy analysis and interpretation. While quantitative information was collected from reports, and different books. This research was conducted between March to July at Muhima headquarters of TIGO Company as well as Business People dealing with Telecommunication based in the Urban.

3.4. DATA ANALYSIS:

Data collected from the field by the use of self administered questionnaire was edited and grouped statistical figures analyzed and interpreted and presented. Secondary data was also edited and analyzed through the use of documented reports and journals in the view of getting clear image of investment policies and promotion of foreign direct investment in Telecommunication industry in Rwanda. As a result, recommendations and conclusions were drawn.

Tabulating

Tabulating was used to put data in different categories where by Tables, Pie charts and graphs were used to indicate the distribution, percentages and frequencies of the results. Charts were further used for clear presentation of research findings. The collected data was processed and analyzed using different statistical software programs such as Excel and SSPS. Editing the researcher used editing to process and to examine errors or omissions in the collected data and to make necessary corrections.

3.5. ASSUMPTIONS AND LIMITATIONS OF THE STUDY:

Throughout the whole process of the study, some challenges took place like;

Some respondents were reluctant to give out the required information. Besides; most of them claimed to be busy and can't get ample time to attend to either questionnaires or interviews. During the study the researcher overcame this challenge by approaching one of the respondents to assist in mobilizing the fellow colleagues to spare sometime and attempt the questionnaire.

3.6. LANGUAGE BARRIER:

Basing on the history of Rwanda, French language was official used in the country followed by Kinyarwanda due to this factor most of Business Community use Kinyarwanda, This prompted the researcher to conduct oral interview with each respondents from door to door shop reading and translating each question from English to Kinyarwanda. This consumed much time to the researcher however it was very important because it yielded into obtaining the right information from the selected respondents.

3.7. ETHICAL CONSIDERATION:

The researcher having formulated the topic of the study got the introductory letter introducing her to different offices to identify the respondents and administrator the questionnaire to the selected respondents. To add, more on the data, libraries, and business journals were consulted. To ensure reliability and availability of instruments, the questionnaires designed was taken to the supervisor for comments after which they were perfected and administered. Information will then be coded, edited, and classified. The researcher then presented, interpret, and analyze the collected data.

CONFIDENTIALITY AND PRIVACY:

This prompted the researcher to design the questionnaires that would not hinder the flow of information from the respondents. The researcher also used both open and close ended questionnaire with the view to save their time and collect valid and reliable information from respondents.

INFORMED CONSENT:

Consent to undertake this research was obtained from the Kampala International University (K.I.U.) administration, and TIGO head office manager and informants. Other relevant regulations governing research in Rwanda, where this research was conducted, were also adhered to. Further, the researcher ensured that, the participants, prior to answering the questionnaires, fully understood the purpose and impact of this research. As such no unrealistic expectations were created in the minds of the respondents. This was the same case with oral interviews. Moreover, the researcher carefully selected the sample to ensure that they were relevant to the research. \each respondent was involved in the area of study in one way or another. This ensured maturity of responses and expectations, if any.

RESEARCHER'S RESPONSIBILITY:

The researcher's responsibility is to understand and adhere to the policies and procedures of TIGO and other relevant guidelines, including KIU's policy on ethnics of research involving human participants, and relevant legislation. Again, the researcher commits to providing adequate documentation to this effect. This is accomplished through the process of ethnics review.

TRUTHFULNESS:

There was doubt on whether answers provided on some questions will be true or not;

For instance, there was a possibility that investors could refuse to provide some information related to their investment. There was also another possibility that investors might give wrong information related to because they always want to escape them. During the study the researcher overcame this challenge by introducing her to investors as a student carrying out research for the purpose of academic issues only and promised them to keep this information confidential and secure and no consequences behind this research.

CONFIDENTIALITY ISSUES:

The researcher ensured all data required especially to the **TIGO** Company and conducted interview with Business Community while the challenges faced in this Industry were kept and confidential. However, to overcome this issue the researcher used the questionnaires and interview guide which pre-tested such that the respondents could release important information which could not be obtained anyhow.

ANONYMITY:

All respondents in research have the right to remain anonymous, that their individual identities not to be a salient feature in the study. As regards to these circumstances, the researcher assured the respondents by showing the purpose of the study and evidence of conducting the research.

4. DISCUSSION AND PRESENTATION OF FINDINGS:

4.0. INTRODUCTION:

This chapter explains how data collected during the research carried out in TIGO Company and Business Community dealing with Telecommunication Industry in Rwanda. The study was conducted at Muhima Headquarters and Nyarutarama in Kigali City where 25 respondents were approached comprising of males and females working with TIGO Company and also 15 respondents from the Business Community dealing Telecommunication.

The questionnaires and interviews conducted were used as methods of data collection. The data collected has been analyzed using the SSPS analysis tool. The analyzed data has been presented in statistical formats such as graphs, pie-charts and pyramids. The first presentation shows a set of formulae and variables used to derive different diagrammatic presentations.

4.1. ANALYSIS OF EMPLOYEES RESPONSES:

This analysis is based on responses provided by 25 employees of **TIGO Company** and 15 respondents from Business Community where by questionnaires were given to them in order to respond. The response and their analysis are indicated below by the use of table, pie-charts, and figures.

4.1.1. PERSONAL IDENTIFICATION:

Personal identification includes address, gender and age, percentage, No. of respondents, and education level and the address of respondents.

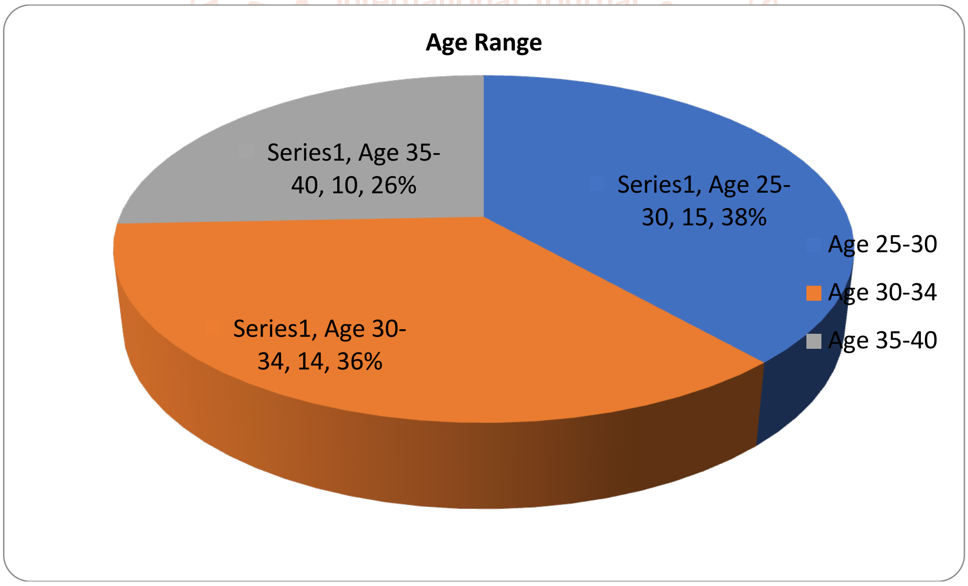
Table 4.0. Distribution of respondents address:

Address	Number of respondents	Percentage
Kigali city	40	100%
Province	0	0%
Total	40	100%

Source: Primary data

The table 4.1 shows that all 40 respondents are residents of Kigali City. The 40 respondents received the questionnaires and responded 100%. This is very much understandable, due to the fact that it is much convenient to employees to live near the area of work since even the Business Community dealing with telecommunication can easily monitor their business comfortably.

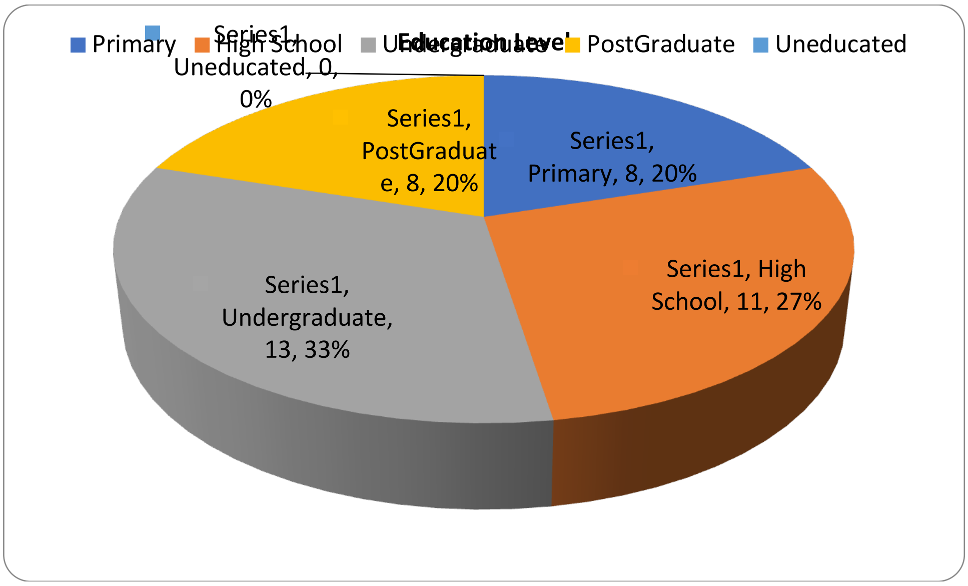
FIGURE4.1.THE SOCIO ECONOMIC PROFILE OF INVESTORS:



Source: Primary data

The above figure shows that most investors are young Rwandese in telecommunication Industry between the age bracket of 25 to 34 representing 38% followed by age 30yrs-34yrs represented by 36% both adding up to 74% lastly was between 35 to 40years with 26%.Such figure indicates that the mentioned age group is mainly composed of the youth running such business. And this is due to the recent war of 1990-1994 which destabilized both economical, socially and political aspects of the country hence Rwanda started to rebuild its economy, the government fully committed to building a peaceful and stable and prosperous nation through sustainable private sector leading to development.

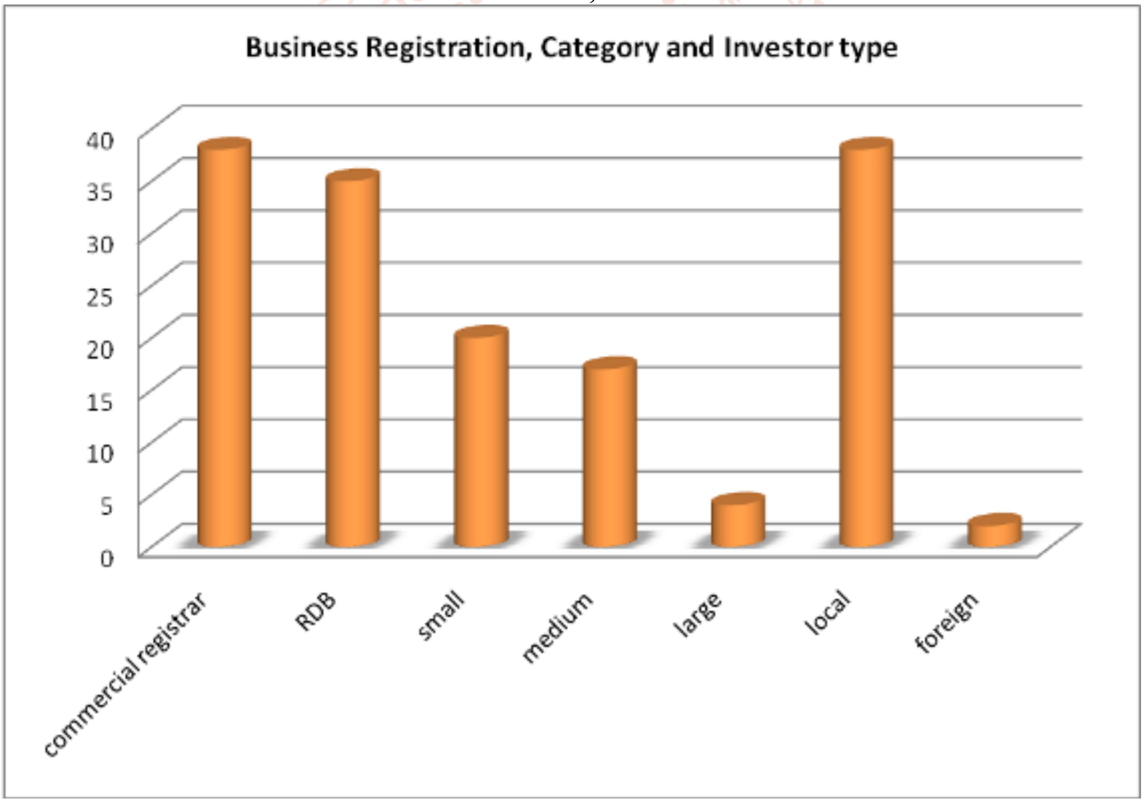
FIGURE4.2. EDUCATION LEVEL:



Source: Primary data

The above figure indicates that most investors follow into undergraduate with 33% followed by 27% who have completed high school while the rest that is to say primary school and uneducated investors are constant with 20% totaling to 40% for both. They are efficient and have knowledge in articulating investment policies in the telecommunication sector.

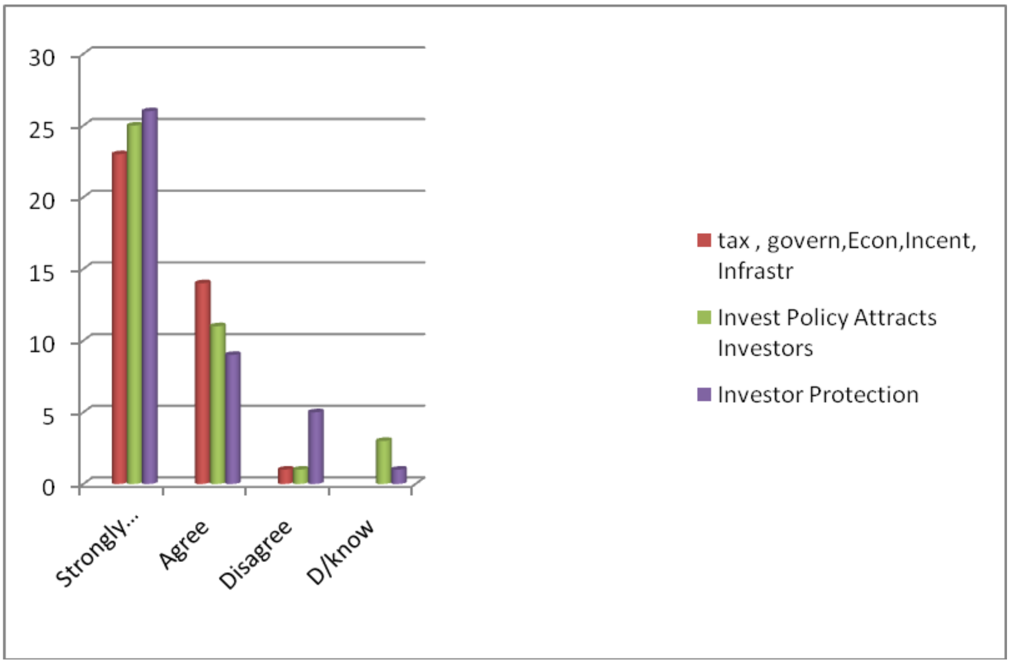
FIGURE4.3. BUSINESS REGISTRATION, CATEGORY AND INVESTOR TYPE:



Source: Primary data

Data from above indicates that most investors are local (Rwandese) while foreigners in the telecommunication industry remain very low and most of respondents witnessed that their business was still small according to the table followed by the medium and investors with large business were few because both medium and small buy in the whole sale from the large to go and sale on retail scale. During the study, majority of the respondents were highly aware of requirements for business registration by RDB as shown in the population sample of 38 out of 40 businesses in the industry. Majority of investors are still small and medium sized with large and foreign investors in the telecommunications sector below.

FIGURE4.4. EFFECT OF POLICIES TO INVESTMENT:

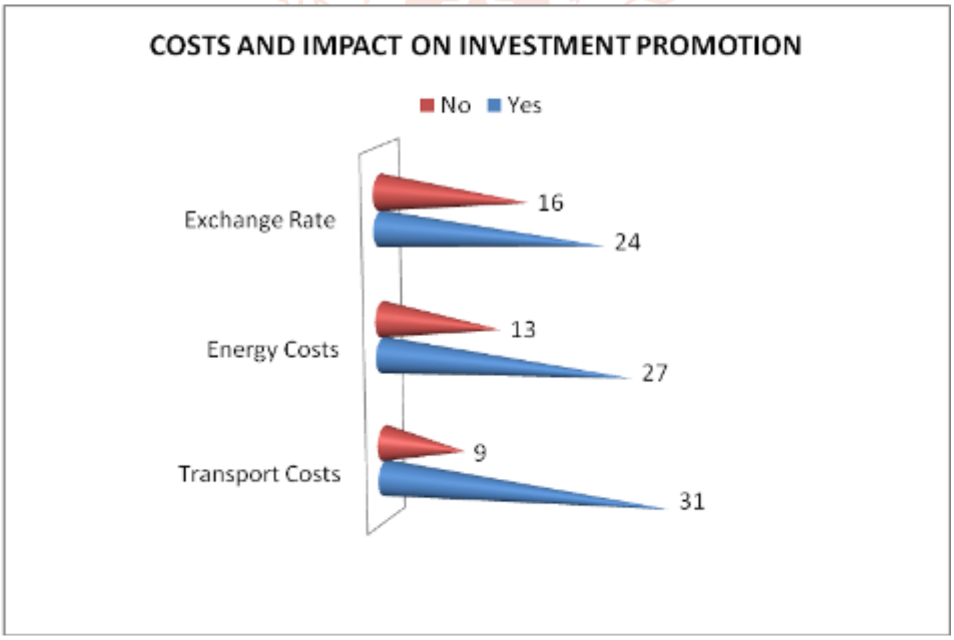


Source: Primary data

Legend:
SA: Strongly Agree
A: Agree
SD: Strongly Disagree
DK: Don't Know

The figure above shows that majority of respondents strongly agree that factors such as investor protection was excellent in a sense that they stratified higher with 26 respondents out of 40, followed by investor policy which attracts investors to the country with 24 respondents out of 40 and lastly was the tax incentives specifically tax exemptions with 23 respondents, good infrastructure are among factors that have a major contribution towards investment attraction. While other respondents just agreed and other respondents disagreed and lastly respondents don't know policy considerations that have attracted and retained investors in the Telecommunications Industry.

FIGURE4.5. COSTS AND IMPACT ON INVESTMENT PROMOTION:

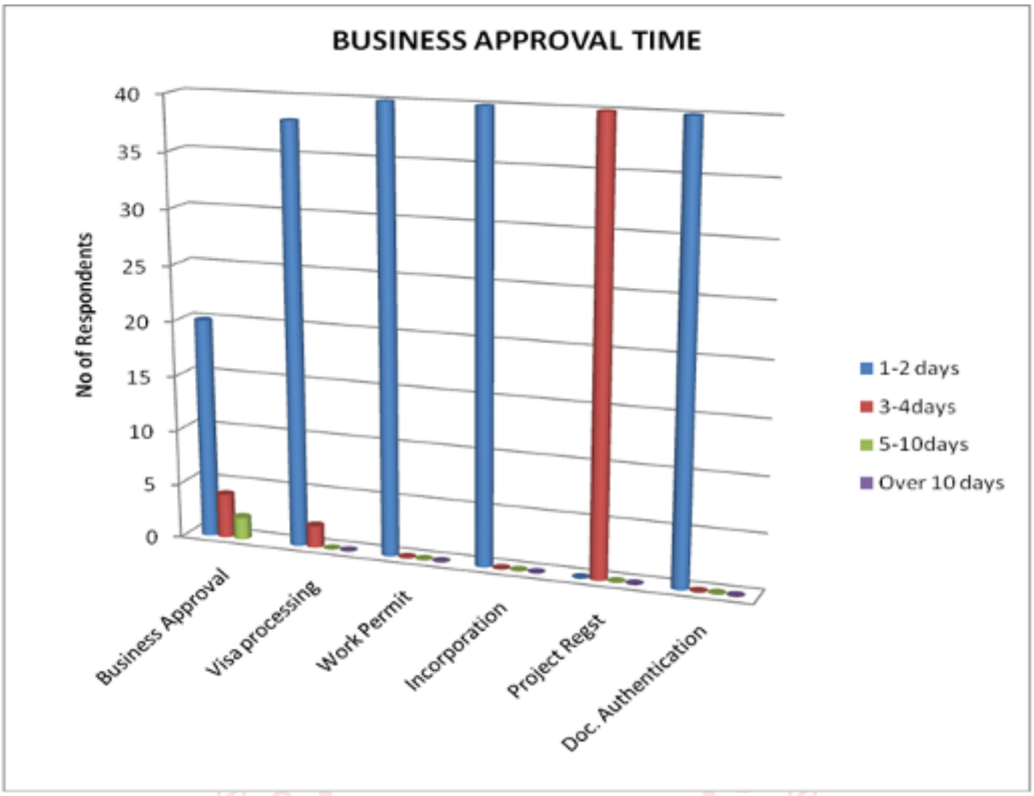


Source: Primary data

The figure above elaborates on how respondents reacted on each factor for example the factor like Exchange rate out of 40 respondents 16 of them responded no because they believe that exchange rate negatively affects business, and 24 responded yes agreeing that it negatively affects business.

While on the second factor which are Energy costs out of 40 respondents 27 answered yes accepting that this factor negatively affects business and 13 responded no. Lastly Transport costs out of 40 respondents 31 responded yes meaning that they accept that transport costs negatively the business since Rwanda is land locked and other 9 didn't agree by responding no. Therefore each factor contributes to 40 respondents who were used to attempt each question during the study.

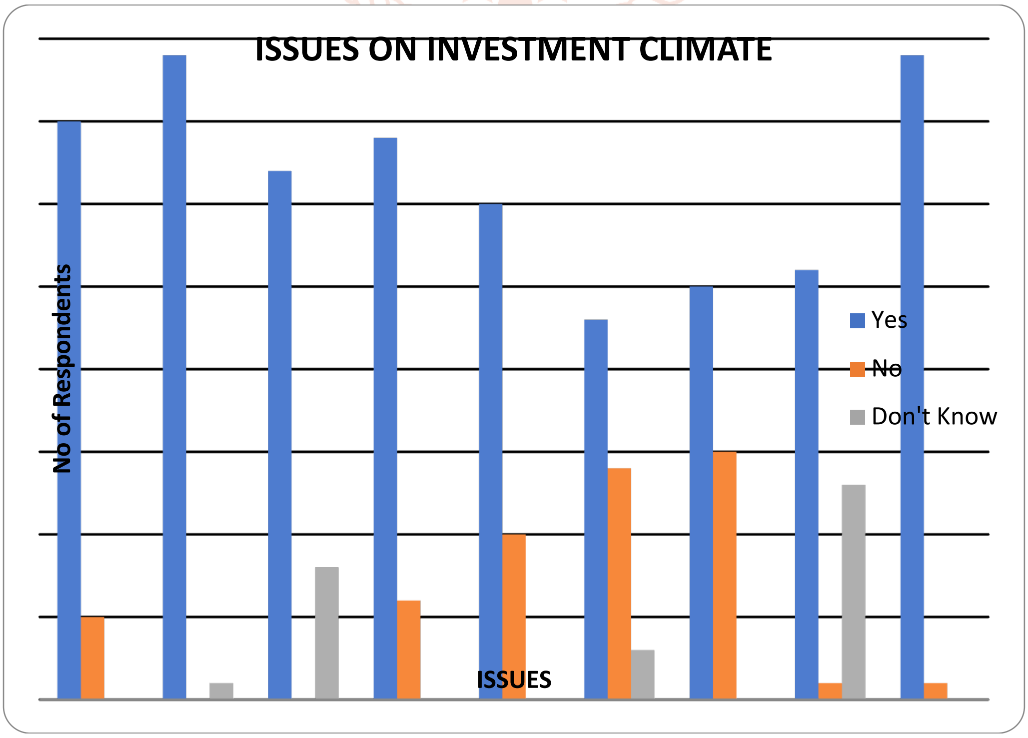
FIGURE 4.6. BUSINESS APPROVAL TIME:



Source: Primary data

The figure above elaborates that at least out of 40 respondents 39 strongly agreed that it takes it takes under three days to have all the necessary business registration requirements approved by the authorities facilitating quick commencement of business as shown above while 1 suggested that it takes between 5-10days lastly over 10days it was Zero.

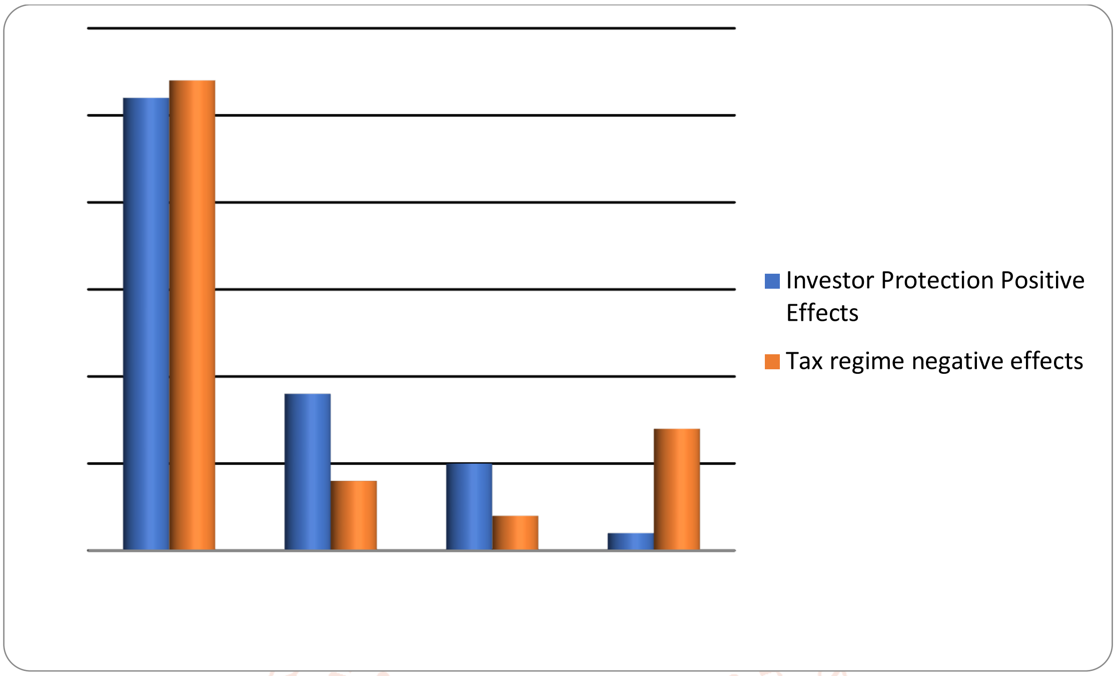
FIGURE4.7. CHARTS SHOWING ISSUES RELATED TO INVESTMENT CLIMATE:



Source: Primary data

The figure above indicates how majority of investors are satisfied with the investment climate in Rwanda while some few were dissatisfied therefore investment climate is ideal, and incentives were also good such includes good governance which ranked with 38 respondents out of 40, while Conducive political factors such as legal system ranked with 37 respondents accepting, and also economic factors services from RDB and good infrastructures ranked with 34 respondent out of 40. However, a significant number feels that taxes are quite high on other commodities like vehicles, spirits and wines and powder milk.

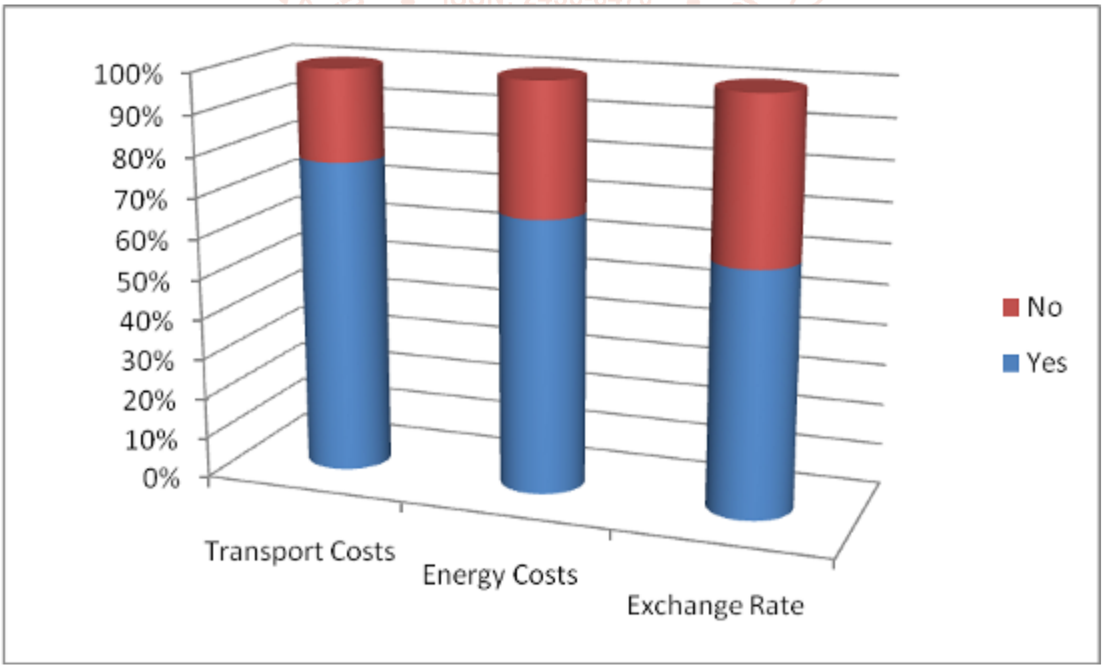
FIGURE4.8. IMPACT OF INVESTMENT POLICY ON INVESTMENT PROMOTION:



Source: Primary data

From the figure above indicates that respondents strongly agree that investor protection positively affects investment promotion while tax regime can negatively affect investment promotion and between 8 to 3 agree while 4 to 2 strongly disagrees and lastly 7-0 don't know.

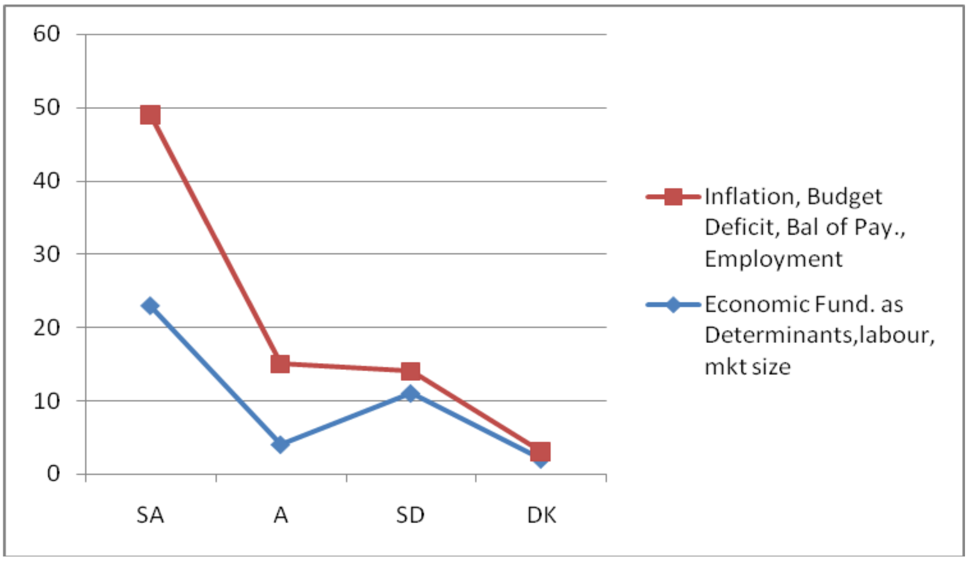
FIGURE4.9. IMPACT OF INVESTMENT POLICY ON INVESTMENT PROMOTION:



Source: Primary data

According to the above diagram it indicates that transport costs is represented by 70% and it negatively affects investment promotion to the greatest percentage, followed by energy costs with 50% ranged second in affecting investment promotion while Exchange rate represented by 40% ranged the third in affecting investment promotion. While other respondents said they don't know whether these factors can affect business.

FIGURE4.10. IMPACT OF INVESTMENT POLICY ON INVESTMENT PROMOTION:



Source: Primary data

Legend:
SA: Strongly Agree
A: Agree
SD: Strongly Disagree
DK: Don't Know

The figure above indicates that most investors strongly agree that the following are economic factors; inflation rate, Budget deficit, Balance of payment and Employment rate according to the graph they represents 50% and it is clear that such factors can have negative impact on investment promotion if they are not well treated well as 13% agreed as time as number strongly disagreed. While factors such market size, cost of labor, cost of capital also represent 23% on the graph most respondents strongly agree that they are fundamentals determinants of foreign direct investment but 3% agreed while 11% don't and investment promotion in Rwanda.

5. SUMMARY, CONCLUSION AND RECOMMENDATION:

5.0. Introduction:

This chapter explains the summary of findings, conclusion and recommendations based on the results from the research. The purpose of the study was to establish investment policies and promotion of foreign direct investment in Telecommunication Industry in Rwanda. A case study **TIGO Company** and **Business Community.**

5.1. SUMMARY OF MAJOR FINDINGS:

This section discusses the findings of the study which were presented and analyzed in details in chapter four.

TIGO as one of the infant Companies in telecommunication industry in Rwanda is faced by the challenges mentioned by **Albert Nsengiyumva** and **Emmanuel Habumurenyi (APC)** September 2009 points out some challenges in telecommunication Industry in Rwanda as lack of skilled work force, Affordability, Geographical Coverage, Infrastructure- roads, power, Lack of awareness.

Out of 160 employees working for TIGO Company a sample size of 25 was contacted and other 15 from Business Community dealing telecommunication totaling to 40 respondents. The whole city was considered as geographical area of the study. The purposive technique was used were respondents were chosen according to their knowledge and their qualifications. Secondly simple random sampling technique was also employed where a probability sampling technique is where every member is known and has equal chance of being selected and the population has to be homogeneous.

The first objective was to analyze the relationship between economic growth and investment policies made by the government of Rwanda in Telecommunication Companies. From the study it was realized that investor protection represented by 27% ranked higher followed by good infrastructure represented by 24% lastly was tax incentives and specifically tax exemptions represented 23%, and while other 14% agree and 7% disagree and lastly 5% don't know Therefore it was commonly agreed that investor protection ranged the first factors are among the major policy considerations that have attracted and retained investors in the telecommunications Industry in Rwanda ref to **table no.4.4**.

To add on following the **figure no. 4.5**.during the study it was pointed out how respondents reacted on each factor for example the factor like Exchange rate out of 40 respondents 16 of them responded no because they believe that exchange rate negatively affects business, and 24 responded yes agreeing that it negatively affects business. While Energy costs out of 40 respondents 27 answered yes accepting that this factor negatively affects business and 13 responded no. Lastly Transport costs out of 40 respondents 31 responded yes meaning that they accept that transport costs negatively effects business due to the fact that Rwanda is land locked country and other 9 didn't agree by responding no. Therefore each factor was attempted by 40 respondents during the study. **Ref to the table 4.5**.

The Second objective was to find out the impact of investment climate in Telecommunication Companies in Rwanda, in this case the study established that Rwanda's governance system ranked as number one 38 respondents due to its effectiveness in favoring investment promotion, followed by legal system in place with 37 respondents although respondents claimed the procedures take too long and lastly good infrastructure with 34 respondents although more buildings are needed to be put in place in order to accommodate the quit expansion in Kigali city refer to **table no.4.7**.

The last objective was the role of incentives on the investment in Telecommunication Companies the study discovered that incentives such as exemption from import duties and sales taxes and VAT (added tax value) contributed a lot in promoting Telecommunication Industry in Rwanda, where by telephones became cheaper and affordable to citizen hence facilitating easy communication throughout the country **refer to 4.4**.

According to the Investment incentives by Rashmi Banga (1900) and Anwar Shah (2005), Investment incentives are country's schemes aimed at stimulating investors in specified types of capital expenditure, or investment. These incentives may take the form of direct subsidies or corporate income tax credits that compensates the investors for their capital costs. The impact of incentives on inward foreign direct Investment flows is expected to be positive. There too many categories of Foreign Direct Investment incentives offered by developing countries to attract foreign direct investment inflows:

Fiscal incentives include policies that are designed to reduce tax burden of investors. These incentives include reduction of the standard corporate income tax rate, exemption from import duties and duty drawbacks on exports. Financial incentives including direct capital subsidies or subsidized loans from Anwar Shah (2005) Fiscal Management, 3rd edition, page 5. **Refer to 4.4.**

Other findings from the study, it was established that most investors appreciated the services provided by Rwanda Development Board whereby it takes less than three days to approval the business plans hence leads to doing business environment **refer to table 4.6**.

Conclusively, from the study above, it was clear that majority of investors were satisfied with the investment climate in Rwanda therefore investment climate was an ideal, and the incentives provided by the government were also good such as governance, conducive economic factors, good infrastructures, and services from Rwanda Development Board and the legal system. However, a significant number feels that taxes are quite high on other commodities like vehicles, spirits and wines and powder milk to mention but a few.

5.2. RECOMMENDATION:

Based on the analysis from this study I would recommend the following strategies and solutions to Rwanda Development Board (RDB), TIGO Company, Government of Rwanda and Further Researchers.

5.3. RECOMMENDATIONS TO THE GOVERNMENT OF RWANDA:

First of all according to the study majority of respondents pointed out that energy costs were too high so it from this point of view that I would recommend the government of Rwanda to put place the strategy of owning her own electricity than importing energy from Congo and Uganda hence these would facilitate in the investment promotion where electricity costs are reduced as well as boosting the economy of Rwanda.

Secondly from this study it was also observed that although the government of Rwanda provides exemption of import duties taxes are still high, since tax holiday incentives is not uniform to all its normally applicable to large investors therefore this makes it completed to the investors hence lending to small numbers of investors in the country, I would recommend that both Rwanda Development Board and Government of Rwanda should take action on the ways of facilitating investors by reducing taxes in the local government.

5.4. RECOMMENDATIONS TO THE JUSTICE MINISTRY:

Also, from the study it was realized that in case of legal and judiciary issues services take long period due to the shortage of Judges, and lawyers, from this point of view I would recommend the government of Rwanda to put more strength in such legal bodies.

5.5. RECOMMENDATIONS TO RWANDA DEVELOPMENT BOARD:

Majority of respondents strongly agreed that they have never faced any problem in RDB (Rwanda Development Board), they however suggested the creation of after care services center because to them it has positive impact in promoting investment since it would facilitate new investors by knowing if they successful in their business which I felt very important to recommend.

We would also like to recommend that Rwanda Development Board should not only focus on Imihingo only but should make fellow on how the investors are progressing because when it is not done the government automatically loses taxes.

5.6. RECOMMENDATIONS TO FUTURE RESEARCHERS:

The researcher suggests that the study should take into consideration all the limitations encountered in this study. The research also, suggests that the future researchers should carry out researches on investment policies and promotion of foreign investment in Telecommunication Industry in Rwanda.

5.7. RECOMMENDATION ON HOW INVESTMENT CAN BE IMPROVED

Telecommunication Industry is owned by few companies especially in Kigali City so the government must come up with effective strategies of marketing the service to both national and international investors by highlighting the incentives provided and benefits offered under this Industry. Therefore more investors will be motivated to venture into the telecommunication Industry.

5.8. RECOMMENDATION TO THE TIGO COMPANY

We would also like to recommend that TIGO as new company under telecommunication Industry should put much strength by exploiting the market available as soon as possible by expanding the net work country wide.

5.9. CONCLUSION:

In a net shell therefore, purpose of the study was to establish investment policies and promotion of foreign direct investment in Telecommunication Industry in Rwanda. A case study TIGO Company and Business Community. While looking at the three objectives of this study the first being analyzing the relationship between economic growth and investment policies made by the government of Rwanda in telecommunication companies.

Referring to the previous analysis where the majority of respondents strongly agreed that tax incentives and specifically tax exemptions, good infrastructure and investor protection are among the major policy considerations that have attracted and retained investors in the Telecommunication Industry in Rwanda.

Secondly, was finding out the impact of investment climate in Telecommunication companies in Rwanda and investment promotion according to previous analysis indicates that the study established that most respondents strongly agree that governance system ranked as number one as the most favorable factor followed by legal system in place and lastly good infrastructure although they suggested more buildings to be put in place in order to accommodate the quit expansion in Kigali city.

Lastly was showing the role of incentives on the investment in telecommunication companies which pointed out that incentives such as exemption from import duties and sales taxes and VAT (added tax value) contributes a lot in promoting telecommunication industry in Rwanda, where by telephones are cheaper and affordable to citizen hence facilitating easy communication throughout the country.

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