M.Sc. International Business

Foreign Direct Investment in Uganda and Rwanda; a Cross-Country Analysis

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Foreign Direct Investment in Uganda and Rwanda; 
a Cross-Country Analysis

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Keywords: Uganda, Rwanda, Foreign Direct Investment, Globalization, Economic and Political Risk
Declaration of Research Work Integrity

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature of any degree. This thesis is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by giving explicit references. A bibliography is appended.

By signing the present document, I confirm and agree that I have read RU’s ethics code of conduct and fully understand the consequences of violating these rules in regards of my thesis.

December 15, 2013, Leonberg, Germany

Christoph Kissel (Kennitala 050182-3129)
Abstract

This thesis has been written to delineate motivational factors and country-related opportunities and constraints of foreign investors who run a subsidiary in Rwanda or Uganda with the intention of discussing why foreign entities are investing in either of the two countries and what market entry modes and strategies are used. This document’s results intend to help foreign enterprises in deciding why, how and where either of the two countries’ markets could be entered via FDI.

The first chapter contains the study’s objectives, its research questions and problem statement – which is: “if drivers exceed restraining forces, foreign entities choose Rwanda and/or Uganda as a destination for FDI”. The research questions give – inter alia – the fundament to investigate foreign companies’ extent of investment in Rwanda or Uganda. Furthermore, investors’ main drivers and the most important restraining factors are researched by asking – for instance – if enough resources can be found on the local markets. After chapter two highlights the most important theoretical foundations of the study, the thesis’ third chapter contains the document’s methodology. This section outlines the research’s approach, introduces the interview questions and explains that the study is of a qualitative nature. Specifically, ten foreign investors and one foreign organization are interviewed in Rwanda and 11 investors and two domestic specialists in Uganda. Chapter four introduces country-specific facts about the Republics of Rwanda and Uganda and reports the interviews’ results. In chapter five, the findings are compared with respect to the literature in order to indicate discrepancies and similarities. Most importantly, for foreign companies to successfully invest in a particular country they should possess company and country-specific advantages – such as access to inexpensive human resources, a favorable investment climate or a superior management. Consequently, chapter six outlines that Rwanda offers political stability and a comparatively good investment climate in which corruption tends to be relatively low. However, factors such as a highly political environment, the president’s succession in 2016 and the non-availability of sufficiently educated human resources contribute to a foreign enterprise’s potentially threatening forces. Similarly, the Republic of Uganda does not offer sufficiently educated workers and specialists. Furthermore, people’s minimalistic working attitude, the president’s succession in 2017 and comparatively high taxes are potentially constraining forces. Nevertheless, Uganda can be recommended as a destination for FDI since it offers a wide diversity of target groups, a developing economy, rising purchasing power, inexpensive labor and political stability.
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Preface

Globalization does not only mean that goods and services are produced and marketed internationally, it also means that enterprises – especially those operating on an international scale – always search for new opportunities to optimize their costs by profiting from a country’s advantages – such as the availability of country-specific resources, cheap labor or a fairly stable political and/or economic environment. Some manufacturers outsource large parts of their production to foreign locations – often situated in developing countries – which offer large strategic and monetary advantages in order to additionally profit from economies of scale and economies of scope. On top of that, multinational enterprises are often searching for new market opportunities by directly manufacturing in a specific foreign country in order to enter the domestic market. However, enterprises do not always voluntarily enter a foreign market. Since some countries and unions introduced environmental conditions such as the law of local content – which rules that a certain percentage of a product that is marketed domestically must be coming from local production – multinational companies are often forced to open a production facility in order to comply with local economic laws.

Besides multinational corporations investing in developing countries, some international enterprises specifically seek investing in undeveloped nations with a post-conflict history. This is often undertaken due to opportunities – such as monopolistic or oligopolistic market environments or the availability of scarce raw materials – exceeding constraints – such as dictatorship or a high level of corruption. A few multinational enterprises – including some global players – predominantly select conflict countries for foreign investments because the prevailing market opportunities are tantalizing – even though threats, such as war, are prevalently rampant. Sadly enough, these countries can be found globally. However, on the African continent – especially in Sub-Saharan Africa – almost every country has a history of warfare or is currently in battle and/or confrontation with its own civilians and other nations.

The two East African post-conflict countries of Rwanda and Uganda have experienced tremendous economic and political development since the end of colonization and war. This thesis seeks to examine foreign direct investment in the republics of these countries and outlines opportunities and constraints companies could potentially be faced with by establishing subsidiaries in the two countries.
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Definitions

AGOA  African Growth and Opportunity Act (U.S.)
COMESA  common market for Eastern and Southern Africa
CSR  corporate social responsibility
DBA  double tax agreement
DRC  Democratic Republic of Congo
EAC  East African Community
EBA  Everything but Arms Agreement (EU)
FDI  foreign direct investment
GDP  gross domestic product
GNI  gross national income
IDP  investment development path theory (Dunning, 1981)
JV  joint venture
LDC  least developed country (term developed by the UN)
M&A  merger and acquisition
MNE  multinational enterprise
MNC  multinational corporation
NGO  non-governmental organization
OLI  eclectic FDI theory (Dunning, 1980, 1988)
RWF  Rwandan Franc
UGX  Ugandan Schilling
UNCTAD  United Nations conference on trade and development
1) Introduction, Objectives and Problem Statement

In this document, motivational factors of foreign investors who run a subsidiary in Rwanda or Uganda are outlined and potential country-related opportunities and constraints are indicated. Additionally, it is discussed why foreign investors are investing in either of the two countries and what market entry modes and strategies are used.

The recent phenomenon that a large number of foreign enterprises from China, India, Europe and North-America are investing in the countries of Rwanda and Uganda (UNCTAD, 2012, 2010) raises the question why foreign investors particularly choose to invest in these two nations (World Bank, 2012). To understand how foreign direct investment (FDI) works in Rwanda and Uganda, this study will conduct interviews – qualitative research – in the two countries.

It is believed that Rwanda and Uganda are opportunity-rich countries for foreign MNEs to invest in by using FDI. Specifically, if the total sum of an investor’s drivers – such as tax incentives or a country’s trade agreements – is greater than the sum of restraining forces – such as corruption or insufficient access to educated human resources – a company is expected to select Rwanda and/or Uganda as location for FDI. Consequently, the study’s problem statement is: “if drivers exceed restraining forces, foreign entities choose Rwanda and/or Uganda as a destination for FDI”.

1.1 Study Objectives

This study intends to give an overview of the status of FDI in Rwanda and Uganda and aims to inform about FDI-related drivers and restraining forces for foreign investors. In consequence, it examines and compares the availability and scope of FDI in the countries of Rwanda and Uganda.

The focus of this study’s analysis will be on foreign small, medium-sized and large corporations that have established subsidiaries in either of the two countries. Consequently, the research study intends to clarify to what extent FDI is existent and analyzes the question why foreign corporate entities choose – or do not choose – to invest in Rwanda or Uganda. Specifically, the degree of foreign companies’ initial investments, investors’ opportunities and challenges and international (trade) laws, rules and regulations – among other things – are to be investigated; the findings will be compared with respect to the two countries included in the analysis.
The document’s results intend to help foreign enterprises deciding on why, how and where either of the two countries’ markets could be entered via FDI in order to gain a (competitive) advantage.

1.2 Research Questions

All research questions are derived from the problem statement and are rooted in the literature. This is done to connect the thesis’ overall problem statement with the document’s empirical and analysis parts in order to build up a coherent structure. The fact that the research questions are derived from the literature and are connected to the thesis’ analysis and discussion parts is important in order to develop a logical thread that can be easily followed.

1) To what extent are foreign companies investing in Rwanda or Uganda?
   a. What are the source countries for foreign direct investment in Rwanda or Uganda, respectively?
   b. Which mode of foreign direct investment is preferred by foreign investors in Rwanda or Uganda?
   c. Which industrial sectors are predominantly chosen by foreign companies investing in the countries of Rwanda and Uganda?

2) Which country offers the most inevitable investment terms for foreign entities?
   a. Is the infrastructural system – such as roads, internet or energy – in the countries of Rwanda and Uganda sufficient enough to carry out commercial business activities?
   b. Are there enough resources – such as sufficiently educated human resources, service enterprises, technology, machinery and equipment – available on the local markets?
   c. Which international trade agreements are existent and to what extend are they functioning sufficiently in terms of the exportation of products and services to other African nations and to countries overseas?
   d. What are the main drivers and the most important restraining factors for foreign investors to invest in Rwanda or Uganda?
1.3 Study Outline

After the introduction, the document’s second chapter consists of a literature review – a critical review of existent literature concerning theories of FDI as well as existing quantitative and qualitative data regarding the topic of FDI in Uganda and Rwanda. Furthermore, the methodology section – chapter three – intends to inform about the study’s research design, the data collection method, the interview questions, the research’s population and its sampling plan. The document also includes a detailed description of the data analysis method. Additionally, the research’s scope is outlined and ethical issues are considered.

Chapter four includes an introduction to FDI in Eastern Africa and a description of Rwanda and Uganda’s country-specific facts. Furthermore, it presents the analysis’ outcomes resulting from primary qualitative research in the two countries by interviewing 24 foreign entities. The following section – chapter five – contains an elaborate discussion about the findings. The paper’s last chapter – chapter six – contains the conclusion to the research study, provides possible limitations, gives recommendations for further research and intends rounding off the document.

This chapter highlights some aspects of FDI. Additionally, the research report’s study objectives are outlined, the document’s problem statement is introduced and the research questions are formulated. The following chapter intends to emphasize some more aspects and features of FDI by considering theoretical foundations resulting from relevant literature. A brief introduction to the facilitating factors of FDI is given and the term multinational enterprise is explained. Furthermore, foreign investors’ opportunities and restraining factors in foreign markets are explained.
2) Theoretical Foundations

Besides discussing the theories and types of FDI, FDI strategies, determinants of FDI and influencing factors for foreign investors, the literature review includes, inter alia, the introduction of the term multinational enterprise (MNE).

2.1 Multinational Enterprises

There are many different definitions for companies that operate internationally – meaning in various countries of the world. Since there is no officially recognized name for these firms (Moosa, 2002), the United Nations (1973) listed 21 possible terms. Nevertheless, Perlmutter (1969) and Moosa (2002) argue that a distinction between international, multinational and transnational enterprises can be made. The definition international enterprise refers to a firm (Dunning, 1977) which mainly produces its products domestically – often in the place where the company is headquartered – and exports its goods to customers internationally. Such a firm is usually engaged in the importation of foreign raw materials with the purpose of using them in manufacturing processes. The term MNE – which is also referred to as multinational corporation (MNC) – refers to (Moosa, 2002) any enterprise that extends its business activities by establishing foreign (production-) facilities. Please note that firms which have less than five foreign subsidiaries (UN, 1973, Moosa, 2002) – usually in different countries – are not referred to as MNEs but to as – for instance – companies that invest abroad (Parker 1974). Moosa (2002) also explains that the definition subsidiary refers to an enterprise that is legally established in a host country and holds more than 50 percent of the company’s voting rights – which empowers the corporation to employ and dismiss members of the firm’s management board. Establishing a foreign subsidiary is often done (Birkinshaw & Hood, 2001) in order to be closer to the customer. However, the same authors argue that MNEs are also established all over the world in order to serve local markets and to produce its products in a country – which is not the corporation’s headquarter country – in order to export them globally. Another important characteristic a MNE has, is (Moosa, 2002) that the firm employs human resources from all over the world who work in many different locations, often far away from their home countries. The definition for transnational enterprises is, (Moosa, 2002) that the corporation produces in very many different countries globally and markets its goods worldwide. The link between MNEs and FDI is – according to Moosa (2002) – that “firms become multinational when they undertake FDI” (p. 7).
This document uses the definition MNE for firms investing abroad by establishing foreign subsidiaries. If, however, a company should only host one or two foreign subsidiaries, this will be especially marked by mentioning it.

2.2 Foreign Direct Investment

The fact that foreign direct investors establish subsidiaries globally reveals challenges and opportunities that foreign enterprises of different sectors and industries are constantly facing with.

Broadly spoken, FDI is a foreign company’s investment into commercial business activities (Bloningen, 2005) by establishing production, manufacturing or service companies in the form of subsidiaries in a different country than the headquarters’ home country. This procedure is usually done by (Eicher & Kang, 2005) either purchasing an existing company in the target country, building a joint venture (JV) – often together with a domestic enterprise – or by establishing a new company in order to expand operations.

FDI has been increasing since the beginning of globalization (UNCTAD, 2012, 2011, 2010, 2007, World Bank, 2012) due to – amongst others – improved education systems and the better understanding of global markets (Caves, 1982, Dunning, 1977, 1980, 1988, Ayanwale 2007) technical development, the establishment of trade unions and common markets, the facilitation of the global movement of goods through commonly accepted trade laws and international treaties as well as the integration of several countries’ domestic economic system(s) in a similar – common – system. Specifically, (Blende-Nabende, 2002, Houston, 2007, Dunning 1977, 1980, 1988) technological advancements, improved logistical services at lower costs, developed telecommunication networks, the rise and fall of political systems and new leaders as well as facilitated access to new markets, among other things, often motivate investors to start operating in countries and markets far away from their corporate headquarters.

According to Kose, Prasad, Rogoff and Wei (2006), financial globalization is the increase of foreign capital movement among several countries of the world. In developing markets, financial globalization is – inter alia – mainly promoted by the relatively high return on capital investment compared to developed countries (Obstfeld & Rogoff, 1996) and the availability of rather inexpensive human resources. In consequence, developing markets are often targeted by foreign companies because they offer large financial opportunities.
Besides financial opportunities, developing countries are popular areas for FDI due to development – such as technological or infrastructural development, favorable investment terms – for instance the availability of a comparably low corporate tax rate – (Ayanwale, 2007, Dunning 1977, 1980, 1988), an improving political situation (Blende-Nabende, 2002) and government incentives (Naude & Krugell, 2007) such as tax exemptions.

However, not only the world’s developing nations are increasingly targeted by foreign investors. The world’s 49 least developed countries (UN, 2013) are – especially since the end of the cold war – a favorable investment destination for foreign capital inflows from developed and developing countries (Bowles, 2004, Dugan et al., 2008). This is often because some least developed countries’ (LDC) governments deliver peace, stability, favorable investment terms, (tax-) incentives, decreasing corruption and/or the adjustment of international trade laws, barriers and import tariffs. Besides that, it is argued (Sornarajah, 2004) that companies from developed countries especially seek to invest in developing and LDCs due to the availability of cheap raw materials and other commodities.

Another factor for the evolution of FDI is that workers and other human resources are relatively expensive in countries of the developed world in comparison to developing countries and LDCs (Papademetriou, 1996).

Besides that, people in some developing economies and LDCs have recently a higher purchasing power since their hourly salary increases due to a growing domestic economy (UNCTAD 2008, 2010, 2012). This enhances the development of new market segments and is partly responsible for foreign traders, manufacturers and service companies investing in developing countries and LDCs (UNCTAD 2008, 2012). Important to mention is that some developing nations and LDCs are conflict or post conflict nations that do not host a large number of foreign and domestic enterprises due to political instability. This, in turn, also means that competition for foreign investors is relatively low compared to the developed world (Yarbrough & Yarbrough, 2002) and may therefore present an excellent opportunity for foreign enterprises that are willing to invest in developing countries and LDCs which are likely to have a relatively risky political and/or economic environment.

Large processing plants of foreign – mainly Western – companies operating in the commodity sector are being established in countries of the developing and least developed world (Gillespie, Krishna & Jarvis, 2002) due to the access to relatively inexpensive human resources, commodities and other supplies. Important to know is that these countries are often
associated with favorable investment terms (Naude & Krugell, 2007 Agarwal, 1986). As a result, goods are often directly produced and processed in those countries and are – at least to a large extent – exported to countries overseas where the buyer pays a significantly higher price than the seller would get in the products’ home market, ensuring profitable margins (OECD 2004, Agarwal, 1986, Naude & Krugell, 2007).

However, FDI is not always easy and positive for foreign investors since it may include challenges and constraints for companies operating on international markets – especially in developing countries and LDCs. Due to macro-economic threats such as volatile economies, fluctuating currencies, intervening governments, corruption, war or other political and economic risk factors, foreign investors are constantly facing the jeopardy of having made an unfavorable investment decision (Dugan, Rubins, Wallace & Sabahi, 2008, Schaffer, Agusti, Dhooge & Earle, 2009, Robert, 1997). Challenges, such as political instability and war in the neighboring countries, trade barriers and the nationalization of foreign enterprises as well as the lack of the protection of intellectual property rights are often underestimated by small, medium-sized and large corporations of foreign origin (Agarwal & Ramaswami, 1990, Dunning, 1977, 1980, 1988, Buckley & Casson, 1998).

2.3 Theories of Foreign Direct Investment

The basic questions of FDI consist of who is the investor, what type of FDI will be used, why is a foreign entity going to invest in a particular country or region, where exactly is the company going to invest, when is the investor intending to enter the market and how is the market to be entered? Since these questions require the exploration of different areas of FDI literature, the following sub-chapter elucidates FDI theories on the macro and micro-level. Additionally, theories of FDI development are highlighted and the eclectic FDI theory – the OLI Theory – is explained.

2.3.1 FDI Macro-Level Theories

One of the oldest theories in FDI literature is the capital movement theory. The capital movement theory states (Modigliani & Miller, 1958, Mundell, 1968) that FDI is mainly determined by interest rates. Dunning and Rugman (1985) write that “in 1960 the prevailing explanation of international capital movements relied exclusively upon a neoclassical financial theory of portfolio flows. In this frictionless world of perfect competition, with no transaction costs, capital moves in response to changes in interest rate (or profit) differentials”
According to this early assumption, capital is believed to be directly transacted between purchaser and seller. However, this theory does not ask the question why FDI is occurring and excludes the MNE in its thoughts since the movement of capital is believed to be transacted between a foreign buyer and a domestic seller directly – without any third party in between. Additionally, Dunning’s early work (1958) investigates where MNEs seek to directly invest in by explaining U.S. investment in the UK. Nevertheless, the reasons why MNEs are investing in foreign countries are not thoroughly explained (Dunning & Rugman, 1985).

Buckley and Casson (1998) argue that until the 1980s, FDI was perceived as a component of the capital movement theory in factor-proportions. As explained by the authors, the development of the theory of off-shoring now reveals scientific and/or empirical insights about the fact that FDI mostly goes and comes from rich and economically strong countries.

An important FDI theory based on macro-economic influences states that some investors make their decision to enter a foreign market based on exchange rate considerations (Dewenter, 1995). Sung and Lapan (2001) argue that exchange rate uncertainty between a company’s home country and a foreign target market sometimes encourages a firm to open a foreign subsidiary in order to be able to have more control over a relatively volatile exchange rate by producing and marketing the products for a particular target market domestically (Miller, 1994, Miller & Reuer, 1998). This theory supports that FDI is mainly used by foreign investors as a tool to reduce exchange rate risk. In consequence, less financial transactions between a company and a foreign country must be made.

FDI macro-level theories which are based on economic geography investigate factors associated with the creation of international production clusters. According to Petri (1994), the creation of economic clusters is associated with the attraction of foreign companies since enterprises within the cluster benefit from the interrelation of suppliers, customers and competitors. As further argued, “such clusters make investment more efficient, strengthen domestic markets, and increase returns via spillovers” (p.4). Kleinert (1999) especially mentions that the cooperation of foreign and domestic enterprises within the economic cluster is important in order to foster market development which, in turn, increases the chance to raise profits.

Innovation – such as technical development – in a particular country may also be responsible for foreign enterprises establishing facilities in a particular country. According to
McFetridge (1987) and Blomstroem, Globerman and Kokko (1999), investors sometimes move to a foreign country in order to profit from innovational advancements which are specific to a particular country, market or area. Literature additionally states (Rogers, 2004, Frost, 2001) that companies from countries where innovations occur relatively frequently, often invest in countries or areas where innovational progress is not as developed as in the company’s home country. Hence, a competitive advantage over national firms is achieved because domestic competitors are too low-tech to be serious rivals. Consequently, new customers can be attracted by offering innovative, technologically advanced, products or services.

FDI literature also suggests that companies of countries which have strong relationships to a potential country of investment – such as similar cultural characteristics, strong economic ties, a similar history or geographic closeness – are more likely to invest in that particular country (Rojid, 2006). Specifically, if cross country relationships – such as common trade agreements (Busse, Koeniger & Nunnenkamp, 2010) – exist, foreign companies are more likely to profit from these relationships, which can be converted into a competitive advantage because firms often face less difficulties establishing themselves in a foreign market (Bloningen, 2005).

FDI theories based on institutional analyses (Busse & Hefeker, 2007) explore the importance of the institutional framework on the flow of foreign capital into an economy. Busse and Hefeker (2007) argue that political stability, socio-economic conditions, internal and external conflicts, corruption, law and order, democratic accountability, and the issue of bureaucracy are, inter alia, responsible for the attraction of foreign entities.

Foreign investors are usually attracted by a relatively stable political environment (Agarwal & Ramaswami, 1990) in which corruption tends to be comparatively low. Furthermore, the quality of a country’s political institutions, its democracy, good governance and law and order are often seen as the main drivers for FDI since a relatively stable environment is likely to offer more opportunities than constraints (FitzGerald, 2001, Blomström & Kokko 2001 Abbot, De Vita, 2011).

FDI is often seen (Buckley & Ghauri, 2004, Dunning, 2000) as a long-term strategy by foreign investors where the time of investment depends on macro-environmental changes (Kojima, 1975, Fry, 1993). Hence, positive macro-environmental changes such as a relatively stable political environment, infrastructural development and the introduction of international
– trade related – agreements (Agarwal & Ramaswami, 1990, Buckley & Casson, 1998) can influence a MNE to enter a foreign market because investment related risk factors tend to decrease and (market-) opportunities tend to increase (Dunning, 1998, Lankes & Venables, 1996). This is specifically important when a MNE analyzes potential drivers and restraining forces of a particular investment location. Therefore, it is important to consider that enterprises often choose specific countries for FDI: due to favorable location factors – such as infrastructure (Ayanwale, 2007, Dunning 1977, 1980, 1988), policy and political situation (Blende-Nabende, 2002), investment climate and tax incentives (Naude & Krugell, 2007 Agarwal, 1986) – in order to increase the chance that opportunities exceed constraints.

### 2.3.2 FDI Micro-Level Theories

One of the most acknowledged works of the early FDI literature is Hymer’s PhD dissertation (1960). In his research, Hymer argues that FDI is only possible due to international market imperfection. Furthermore, he investigates the relationship between a foreign investor’s company-specific advantages and FDI. Investors who want to establish a subsidiary in a foreign country (Hymer, 1960, Kindelberger, 1969) often face some disadvantages compared to domestic firms – such as the lack of market knowledge or a poor network of important contacts to government officials, customers, suppliers or competitors. Hymer further argues (Hymer, 1960, Kindelberger 1969) that foreign enterprises directly investing in a country must hold some company-specific advantages – such as access to relatively inexpensive raw materials and to superior technology, the availability of affordable and skilled human resources, the possibility of producing economies of scales, reduced transaction costs or the accessibility of intangible assets – such as a superior management, brand names or patents. If some of these advantages are available (Kimura, 1989, Rugman & Verbege, 2001), foreign firms have the chance to overcome their comparative disadvantages and can hence develop a competitive advantage by utilizing regional benefits in combination with the exploitation of company-internal assets (Narula & Dunning, 2000).

MNEs wanting to establish a foreign subsidiary sometimes enter a foreign market where competition is either comparatively low or barely present. In fact (Blomstroem & Kokko, 2002), MNEs are often attracted by oligopolistic markets – where only a few competitors are competing – and/or by monopolistic markets where competitive rivalry is barely existent (Milberg, 1996). To gain a competitive advantage, foreign enterprises – especially small or medium-sized – are often searching for niche markets in foreign countries.
According to this theory, the selection of the best country of investment is selected based on the availability of market opportunities in combination with the abundance of high competition (Buckley, 1997).

FDI literature considers several internationalization theories which are important to explain why companies internationalize. First of all, it is important to mention that numerous economists (Ozawa, 1992, Caves, 1974, Kokko, 1996, Dunning, 1977, 1980, 1988) agree that FDI can only exist if an economy is imperfectly competitive. According to Andersen (1993) there are many reasons for investors to enter foreign markets due to market imperfection. Agarwal and Feils (2007) argue that companies enter foreign markets because internationalization is seen as innovation. Buckley and Casson (1976) explain that companies can overcome market imperfection by adapting to international markets and creating their own market internationalization. In fact, the theory of market internationalization intends explaining why enterprises strive to invest abroad. Therefore, Buckley and Casson (1976) state that companies especially invest in an imperfect market “when the coordination of resources over a long period is needed; when the efficient exploitation of market power requires discriminatory pricing; when a bilateral monopoly produces unstable bargaining situations; when the buyer cannot price correctly the goods on sale, or when public goods are involved; when government interventions in international markets create incentives for transfer pricing” (p. 37-38). The two researchers further argue that internationalization is suitable for MNEs exploiting raw materials, producing agricultural products and intermediate products or when a MNE is engaged in capital intensive manufacturing processes – such as the production of heavy machinery.

2.3.3 FDI Development Theories

Early FDI literature (Vernon, 1966) suggests that a product’s life-cycle is related to FDI. Particularly, it is argued that firms sometimes relocate the production of a specific product to a foreign market mostly because of a good’s maturity or decline phase in a particular market. This is done in order to reenter the product’s life-cycle in a new market by establishing a foreign subsidiary that produces and markets the same – or a slightly differentiated – product (Vernon, 1966, Grosse & Behrman, 1992).

The Japanese researchers Kojima and Ozawa (1984) analyze the relationship of FDI, competition, product life-cycle theory and economic development. Ozawa (1979) and Kojima (1975) identify three main phases of a country’s development associated with FDI and the in-
and out-flow of foreign capital. In this regards, the first phase states that a country is underdeveloped and is therefore targeted by foreign investors since country-specific advantages – such as low labor costs, inexpensive equipment, materials, energy and land – are exploited by foreign enterprises of different industries. Furthermore, it is assumed (Kojima and Ozawa 1984) that undeveloped countries offer a large market potential for foreign enterprises since business related development activities – such as the construction of infrastructure or the marketing of essential equipment and machinery – cannot be carried out by domestic companies due to the lack of technical skills and knowledge. Considering the fact that undeveloped countries often do not host specialized firms, (UN, 2013, UNIDO 2004) this situation offers large opportunities for foreign entities because national enterprises often do not have the equipment, knowledge and/or experience required in order to market high-quality products and services. According to Kojima and Ozawa (1984), the second phase is associated with a country’s economic development. Due to economic development, more people earn money and pay taxes – which boosts the country’s economy. In turn, more FDI is attracted due to growing internal markets and increased standards of living. However, outgoing FDI also occurs (Ozawa, 1992) because labor costs – and other resources – become more expensive. Consequently, some foreign and domestic firms outsource their commercial activities to countries where resources are significantly cheaper (Andreff, 2009). The last phase of Kojima and Ozawa’s theory is that the country develops a competitive advantage due to technological development, an improved educational system and innovation (Kojima & Ozawa, 1984, Ozawa, 1979, Kojima, 1975). In a nutshell, the country’s competitiveness is based on innovational factors.

Similarly, John Dunning (1981) investigates in his investment development path (IDP) theory that countries evolve through five stages of development. Buckley and Castro (1998) mention that stage one of the IDP theory makes reference to a country’s relatively low level of FDI due to small domestic markets, insufficient infrastructure and inadequately skilled human resources. In this stage, foreign enterprises start to become interested in the country as a potential area of investment by discovering the regional advantages it may offer. The second stage is (Buckley & Castro, 1998) that FDI increases due to “the development of location-specific advantages (e.g. basic infrastructure, eventually as the result of government policy)” (p. 2). Hence, foreign enterprises are attracted due to specific advantages – such as infrastructural development or cheap labor (Dunning, 1981, 1986). Throughout the third stage (Tolentino, 1987, Dunning & Narula, 1996) the nature of FDI is changing due to economic
development and the increase in workers’ salaries. Notable is that domestic firms become more competitive and start establishing foreign subsidiaries in countries where monetary advantages – such as inexpensive human resources – are existent (Buckley & Castro, 1998). This is especially further developed in stage four. Important is that advantages are mostly dependent on domestically created and geographically distributed assets (Buckley & Castro, 1998). The last stage includes that investment decisions are not to be made on a country’s cost-advantages anymore but on a MNE’s strategic decision (Dunning & Narula, 1996, Buckley & Castro, 1998) – which may include the establishment of a foreign subsidiary in order to enter the domestic market.

2.3.4 Eclectic Paradigm Theory

Dunning (1977, 1980, 1988) writes that foreign investors often choose a specific entry mode for a foreign target market by considering three major types of determinant factors: ownership advantage, location advantage and internationalization advantage. Dunning’s eclectic paradigm framework (1988) – the Ownership, Location and Internationalization (OLI) Paradigm – provides a skeleton for analyzing the determinants of FDI – particularly in foreign production. Dunning’s framework predominantly helps investigating why, how and where MNEs are investing in order to gain a competitive advantage and how this varies at different points in time, among different industries and companies. According to Dunning (1980, 1988) and Behrman (1958, 1962, 1984) FDI can be resource oriented, efficiency oriented or strategic-asset oriented. Hence, MNEs often invest abroad in order to exploit one or more of the above mentioned factor(s). In business and economic literature, ownership benefits usually refer to organizations’ company-specific competitive – sometimes even monopolistic – advantages. It is discussed (Milberg, 1996) that ownership advantages are present if foreign investors receive reimbursement for the establishment of foreign subsidiaries. Milberg further argues that these advantages and features – such as patents, trade-marks, brands, the availability of markets and market access, adequately skilled human resources or modern technology – can present foreign investors’ superiority and represent hence a competitive advantage compared to local enterprises. Dunning’s second and third part of the OLI Paradigm (Agarwal & Ramaswami, 1990) are the theories of the location and internationalization advantages. They refer to to the evaluation of market potential, related investment risk as location advantages and a MNE’s ability – and risk – to enforce contracts in a host country. The deterioration of price, product and service-quality and the likelihood to lose large amounts of money due to depreciatory investments as well as the risk of dissipation
of knowledge are referred to as internationalization advantages. According to Buckley and Casson (1998), location advantages include – among other things – the costs and availability of logistical services and (tele-) communication, being short of tariffs, quotas and excessive taxes, the availability of skilled and affordable labor and convenient production factors or a government’s attempt to attract foreign investors by offering (tax-) incentives and other enticements as motivational factors. Enterprises can profit from localization advantages if the firm produces as close to the end customer as possible in order to decrease logistical costs, to profit from cheap inputs – such as domestically processed raw materials and other resources – and to avoid import tariffs, barriers and quotas.

2.4 Mode of Entry and Types of FDI

An investor’s decision to engage in FDI can have different reasons. Besides establishing foreign manufacturing and production facilities to serve international markets by mainly exporting the products, MNEs often seek to establish foreign subsidiaries in order to serve the local market (Blomstrom & Kokko, 2000). Hence, MNEs frequently establish subsidiaries in countries that are believed to have a large potential concerning the selling of firms’ products and services domestically (Crespo & Fontoura, 2007). This is mainly done in order to expand a MNE’s market portfolio as well as to increase profits by targeting more customers than before.

A MNE usually chooses the mode of entry into a foreign market that offers the most sufficient risk-adjusted return of investment (Agarwal & Ramaswami, 1990, Cespedes, 1988, Stopford & Wells 1972).

Market entry modes concerning FDI can include (Wang 2009) green-field operations – the acquisition of land in order to build a foreign subsidiary –, brown-field operations – the purchasing of existing real estate which can be used to set up operations in a foreign country –, mergers and acquisition (M&A) – such as the acquisition of a foreign company or that two companies – often a foreign and a domestic – merge, build a JV – or that one company takes over another company and potentially saves it from going bankrupt (Harzing, 1999).

2.5 FDI Determinants Concerning a MNE’s Choice of Location

As mentioned earlier, essential FDI literature points out that enterprises often choose specific countries for FDI due to favorable location factors, such as infrastructure (Ayanwale,

According to Yarborough and Yarborough (2002) a MNE’s decision in which country, area or region it should invest, strongly depends on the factors of the host country that could affect an enterprise’s profits and costs. As outlined by the authors, factors such as incentives and endowments, market size, nominal gross domestic product (GDP) and per capita GDP in terms of purchasing power parity (PPP), the availability of skilled human resources, knowledge and sufficient infrastructure strongly influence a MNE’s decision where to invest and how a market could be entered.

Investors sometimes establish foreign subsidiaries in order to avoid losses resulting from the importation of goods and services into countries which have a relatively volatile exchange rate to the home currency (Madura and Fox, 2011). For this reason, the subsidiary’s output is directly marketed in the particular country. As a consequence, the firm’s headquarter has greater control when transferring the generated profits back to the home country at a later point in time by, for instance, using financial strategies such as hedging (Sloman, 2007, Madura & Fox, 2011) because profits do not necessarily have to be transacted at a specific point in time.

The highest risk-adjusted return of investment (Cespedes, 1988) and the availability of resources (Stopford & Wells 1972) are believed to play a major role in influencing a company where to invest in and what market entry mode should be chosen. It is often of utmost importance for MNEs to carefully select a target market – and the place of investment – in order to be able to profit from a country’s or region’s available resources – such as infrastructure, raw materials or the sufficient availability of adequately educated and satisfactorily skilled citizens as future employees.

According to Agarwal & Ramaswami (1990), foreign investors are often attracted by a fairly stable political environment in which corruption tends to be relatively low in combination with countries that host a sufficient amount of skilled, educated workers. Foreign investors tent to consider an investment destination because of the availability of (natural) resources (Sawkut, Boopen, Taruna & Vinesh, 2009) and due to favorable investment related terms – such as tax incentives (OECD 2007, Agarwal, 1986) or regulatory incentives (FitzGerald, 2001); regulatory incentives refer to any motivational factor not being fiscal or financial. Important is also the abundance or regulation of tariffs, quotas and other trade regulations.
barriers (Agarwal & Ramaswami, 1990) as well as low inflation, a relatively constant currency and a rather stable exchange rate to the home currency (Madura & Fox, 2011, Sloman, 2007).

Research has shown (Bagwell & Staiger 1997, Saggi, 2006) that foreign investors often establish subsidiaries in countries which are member states (MS) of a customs union – such as the East African Community (EAC) – or which have signed a free trade agreement with other nations. MNEs often choose locating themselves in such countries in order to either produce and deliver goods and services within the customs union or to profit from a country’s free trade agreement(s) by producing in one MS and exporting to another MS without being limited by any import restrictions (Alfaro & Charlton, 2009, Bond, Raymond & Constantinou, 2004).

Opportunities and advantages for foreign investors in conflict countries – such as the availability of cheap resources and raw materials – sometimes lead to foreign investors reconsidering developing countries and LDCs after a conflict is over (Igbokwe, Turner & Aginam, 2010). Furthermore, foreign investors are often attracted by factors such as security, favorable investment terms or democracy in post-conflict countries (Yelpaala, 2009). Rwanda’s incentives and tax incentives for foreign investors (UNCTAD, 2006, OECD 2001) give a good example for a government’s attempt to attract foreign companies to invest in a post-conflict country (FitzGerald, 2001, Blomström & Kokko 2001, Abbott and De Vita, 2011). Another example is the protection of intellectual property rights by international treaties, laws, rules and regulations established by the World Trade Organization (WTO) – such as the TRIPS or WIPO agreement (WTO, 2002). Nevertheless, the so called “Doha-Deadlock” which is resulting from the WTO’s Doha-Round, is associated with the abundance of trade barriers and the greater access to emerging countries, developing countries and LDCs’ markets. Important to know is that African countries refuse to accept – and to comply with – intellectual property rights of certain – for Africa very important – products, such as HIV medication. Since the Doha Round could not achieve a decision yet, the Doha-Deadlock still makes it difficult for foreign investors to decide whether to invest in an African country (Pakpahan, 2013, Oya, 2009) because some of the issues mentioned above are not regulated yet. Moreover, foreign and domestic competitors established in countries where intellectual property rights are not enforced very well, often form a substantial threat for companies of the industrialized nations because intellectual property rights and patents can be avoided. These
competitors are likely to contribute to MNEs’ competitive disadvantage (IPI, 2000) by not complying with international laws.

FDI associated with the attraction of foreign investors is influenced by various factors. As mentioned earlier, MNEs often select a specific location for FDI due to favorable factors, such as a positive investment climate or incentives (Naude & Krugell, 2007). A positive investment climate is often connected with a country’s good governance. In this context, good governance can be – inter alia – linked to a relatively low level of corruption (Agarwal & Ramaswami, 1990), a fairly stable democracy (Blomstrom, Kokko & Mucchielli, 2003) or steady laws, rules and regulations – especially concerning international business activities.

Since some post-conflict countries, which have long been associated as being a non-preferable place for FDI – particularly in Sub-Saharan Africa (Gibbon & Ponte, 2005) – recognized the need to change their governments’ reliability and political stability, foreign investors are more attracted by these nations because they deliver factors such as peace, stability, favorable investment terms, (tax-) incentives, decreasing corruption and/or the adjustment of trade barriers and import tariffs (Bowles, 2004, Dugan, Rubins, Wallace & Sabahi, 2008). Offering security for foreign investors (Bowles, 2004) can be a very important strategy for a post-conflict country in order to attract FDI since security and stability often account for the two most important factors for foreign enterprises establishing a subsidiary in a specific country (Agarwal & Ramaswami, 1990). If countries have the ability to assure the avoidance of insecurity and instability (Bowles, 2004) – by for example adopting democratic structures or passing and adopting laws, bills and policies (Dugan et al., 2008) reducing the likelihood of unfavorable terms for foreign investors – foreign corporate entities are protected and are hence more likely to be attracted.

One of the reasons for foreign investors choosing especially LDCs is that some MNEs seek to exploit LDCs’ favorable trade terms given to them by industrialized nations. Incentive programs such as the European Union’s (EU) Everything but Arms (EBA) program or the United States’ (U.S.) African Growth and Opportunity Act (AGOA) ensure that companies being based in one or more states of the EBA and AGOA programs can export most of the goods produced in a participating country to the U.S. and EU without paying import tariffs and being restricted by quotas or trade barriers (Machila & Tabeke, 2011).
2.6 Difficulties and Risks for MNEs in Foreign Markets

As mentioned above, foreign investors are constantly facing the threat of volatile economies, fluctuating currencies, intervening governments, corruption, war or other political and economic risk factors. Hence, a large number of corporations often avoids investing in relatively unstable nations – which can be found, for example, in Central and Eastern Africa (UNCTAD 1995). On the other hand, relatively risky investment destinations may offer large opportunities which are more unlikely to be available to the same extent in countries which are associated with a lower investment risk factor (Busse & Hefeker, 2007). Given that some countries’ political systems tend to change often (Robert, 1997) – and the consequences for investors have a propensity to be unpredictable – nations that have a reputation for being politically unstable are usually avoided as a preferred place for FDI.

Besides political instability in the country of investment, foreign investors can also face strong difficulties in the case of riots, war or dictatorship in neighboring countries – especially when parts and raw materials need to be imported for further processing and manufacturing purposes (Colen, Maertens & Swinnen, 2009). So were companies established in the countries of Rwanda and Uganda – which are landlocked – confronted with difficulties concerning the frictionless supply of goods and raw materials during the 2008 Kenya conflict and the long-lasting Congo conflict, which is still going on (Dugan et al. 2008, OECD, 2008). In such cases, foreign investors are facing the threat of not ensuring a frictionless global value chain (Gibbon & Ponte, 2005) because supplies cannot be easily transported via a conflict-area.

Governments being a threat for foreign investors because they exploit their political executive power (Charlotte, 2004) by nationalizing foreign subsidiaries as it happened in the case of Argentina and the Spanish oil company YPF (Reuters, 2012) are often avoided by foreign investors. However, MNEs have sometimes little chance in advance to be aware of the likelihood that a government potentially nationalizes a foreign firm. Enterprises being nationalized usually fully or partly lose the ability of operating profitably or achieving the desired return of investment (Silver, 1980).

Kokko (1996) and Blomstroem and Kokko (2002) argue that FDI can be threatening for investors – especially in developing countries and LDCs that are dependent on foreign capital inflows. Therefore, it is firstly discussed that (Pritchard, 1996) if a large number of foreign investors leave the market, the country’s economy may – at least partly – collapse.
Furthermore, the presence of foreign investors in developing countries and LDCs can contribute to price increases of certain goods and services influenced due to higher demands and the boost of the domestic economy coming from foreign entities operating on the market. In turn, products, raw materials and other resources become more expensive. Therefore, an investor’s profits may decrease and the firm may hence be more likely to consider shifting its operations to another country – where raw materials can be obtained at cheaper prices (Bloningen & Wang, 2004).

This chapter’s first section discusses the most important theories of the FDI literature in which different types of FDI in terms of market entry modes are described. After quoting relevant works in the area of FDI strategy for market extension, the most important FDI determinants have been discussed in order to highlight MNEs’ opportunities and restraining forces resulting from different – often country-specific – factors. Influencing dynamics concerning the attraction of foreign investors are outlined and literature discussing potential difficulties and risks faced by MNEs is considered. The following section – chapter three – informs about the study’s research design, the data collection technique it follows the analysis methods used, the research’s target population and its sampling process. Additionally, the interview questions – which are asked to MNEs in Rwanda and Uganda – are outlined and explained by considering relevant literature.
3) Methodology

This research study is of a qualitative nature. A qualitative approach is chosen because the interviewees’ opinions, experiences, norms, attitudes, behaviors, values and beliefs can be better understood since the conduction of interviews explores many facts and insides. Specifically, the interviewer is able to carefully listen to the interviewees and to request some more insights into a specific topic – if needed. Due to the qualitative approaches’ flexibility, the researcher has the chance to gain valuable insights into topics the interviewer has not thought of before asking a particular question.

Since this study is of a qualitative nature, it can be categorized under the headline of exploratory research. According to Aaker, Kumar, Leone & Day (2013), “exploratory research is used when one is seeking insights into the general nature of a problem, the possible decision alternatives, and relevant variables that need to be considered” (p. 65). Hypotheses in qualitative research are usually either vague defined or do not exist at all. It is supplementary elaborated that in exploratory studies “the research methods are highly flexible, unstructured, and qualitative, for the researcher”, hence “the absence of structure permits a thorough pursuit of interesting ideas and clues about the problem situation” (p.65).

3.1 Research Design and Approach

As visualized below, the study’s main methods of investigation are the exploration and exploitation of secondary information – available quantitative and qualitative academic-scientific data concerning the topic of FDI in general and about FDI particularly in the countries of Rwanda and Uganda, which is elaborately provided in chapter two. Additionally, the method of primary qualitative data research – the in depth interviewing of foreign investors, executives, managers and the dialogue with other foreign and domestic entities, such as employees of embassies and staff members of Rwanda and Uganda’s investment authorities – is conducted.
As envisioned above, the study’s research approach consists of two main elements: the exploration and exploitation of secondary and primary data.

Aaker et al. (2013) identify secondary data in research as “data that were collected by persons or agencies for purposes other than solving the problem at hand” (p.84). Following this statement, existing quantitative data and qualitative literature containing valuable insights on the topic of FDI in general and FDI particularly in Rwanda and Uganda are carefully selected, presented in the literature review and evaluated and analyzed. Caution is to be applied by only choosing reliable data sources, such as peer-reviewed academic journals,
academic-scientific books and reliable online data bases – such as from the WTO, the UN or the World Bank.

The method of qualitative investigation – personal semi-structured interviewing – is used to retrieve valuable insights on the topic of FDI in the two countries. In order to conduct the interviews, questions for companies, organizations and specialists operating in the countries of Uganda and Rwanda are formulated – these interview questions are linked to the research questions, derived from the problem statement (to be found in the introduction section) and are rooted in the literature; the interview questions are introduced in the next paragraph. Additionally, a complete list of the interview questions can be found in appendix 8.1 of this thesis. Important to mention is that all interviews have been recorded entirely with the purpose of being retrieved and analyzed at a later stage of the research process. 11 interviewees have been interviewed in the Republic of Rwanda and 13 in Uganda. The qualitative data has been collected during August and September 2013.

3.2 Interview Questions

In the following, the interview questions for foreign companies in Rwanda and Uganda and the questions for institutions and specialists – an embassy of a European country in the Republic of Rwanda and two specialists (one business professor and one economist) in the Republic of Uganda – will be introduced. In addition, it is explained why each question is chosen and how it relates to the research questions and the literature. The interview questions for MNEs operating in the two markets consist of 40 questions. Most of the questions are rooted in the literature. Some single questions are asked in order to identify company-specific facts – such as the number of employees, the date of market entry or firms’ turnover and profits – in order to get a better understanding of the enterprises’ business activities and the market environment they are operating in.

Below, each research question and sub question – stated in chapter one – is listed in a table which gives information of the interview questions that are derived from each research question – including references of the literature used.
To what extent are foreign companies investing in Rwanda or Uganda?

<table>
<thead>
<tr>
<th>Interview questions</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>How big is your enterprise (square meter)?</td>
<td>Hymer (1960, 1969), Kindelberger (1969)</td>
</tr>
<tr>
<td>How much money did you invest as initial investment?</td>
<td>Yarborough &amp; Yarborough (2002)</td>
</tr>
</tbody>
</table>

Table 3.1: Research question 1 (source: Author)

The question “How many local employees do you have” is asked to get a better impression of the size of each company. Since literature states (Hymer, 1960, 1969, Kindelberger, 1969, Narula & Dunning, 2000) that MNEs engaged in labor intensive activities often choose operating in developing countries and LDCs – where labor is usually relatively inexpensive – this question is asked in order to understand interviewees’ extend of FDI and to ensure that the firms employ enough human resources in order to be able to answer this question.

The question “How many foreign employees are working at your company” seeks to analyze whether labor is locally available due to the literature suggesting (Kimura, 1989, Rugman & Verbege, 2001) that location advantages – such as the availability of skilled human resources – are often important for MNEs when operating in a specific country. Furthermore, it is used to make reference to investors’ scope of direct investment.

The query “How big is your enterprise” is asked in order to categorize an interviewee’s company. Given that it is assumed that large enterprises invest reasonable amounts of monetary resources (Hymer, 1960, 1969, Kindelberger 1969), this piece of information intends giving the reader an overview of a firm’s size and capacity.

“How much turnover and profit is your enterprise making per year” is additionally asked in order to categorize interviewees’ companies. Since literature suggests that investors usually enter a foreign market in order to achieve a high return of capital investment (Agarwal & Ramaswami, 1990), it is to be investigated whether a MNE is operating profitably on the
market. If a relatively low profit/ profit margin is achieved, it is to be questioned why the firm does not manage to generate a larger amount of profit with the purpose of finding out possible – location related – constraints.

“How much money did you invest as initial investment” is asked in order to investigate a MNE’s financial power because relatively high amounts of investment can be associated with a financially strong background – which may present a MNE’s advantage over competitors (Yarborough & Yarborough, 2002).

<table>
<thead>
<tr>
<th>Interview questions</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is your company’s mother enterprise being hold by another mother firm – where is this firm located?</td>
<td>United Nations (1973), Bloningning (2005), Gillespie, Krishna &amp; Jarvis (2002)</td>
</tr>
<tr>
<td>Are your customers national or international?</td>
<td>Yarborough &amp; Yarborough (2002), Kleinert, (1999)</td>
</tr>
</tbody>
</table>

Table 3.2: Research question 2 (Source: Author)

The question “Where is your firm’s direct mother company incorporated” is asked in order to find out whether foreign investors in post-conflict LDCs are mainly coming from industrialized countries and developing nations (Buckley & Casson 1998, Gillespie, Krishna & Jarvis 2002).

The query “Does your enterprise have subsidiaries in other (African) countries” seeks to investigate if the interviewee has (market-) experience in Sub-Saharan Africa. Furthermore, it shows whether the company is truly international (Moosa, 2002) because it is expected that an interviewee names the countries where the MNE operates subsidiaries in. Another aspect is to show whether a firm invests in other developing countries, LDCs and/or post-conflict nations because previous research found (Ayanwale, 2007, Dunning, 1977, 1980, 1988, Blende-Nabende, 2002, Naude & Krugell, 2007, Schwartz, Hahn, Bannon, 2004) that MNEs establishing subsidiaries in developing countries, LDCs and/or post-conflict nations often
develop a competitive advantage by profiting from an increasing economy, favorable investment terms, political stability and a positive investment climate.

The question “Is your company’s mother enterprise being held by another mother firm – where is this firm located” seeks to find out whether an investor's direct mother is part of a holding enterprise – for instance a global player – because large corporations are believed to be advantaged due to their power – especially in terms of running subsidiaries in LDCs (United Nations, 1973, Bloningen, 2005, Gillespie, Krishna & Jarvis, 2002).

The query “Are your customers national or international” seeks to investigate whether a company’s clients are foreign firms or individuals. This query is asked to indicate if MNEs establish foreign subsidiaries in order to be closer to their customers – as suggested by the literature (Yarborough & Yarborough, 2002) – or to export their goods (Kleinert, 1999). Furthermore, the question intends revealing facts about an investor’s origin.

### Table 3.3: Research question 3 (Source: Author)

<table>
<thead>
<tr>
<th>Interview question</th>
<th>References</th>
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</table>

The question “How did you establish your firm” is asked to find out how a foreign investor entered the market. Literature suggests (Agarwal & Ramaswami, 1990, Cespedes, 1988, Stopford & Wells, 1972) that a MNE usually chooses the entry mode into a foreign market which offers the most sufficient risk-adjusted return of investment. As further argued (Wang 2009, Harzing, 1999), market entry modes concerning FDI can include green-field operations, brown-field operations, M&As or JVs.

### Table 3.4: Research question 4 (Source: Author)

<table>
<thead>
<tr>
<th>Interview questions</th>
<th>References</th>
</tr>
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</table>
The question “What sector is your company operating in” is asked in order to categorize each interviewee. Moreover, this question intends to explain why enterprises of a particular sector invest in a country considering business opportunities in the areas of infrastructure and development, trade, the supply of – rather essential – goods and services, the establishment of processing plants (Gillespie, Krishna & Jarvis, 2002) or logistics (Ayanwale, 2007, Dunning 1977, 1980, 1988).

The query “What kind of service do you offer/what do you produce” and the question “what are you exactly doing” seek to investigate in which market segment the MNE is operating in to categorize an investor in order to have a better understanding of a firm’s potential opportunities and restraining forces in either of the two countries (Ayanwale, 2007, Dunning, 1977, 1980, 1988).

The question “From which sectors/industries are your customers coming from” is expected to give answers to whether customers are private people or business clients and seeks to indicate if a firm is serving the end customer directly. It is also expected that the question’s results inform about whether a firm is located in a specific country in order to serve a special target group and to be close to it – as suggested by the literature (Gillespie, Krishna, & Jarvis, 2002, Ayanwale, 2007, Dunning, 1977, 1980, 1988).

<table>
<thead>
<tr>
<th>Is the infrastructural system – such as roads, internet or energy – in the countries of Rwanda and Uganda sufficient enough to carry out commercial business activities?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interview questions</strong></td>
</tr>
<tr>
<td>How would you rate the education system in Rwanda/Uganda – is this sufficient for your purposes?</td>
</tr>
</tbody>
</table>

Table 3.5: Research question 5 (Source: Author)

The query “Is the national infrastructure system – such as roads, energy, and internet – sufficient for your firm” is raised to investigate if investors have any problems associated with the lack of infrastructure in the countries of Rwanda or Uganda because literature suggests (Ayanwale, 2007, Dunning, 1977, 1980, 1988) that the lack of infrastructure can contribute to a company’s potential restraining forces. However, it is also suggested that (Buckley & Ghauri, 2004, Dunning, 2000, Agarwal & Ramaswami, 1990, Buckley & Casson, 1998,
Ayanwale, 2007, Dunning, 1977, 1980, 1988) the absence of adequate infrastructure can be opportunistic for foreign investors since this may imply new orders and higher revenues.

The question “How would you rate the education system in Rwanda or Uganda – is this sufficient for your purposes” is asked in order to find out whether MNEs face difficulties with the potential lack of a developed education system in the two countries. Research has found (Kojima & Ozawa, 1984, Ozawa, 1979, Kojima, 1975) that insufficient access to educated staff members is often a problem for MNEs entering a foreign market, especially in countries of the developing world and in LDCs.

<table>
<thead>
<tr>
<th>Are there enough resources – such as sufficiently educated human resources, service enterprises, technology, machinery and equipment – available the local markets?</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interview questions</td>
<td></td>
</tr>
<tr>
<td>Do you import the resources you need to run your company, or do you purchase them locally?</td>
<td>Bloningen &amp; Wang (2004), Buckley &amp; Casson (1998)</td>
</tr>
<tr>
<td>How would you rate the education system in Rwanda/Uganda – is this sufficient for your purposes?</td>
<td>Andreff (2009), Buckley &amp; Castro (1998)</td>
</tr>
</tbody>
</table>

Table 3.6: Research question 6 (Source: Author)

The question “Are there enough resources available on the local market” is raised to investigate possible opportunities and constraining factors concerning the availability – or the lack – of resources. On the one hand, (Gibbon & Ponte, 2005, Ozawa, 1992, Dunning, 1988, Agarwal & Ramaswami, 1990) foreign enterprises often invest abroad in order to profit from the availability of relatively inexpensive resources – such as raw materials. On the other hand, investors are sometimes threatened by the scarcity of such resources.
The question “Do you import the resources you need to run your company, or do you purchase them locally” intends revealing insights on whether important resources – such as supplies – can be bought locally. This is preliminary important in order to identify potential opportunities and restraining factors associated with the availability of rather cheap resources, materials or equipment or the lack of them (Bloningen & Wang, 2004, Buckley & Casson, 1998, Ozawa, 1992, Dunning 1988).

The inquiry “Are there enough service enterprises you can use” intends revealing insights on the availability of such service firms – for instance logistic companies or consultants – since literature suggests (Hymer, 1960, Dunning 1977, 1980, 1988, Ayanwale, 2007) that investors establishing subsidiaries abroad usually need to have access to service firms in order to ensure that business activities are running as desired.

The interview question “Do you have access to (inexpensive) and sufficiently educated labor – or is it a problem to find educated personnel at an adequate salary” is raised to give a possible answer to the availability of skilled and rather inexpensive human resources in Rwanda and/or Uganda because (Dunning, 1981, 1986, Papademetriou, 1996) MNEs often seek direct investment in countries where salaries of human resources are comparatively low.

For the question “How would you rate the education system in Rwanda or Uganda – is this sufficient for your purposes” please refer to table 3.5.

The question “How do you supply your goods or services” is primarily asked in order to investigate the existence of sufficient infrastructure and the availability of service providers, such as logistic companies. Literature suggests (Ayanwale, 2007, Dunning 1977, 1980) that foreign companies are usually attracted by functioning logistical networks and the availability of harbors, roads, airports, or internet as well as by the availability of service providers.
Which country offers the most inevitable investment terms for foreign entities?

<table>
<thead>
<tr>
<th>Interview questions</th>
<th>References</th>
</tr>
</thead>
</table>

Table 3.7: Research question 7 (Source: Author)

The question “How important is political stability for your company” is raised to investigate whether the majority of foreign investors in the countries of Rwanda and Uganda recognizes the importance of a relatively stable political environment as one of the main drivers for FDI. Reno (1999) found that political instability is a threat – especially for MNEs investing in the countries of Sub-Saharan Africa – since most of the continent’s countries are either post-conflict or conflict nations. Due to this possible threat (Dupasquier, Osakwe, 2006) FDI has been decreasing in the countries of Sub-Saharan Africa which face political instability. However, while conflict countries may be a threat for most foreign enterprises (Agarwal & Ramaswami, 1990) – due to associated difficulties – some foreign entities especially seek direct investment in such countries because of specific opportunities, as oligopolistic or monopolistic market environments where competition tends to be very low (Igbokwe, Turner & Aginam, 2010).

Following the query above, the interview question “How would you describe the political situation” searches for possible opportunities or constraining factors to be associated with a positive – or negative – political situation a MNE could face in a foreign country (Blende-Nabende, 2002).
The inquiry “Did you receive any government incentives or other enticements” examines if a foreign entity in Rwanda or Uganda receives any incentives – such as tax holidays – and if this particularly encourages the interviewee’s firm to enter the country since government incentives are believed to play an important role in whether a MNE establishes a subsidiary in a specific country (Naude & Krugell, 2007).

Similarly, the question “Did or does the local government help you to establish your firm” seeks finding out whether Rwanda or Uganda’s governments or ministries positively contribute to a foreign investor’s market entry. Since a relatively helpful and welcoming government may contribute to a firm’s advantages (Yarborough & Yarborough, 2002, Naude & Krugell, 2007) this question is important to be asked.

“How many taxes do you pay” is inquired to investigate if MNEs in the two countries have to pay fairly high taxes and whether they have the possibility of being tax exempted. Buckley and Casson (1998) argue that excessive taxes may account for an investor’s disadvantage since it can lower a firm’s profit significantly. In turn, tax incentives are believed to attract FDI (Bowles, 2004, Dugan et al., 2008).

| Which international trade agreements are existent and to what extent are they functioning sufficiently in terms of the exportation of products and services to other African nations and to countries overseas? |
|---------------------------------|---------------------------------|
| **Interview questions** | **References** |
| Do you profit from any international trade agreements? | Gibbon & Ponte (2005), Bowles (2004), Dugan et al. (2008), Mlachila & Takebe (2011) |
| Do you need to pay taxes twice when you transfer your profits to the mother enterprise or is there a double tax treaty with Uganda/Rwanda and your country? | Ayanwale (2007), Busse, Koeniger & Nunnenkamp (2010), Bloningen (2005) |

The interview question “Do you profit from any international trade agreements” intends to partly contribute to the answer of the research question mentioned above and is hence important to be included in the analysis. Research has shown (Busse, Koeniger & Nunnenkamp, 2010) that MNEs sometimes profit from cross-country trade agreements when operating in a country that has agreements with another country. Furthermore, (Dugan et al., 2008, Schaffer, Agusti, Dhooge & Earle, 2009, Robert, 1997, Nayler, 2006) the lack of trade agreements – and possible barriers to international trade – can be challenging for foreign investors.
By asking the question “Do you need to pay taxes twice when you transfer your profits to the mother enterprise or is there a double tax treaty with Uganda/Rwanda and your country” it can be investigated whether investors headquartered in different countries may profit from a double tax agreement (DBA) between the country where the company is headquartered and the country of Rwanda or Uganda. By asking this question (Busse, Koeniger & Nunnenkamp, 2010, Bloningen, 2005), whether cross-country agreements – such as common trade agreements or DBAs – facilitate the exportation of profits from a MNE’s host country to its home country – because double taxation is limited – can be investigated.

<table>
<thead>
<tr>
<th>Interview questions</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are your clients national or international?</td>
<td>Dunning (1977, 1980, 1988)</td>
</tr>
</tbody>
</table>

Table 3.9: Research questions 9 and 10 (Source: Author)
The question “Would you recommend other foreign investors to invest in the country – why or why not” is formulated to get a first feeling of a foreign investor’s opportunities and constraints related to the availability of sufficiently skilled and adequately priced human resources, infrastructure, technology, or the threat of war, riots or political instability (Ozawa, 1979, Kojima, 1975, Obstfeld & Rogoff, 1996 Agarwal & Ramaswami, 1990, Dunning, 1977, 1980, 1988, Buckley & Casson, 1998).

The query “Why did you choose to invest in Rwanda or Uganda” is asked to investigate whether foreign companies operating in the countries of Rwanda and Uganda believe that country related opportunities exceed constraints. Furthermore, this question seeks to find out MNEs’ main motivational drivers to enter the republics of Rwanda or Uganda. Foreign enterprises often choose investing in a particular country (Caves, 1982, Dunning, 1977, 1980, 1988) because of investment friendly factors such as technological or infrastructural development, favorable investment terms, a relatively good investment climate, the availability of a comparably low corporate tax rate (Ayanwale, 2007, Dunning 1977, 1980, 1988), an improving political situation (Blende-Nabende, 2002) or government incentives (Naude & Krugell, 2007). A foreign enterprise is expected to enter a country if opportunities exceed constraints (Dunning 1977, 1980, 1988).

As discussed above, the question “Are your customers national or international” seeks to investigate whether a company’s clients are foreign firms or individuals. This query is also asked to indicate if MNEs may experience business opportunities by having the chance to supply goods or services to customers of international origin based in Rwanda or Uganda (Yarborough & Yarborough, 2002, Dunning, 1977, 1980, 1988).

The question “Is corruption a problem for you” needs to be raised in order to find out whether corruption is associated to be a threat for companies investing in Rwanda or Uganda. In this regards, it is important to mention that (Agarwal & Ramaswami, 1990) MNEs are often attracted by countries where corruption tends to be relatively low.

“Do you face hard competition from local or other foreign firms” is asked because MNEs usually invest in countries where competition seems to be relatively low (Igbokwe, Turner & Aginam, 2010). Furthermore, (Yarbrough & Yarbrough, 2002) competition between strong domestic rivals and foreign investors is often relatively low in post-conflict countries – such as Rwanda and Uganda – due to a relatively risky (market) environment, the lack of monetary resources and local enterprises’ missing quality standards.
The table’s last two interview questions “What are the biggest (local) opportunities for your company” and “What are the biggest (local) constraints for your company” are – most probably – the research study’s most important questions. Literature suggests (Dugan et al., 2008, Schaffer, Agusti, Dhooge & Earle, 2009, Robert, 1997, Nayler, 2006) that the total sum of a foreign investor’s challenges and constraints – such as an unfavorable investment climate, the lack of trade agreements or political instability – must be lower than the sum of its potential opportunities – such as technological development and innovational advancement (McFetridge, 1987, Blomstroem, Globerman & Kokko, 1999), political stability (Blende-Nabende, 2002) or government incentives (Naude & Krugell, 2007).

3.3 Data Analysis

After conducting and recording interviews in both countries, the data has been transcribed, coded and grouped. Since the data had to be organized manually, coding and grouping is very important (Spencer, Ritchie & O’Connor, 2004) because of the large amount of data. By coding interviewees’ answers and grouping them under different topics and headlines, a possible relationship can be indicated, the outcomes can be easier evaluated and analyzed and conclusions can be drawn by comparing the results without losing the overview (Lathlean, 2006).

Data analysis in exploratory research is – according to Atkinson and Dalamont (2013) – the weak part of qualitative methodology because it is associated with relatively time consuming transcribing, coding and interpretation processes. Burnard, Gill, Stewart, Treasure, and Chadwick (2008) argue that “free-flowing text for any given study can reach into the thousands of pages” (p. 25). This is especially the case if larger samples are considered.

Since this study involves the transcription of approximately 30 hours of interviews, it has been decided to make use of the “quick and targeted” analysis method (Guest, MacQueen & Namey, 2012). According to the authors, the “quick and targeted” analysis method includes the creation of a listing. In this list, interviewees’ answers to each research question are to be classified under the headline of each single question by using short sentences, key points and headwords. After that, a codebook is created. Using the codebook, interviewees’ answers are grouped under each research question – the themes – by only using the most relevant answers in order to reduce the data. Then, the data is categorized by using labels and each answer is coded. In the following, the themes are used in order to analyze whether the questions are answered according to the theoretical background – the document’s literature review. When
writing the results part of this report, it is decided which codes and themes contribute to the research questions’ answers by comparing each category with the literature. Lastly, only the themes that are most likely to adequately answer the research questions are addressed and discussed.

The interviews’ bare facts are presented in chapter four of this document by particularly paying attention to each of the attributes and characteristics resulting from the investigation. This is to be followed by an elaborate discussion, the study’s generalization and the derivation of conclusions.

3.4 Assumptions

It is assumed that each interviewee voluntarily participates the research project – without any presence of force or pressure. Besides that, it is believed that all interviewees have the permission from their superiors. Since it is intended to develop a study which contains highly reliable and valid information and results, interviewees’ honesty is taken for granted (Aaker et al., 2013). Mutual consents between the interviewee and the interviewer as well as a positive relationship between the two parties during the interview are assumed. Another assumption is that the case-study will contribute to future foreign investors’ valuable information and that the document’s reader is interested in getting to know about the issue of FDI in the republics of Rwanda and Uganda.

3.5 Target Population and Sample Description

Considering the numbers of foreign capital inflows mentioned in chapter four of this document, it can be sufficiently shown that a population of foreign investors – which is great enough to conduct qualitative research – is existent in the countries of Rwanda and Uganda.

According to Aaker, et al. (2013), “if the population is defined improperly, the research probably will answer the wrong question” (p. 304). Additionally, the authors mention that the target population should be reproducible at a later point in time (Aaker, et al., 2013). Hence, the definition of the population is not to be made restrictively in order to not exclude the possibility that it may be reproduced for another research project.

It is therefore of utmost importance to clearly state which entities are to be included in the research and which entities are to be excluded from the analysis. This is to be done by considering the study’s objectives. In this research project, private companies and
incorporated enterprises headquartered in foreign countries are to be included in the analysis as well as companies founded by foreigners in the countries of Rwanda and Uganda who immigrated to either of the countries with the single purpose of founding a private enterprise. Companies that are established by building a JV with a local and a foreign investor must either majorly be held by the foreign party or with 50 percent each. M&As are only to be included, if the foreign investor holds, at least, 50 percent of the shares. To consider an entity as foreign investor, it is important that foreign capital has been flown into either of the two countries with the solitary purpose of establishing an enterprise.

To be excluded from the analysis are indirect foreign investments in the form of portfolio investments where a foreign party invests capital into an existing – foreign or domestic – enterprise abroad, often to be associated with the purchasing of shares. Cases where foreigners who lived and/or worked for a longer period of time in either of the two countries before a company was established are not to be included in the sample.

To select the best qualitative sampling approach for the research study, most of the criteria – which are important and relevant for all research questions and the hypotheses outlined above – are preselected because characteristics such as the condition that an interviewee’s employer needs to be a foreign entity in order to be included in the sample are already known. Therefore, the purposive non-probability sampling method is chosen which is – according to Denzin and Lincoln (2000) – useful when data review and analysis are conducted in combination with data collection. It is called a non-probability method because it excludes each population member’s equal chance of being selected. The authors argue further that purposive sample sizes can be determined and fixed before the research phase starts, but this is not conditional.

As revealed earlier, 11 foreign entities are interviewed in the country of Rwanda and 13 in Uganda. The sample size set before the research period in Africa is conducted, is seven per country. However, since it was managed to acquire more interviews as planned, a greater sample is selected due to the fact that a greater number of interviews most likely contributes to more insights.
3.6 Research Interviewees

<table>
<thead>
<tr>
<th>Home Country</th>
<th>Sector</th>
<th>Employees of Subsidiary</th>
<th>Established for</th>
<th>Turnover/year</th>
<th>Entry Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria/Germany</td>
<td>Construction</td>
<td>1,000 (+ 30 foreign)</td>
<td>about 15 years</td>
<td>$ 15 million</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>U.S.</td>
<td>Energy</td>
<td>150 (+ 90 foreign)</td>
<td>about 5 years</td>
<td>$ 25 million</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Agriculture</td>
<td>5 (+ 1 foreign)</td>
<td>about 10 years</td>
<td>--------------</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Logistics</td>
<td>52 (+ 2 foreign)</td>
<td>---------------</td>
<td>$ 1.5 million</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>Australia</td>
<td>Solar sector</td>
<td>6 (+ 2 foreign)</td>
<td>8 years</td>
<td>$ 480,000</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Belgium</td>
<td>Consulting</td>
<td>15 (+ 6 foreign)</td>
<td>28 years</td>
<td>--------------</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Germany/U.S.</td>
<td>Software</td>
<td>5 (+ 2 foreign)</td>
<td>3 years</td>
<td>$ 1 million</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Germany</td>
<td>Radio</td>
<td>60 (+ 5 foreign)</td>
<td>47 years</td>
<td>financed by Ger</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>U.S.</td>
<td>Food</td>
<td>10 (+ 2 foreign)</td>
<td>1 year</td>
<td>about $ 30,000</td>
<td>JV</td>
</tr>
<tr>
<td>EU</td>
<td>Embassy</td>
<td></td>
<td></td>
<td></td>
<td>Own subsidiary</td>
</tr>
</tbody>
</table>

Table 3.10: Research interviewees Rwanda (Source: Author/interviews)

In Rwanda, eleven interviewees were interviewed. This includes an embassy of a European country, a large Austrian construction enterprise which employs approximately 1,000 Rwandans and a large U.S. corporation operating in the energy sector that provides work for about 150 locals. Additionally, eight small and medium-sized enterprises which employ five to 60 local employees in Rwanda coming from the Netherlands, Germany, Australia, Switzerland, the U.S. and Belgium participated in the research project.

<table>
<thead>
<tr>
<th>Home Country</th>
<th>Sector</th>
<th>Employees of Subsidiary</th>
<th>Established for</th>
<th>Turnover/year</th>
<th>Entry Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>Tourism</td>
<td>36 (+ 3 foreign)</td>
<td>about 10 years</td>
<td>$ 4.5 million</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Australia</td>
<td>Solar sector</td>
<td>27 (no foreign)</td>
<td></td>
<td>$ 1.2 million</td>
<td>JV (90% - 10%)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Food processing</td>
<td>60 (+1.5 foreign)</td>
<td>2.5 years</td>
<td>$ 1.3 million</td>
<td>JV (50% - 50%)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Agriculture</td>
<td>2 (+ 1 foreign)</td>
<td>5 years</td>
<td>$ 85,000</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Belgium</td>
<td>Logistics</td>
<td>15 (+ 3 foreign)</td>
<td>More than 10</td>
<td>--------------</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Agriculture</td>
<td>4 (+ 2 foreign)</td>
<td>More than 10</td>
<td>$ 2 million</td>
<td>JV (51% - 49%)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Coffee sector</td>
<td>10 &amp; 60 seasonal (1 foreign)</td>
<td>1.5 years</td>
<td>--------------</td>
<td>JV (majority)</td>
</tr>
<tr>
<td>UK/Belgium</td>
<td>Steal and Metal</td>
<td>890 (+ 30 foreign)</td>
<td>More than 20</td>
<td>--------------</td>
<td>Own subsidiary</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Logistics</td>
<td>250 (+ 5 foreign)</td>
<td>14 years</td>
<td></td>
<td>M&amp;A</td>
</tr>
<tr>
<td>NL/UK</td>
<td>Consumer goods</td>
<td>65 &amp; 40 temporarily</td>
<td>53 years</td>
<td>$ 40 million</td>
<td>Greenfield</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Coffee sector</td>
<td>100 &amp; about 300 seasonal</td>
<td>23 years</td>
<td>$ 50-100 million</td>
<td>JV (majority)</td>
</tr>
<tr>
<td>Uganda</td>
<td>Economist</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uganda</td>
<td>Business Prof.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3.11: Research interviewees Uganda (Source: Author/interviews)

In the country of Uganda, 13 entities were interviewed. A Belgium metal processing corporation which hosts approximately 900 staff members, a UK based wholesaler who employs around 100 human resources, a Swiss logistic operator which has approximately 250 human resources, a coffee conglomerate from Switzerland which employs about 100 staff members and a Dutch bakery that hosts approximately 60 members of staff were interviewed. In addition, five enterprises coming from Belgium, the Netherlands and Australia participate in the research project. These enterprises work in the sectors of agriculture, solar power and...
coffee export. On top of that, two professors – one economist from Kampala University who also works for Uganda’s FDI authority and a business professor from Kampala Business School specialized in FDI – participated in the research project.

3.7 Confidentiality

In order to protect the interviewees – and to make honest answers more likely – interviewees and companies’ names as well as any other sensitive information that may lead to the identification of any interviewed foreign investor are to be dealt with strictly confidential. Hence, names are eliminated and/or changed before the document is distributed to the public. Additionally, the interviewees and their employers are informed that their participation is voluntarily and that they can quit the interview at any time and without any reasoning.

3.8 Informed Consent

Before the beginning of each interview, the interviewees are thoroughly informed about the research’s purpose. The interviewees are informed that they do not need to answer all of the questions. Strict confidentiality is agreed – especially concerning the fact that no information that may directly lead to the true identification of a interviewee is distributed to the public. All agreements are recorded. At call, the interviewee receives a copy of the interview by e-mail not later than four months after the interview has taken place.

3.9 Ethical Considerations

All respondents are informed that each interview is recorded for research purposes only. In fact, the recorder is placed on the table at the beginning of each interview session and the interviewees are asked for their agreement.

Each interviewee is to be debriefed (Aaker at al., 2013) before the start of each interview session and respondents’ possible wishes regarding the interview process and the outcomes’ confidentiality are considered.

Chapter three includes the methodology of this thesis, the study’s research design, a summary of the interview questions, information on the research’s population and the sampling method. The next chapter – chapter four – introduces FDI in Eastern Africa, informs about country related facts in Rwanda and Uganda and contains the interview results.
4) Interview Results, FDI-Factors and Country-Facts Rwanda and Uganda

In the following, a brief introduction to FDI in Eastern Africa is given. On top of that, difficulties and risks for MNEs in Sub-Saharan African Markets are described. Additionally, country-specific details about the republics of Rwanda and Uganda – such as geographic and demographic data – are introduced. Besides that, the interviewees’ responses are reported with respect to each research question – as visualized in chapter three’s tables 3.1 to 3.9.

4.1 Introduction to FDI in Eastern Africa

Historically, foreign companies have been established in Eastern African nations since European countries colonized the region at the beginning of the 19th century (Hochschild, 1998). After East African countries declared independence, some foreign enterprises established by the colonizers remained in the countries as private corporate entities. In the former British East-African colonies, some Indian workers – formerly brought in as slaves – stayed as well. By the beginning of the 20th century, these people were often employed as country managers by foreign organizations – mainly from countries of the person’s original origin – due to their vast market knowledge, a common language and shared cultural characteristics.

Due to long-lasting postcolonial conflicts – such as war or dictatorship –, foreign direct investment has been decreasing in Eastern Africa during these times (Dupasquier, Osakwe, 2006). However, because of shifting markets, foreign enterprises – noticeably from former colonial powers – reentered the region at the beginning of a country’s post-conflict period (Schwartz, Hahn, Bannon, 2004). This was often done by enterprises headquartered in countries of former colonial powers since they were familiar with the culture, had a common language and often possessed over an extensive network of contacts due to employees that had lived and worked in a particular country as soldier or the like (Seidler, 2011).

Nowadays, the countries of Uganda, Rwanda, Tanzania and Kenya are the most popular areas for FDI in East Africa (UNCTAD, 2012, World Bank, 2012). In Rwanda, foreign private capital inflows increased from nine per cent in 2009 to 13.4 per cent in 2010 and 19.5 per cent in 2011 (UNCTAD, 2010, 2011, 2012). In Uganda foreign private capital inflows increased from 3.2 per cent in 2010 to 4.7 per cent in 2011 (World Bank, 2012). In 2010, the United Nations (UN) has ranked Uganda as the second investment destination for FDI in East Africa for the fourth time sequently (UNCTAD, 2010). In 2011, Rwanda
experienced foreign capital inflows of U.S. $106 million and Uganda an amount of $797 million (World Bank, 2012, UNCTAD, 2012). These investments were mainly driven by foreign investors from China, India, Belgium, the UK and Switzerland (World Bank, 2012).

As mentioned earlier, the EAC – which consists of the countries of the Republic of Burundi, Kenya, Rwanda, the United Republic of Tanzania, and the Republic of Uganda – experiences remarkable growth (EAC, 2013). Since the countries of Rwanda and Uganda were East Africa’s preferred places for FDI in 2012 (UNCTAD 2010, 2011, 2012), the question why foreign entities are investing in the countries of Uganda and Rwanda can be raised. Furthermore, it is not known – and therefore to be investigated – which specific industries are chosen by foreign investors and why these industries are particularly selected.

4.2 Difficulties and Risks for MNEs in Sub-Saharan African Markets

Foreign investors – especially on the African continent – often face difficulties when trying to establish foreign subsidiaries in developing countries and LDCs because of (Dugan et al., 2008, Schaffer, Agusti, Dhooge & Earle, 2009, Robert, 1997, Nayler, 2006) factors such as political instability, conflicts, riots civil war, corruption, trade barriers, the nationalization of foreign enterprises and their property as well as due to the lack of the protection of intellectual property rights (WTO, 2011, World Savvy Monitor, 2008) – among other factors. Taking the example of the East African based LDCs, foreign investors have been facing enormous difficulties trying to establish and run subsidiaries in the countries of Rwanda, Uganda, Burundi and Tanzania during the last 30 years (Robert 1997) due to one or more of the factors mentioned above. Specifically, events such as 1994’s genocide in Rwanda (OECD, 2007, Chege, Lemarchand, Turner, Reno & Waters, 1997, UNCTAD, 2006) led to the fact that the country’s economy stagnated and was responsible for foreign investors leaving the country (Sindayigaya & Niyibizi, 2013). However, opportunities and advantages for MNEs – such as the availability of cheap resources – often lead to the fact that investors reconsider developing countries and LDCs after a conflict is over (Igbokwe, Turner & Aginam, 2010).

In addition to factors such as political instability, conflicts, riots, war or war in neighboring countries, foreign corporate entities are constantly facing the risk of changing political stability due to terrorism, dictatorships and warlords in some countries of Sub-Saharan Africa (Reno, 1999). Taking the recent example of Kenya, terrorism has led to an attack in Nairobi’s West-Gate Shopping Mall during several days in September 2013 where
members of Somalia’s al-Qaida-linked rebel group al-Shabab killed 68 people (Reuters, 2013). Another example is the Central African Republic’s conflict with the rebel group Seleka (UN, 2013). This conflict involved heavy fighting making the country insecure. Since this rebel group has also followers in neighboring countries, certain areas of the republics of South Sudan, Cameroon and Chad as well as the Democratic Republic of Congo were endangered due to the group’s members killing civilians in these nations (UN, 2013). The organized crime in Sub-Saharan Africa – predominantly in Western Africa – may also be threatening for MNEs operating on the continent since drug and people trafficking, the illegal distribution of weapons or racketeering contribute to rebels and war lords becoming more powerful. This – in turn – may create an unstable business environment in which corruption tends to be relatively high because resources can hardly be imported and exported without illegally bribing important people – such as war lards (Andres, 2008).

The rebel groups M23, M24, Lord’s Resistance Army (LRA) or the Mai Mai group – among other groups – operating in the Eastern part of the Republic of Congo are held responsible for several attacks against civilians in the Democratic Republic of Congo and the republics of Rwanda, Uganda, Burundi, South Sudan and Tanzania (UN, 2013). Besides crime against humanity and violation of human rights, this situation particularly threatens companies operating closely to the border of the Democratic Republic of Congo. MNEs that operate in the country – such as enterprises specialized in the extraction of raw materials – or firms that are engaged in cross border activities – such as traders or logistic providers (Castillo, 2003, Batware, 2011) – are therefore constricted in their business activities. According to Bartels, Kratzsch & Eicher (2009), war against governments, rebel groups, war-lords dictators or military coups in some nations of Sub-Sahara Africa usually influence MNEs in their decision not to invest in a particular country or area. However, in situations where companies do not want to miss country-specific opportunities – such as the availability of raw materials –, enterprises often engage in activities indirectly supporting criminals – such as war lords – by bribing, paying protection money, or hiring soldiers of a terrorist group in order to be protected (Duffield, 1999).

African LDCs’ privileged access to foreign markets through special trade agreements such as the EBA or AGOA programs can also involve challenges for MNEs investing in Africa’s LDCs because a nation’s economic development may lead to the fact that this country is not on the list of the world’s LDCs anymore. Then, foreign companies would not profit from favorable trade terms anymore (Collier & Gunning, 1995) and are hence more
likely to leave the country due to a competitive disadvantage over MNEs operating in LDCs (Elbadawi & Mwega 1998, Collier, 1991).

Similarly, countries which are engaged in the abuse of human rights by the means of actions – such as dictatorships or wars – often lose their rights to export some or all domestically produced products and services to certain industrialized nations due to economic trade sanctions (Hufbauer, Schott & Elliott, 1990). In turn, MNEs operating in such countries are disadvantaged since they are restricted of engaging in trade activities with customers situated in these industrialized nations (Basu & Srinivasan, 2002).

4.3 The Republic of Rwanda

This section contains facts and data about the country of Rwanda – such as geographic and demographic information. The segment’s second part presents the interviews’ facts – which are listed by considering each single research question separately.

4.3.1 Geographic and Demographic Information

The Republic of Rwanda is Africa’s most densely populated LDC. The country of Rwanda is a landlocked nation that borders with Uganda in the North, the Republic of Tanzania in the East, the country of Burundi in the South and the Democratic Republic of Congo in the West (CIA, 2013). Rwanda hosts approximately 12.2 million inhabitants, from which 965,400 are living in Kigali – the country’s capital (CIA, 2013). The nation was first colonized in 1884 by Germany (Gann & Duignan, 1977). During World War One, Belgium took over the colony from the Germans in 1916 (Pim, 1970). Rwanda became independent from Belgium in 1962 (CIA, 2013). Rwanda’s official language is English. However, French and Kinyarwanda are widely spoken. The country switched from the French language to English by the midst 1990s due to English being the lingua franca of business. The Republic of Rwanda hosts three ethnic groups (CIA, 2013): about 84 percent of all inhabitants are Hutu, approximately 15 percent are Tutsi and one percent is from the group of Twa. During 1994’s genocide – which lasted 100 days – (Newbury, 1995) almost one million people were killed because the Hutu government believed that Tutsi inhabitants of Rwanda, Uganda and the former Republic of Zaire (the Democratic Republic of Congo) shot the Rwandan president – who was a Hutu. Moreover, it was assumed that the Tutsis planned to enslave all Hutus. As a result, the government – together with other forces – systematically killed as many Tutsis as possible (United Human Rights Council, 2013).
Officially, Rwanda is a democracy in which the president is the head of state – who is elected for a seven years term. Currently, Paul Kagame is Rwanda’s seventh president, who serves his second and last term. Even though Kagame is assumed to be the only African president who manages to turn a country from civil war and destruction to one of the safest and less corrupted countries in Sub-Saharan Africa in less than 20 years (Gettleman, 2013), critics argue (Nyamwasa, Rudasingwa, Karegeya, Gahima, 2010, Gettleman, 2013) that Kagame may be the most complicated African leader. Erin McLaughlin – a U.S. American researcher and professor who published an article about culture and corruption in Africa (2013) argues that “much of the credit for Rwanda’s success lies with Kagame’s own role as a benevolent dictator, which allows him to tightly manage much of the country’s economic and political life” (p. 87).

The country’s judicial system is mainly based on Belgian and German law (KPMG, 2012). Due to Rwanda’s history, the country’s constitution rules how political parties – including the party that holds political power – have to operate. Therefore, article 54 of the Rwandan constitution (2003) states that “political organizations are prohibited from basing themselves on race, ethnic group, tribe, clan, region, sex, religion or any other division which may give rise to discrimination” (Constitution of the Republic of Rwanda).


Rwanda has a comparatively good road network (World Bank, 2013) with about 14,900 kilometers of roads (Encyclopedia of the Nations, 2013) that link the small country with its neighboring countries. Besides that, the city of Kigali hosts an international airport that connects Rwanda with other African countries, Europe and the United Arab Emirates with more than five flights weekly (Flight Stats, 2013). However, Rwanda does not have any railroads yet. The country’s power supply works sufficiently in the big cities and industrial
areas (University of Iowa, 2012), even though some power cuts can occur on a daily bases. Nevertheless, “electricity in Rwanda costs 3 to 4 times that of neighboring countries” (Encyclopedia of the Nations, 2013). The supply of – mostly clean – water works satisfactorily in Rwanda (African Development Bank, 2009) and the telecommunication system – including internet – is rather stable due to international private sector companies competing on the country’s telecommunication market (Encyclopedia of the Nations, 2013). Even though the country offers free education at several schools and universities, Rwanda’s education system is to be described as fairly poor (KPMG, 2012).

Economically, Rwanda is (KPMG, 2012) a poor country. About 90 percent of the population works in agriculture, commodity and mineral processing. Rwanda’s food production (KPMG, 2012) does not sufficiently cover people’s demand of food and beverage products. Consequently, these products are imported. Besides that, the government tries to attract investors of the information and communications technology (ICT) sector in order to implement Kagame’s vision of turning Rwanda into Africa’s number one country for ICT development (RDB, 2013). Noticeable is that the country of Rwanda joined the EAC in 2007, with the purpose of liberalizing the free movements of goods, services, capital and labor within the community in order to push the domestic economy (EAC, 2013).

4.3.2 Interview Results

In the following, the interviews’ results are reported by grouping the findings to the relevant interview questions under the headline of each single research question or sub-question.

For the introduction of the participating enterprises, please refer to table 3.10. Please note that the employee of the embassy receives a different question catalogue which is similar to the enterprises’ questions. Hence, the questions are not separately introduced in the methodology section but are to be found in the document’s appendix.

As shown in table 3.1, the first research question “To what extent are foreign companies investing in Rwanda” gives reference to five interview questions.

For the question “How many local employees do you have” please refer to table 3.10. Important to mention is that all firms try to not employ a large number of foreign human resources, due to their relatively high salaries – as informed by the interviewees. All interviewees mention that only positions which cannot be carried out by local specialists –
due to the lack of skills, knowledge and experience – are filled with expatriate managers and other foreign human resources. The question “How big is your enterprise (square meter)” reveals that most subsidiaries have regularly-sized rented offices and houses. However, two of the ten interviewees – Interviewee Four and Two – inform that their operating space ranges to over 6,500m² and 1 km² – which is used as production and storage space. For the question “How much turnover and profit is your enterprise making per year” please refer to table 3.10. Four people refuse to answer the query “How large was the initial investment”. Besides that, the three smallest amounts of firms’ initial investment are about $20,000, $50,000 and $60,000. This is to be followed by a corporation investing $7 million and another MNE investing $60 million in order to enter the market. The last MNE invested a sum of $500 million as initial investment – as stated by Interviewee number Two.

As visualized in table 3.2, the second research question “What are the source countries for foreign direct investment in Rwanda, respectively” makes reference to four interview questions.

For the interview question “Where is your firm’s direct mother company incorporated” please refer to table 3.10. The answers to the question “Does your enterprise have subsidiaries in other (African) countries” show that only one interviewee’s firm does not host any other subsidiary – as informed by Interviewee number Nine. The MNEs’ subsidiary countries include other nations of Sub-Sahara Africa – such as Uganda, Kenya, Tanzania, Burundi, the Democratic Republic of Congo, Nigeria, Senegal, Ghana or Togo. Other subsidiaries are established globally – especially in the Americas and Asia. The question “Is your company’s mother enterprise being held by another mother firm – where is this firm located” reveals that Interviewee One’s German mother enterprise is hold by an Austrian corporation and Interviewee Seven’s German mother is hold by a global player based in the U.S. All other interviewees inform that their Rwandan firm’s mother enterprises are not hold by any other corporate entities.

The interview question “Are your customers national or international” reveals that six of the companies which solely operate on the local market mainly serve international enterprises and individuals that are situated in Rwanda. Two of the remaining four companies serve less than 50 percent of their products to foreign companies and organizations and two interviewees inform that their enterprises solely sell to domestic customers. The interviewees state that foreign private and business customers situated in Rwanda are important clients due
to their relatively high purchasing power. In regards to this question, all interviewees inform that loosing these international customers could be possible due to unforeseeable situations – such as political instability or war – which are regarded as serious constraining factors for foreign entities being situated in Rwanda.

As visualized in table 3.3, the third research question “Which mode of foreign direct investment is preferred by foreign investors in Rwanda” makes reference to one interview question.

When asking the question “How did you establish your firm” only Interviewee Nine communicates that the person’s enterprise joined the market by forming a joint venture with a local partner – both the MNE and the local partner own 50 percent of the shares. Interviewee Four tells that the subsidiary has been established by taking over another company – of European origin. The remaining eight interviewees’ answers include that four firms run own subsidiaries in rented buildings, one enterprise owns its own space in an existing building and three larger MNEs established their subsidiaries via green-field projects. All interviewees – except number Nine – inform that their enterprises prefer fully owned subsidiaries in Rwanda due to greater control.

As visualized in table 3.4, the fourth research question “Which industrial sectors are predominantly chosen by foreign companies investing in the country of Rwanda” makes reference to four interview questions.

For the question “What sector is your company operating in” please refer to table 3.10. The answers to the interview question “What kind of service do you offer or what do you produce” and “What are you exactly doing” show that the agricultural service enterprise is mainly engaged in the consultation and education of small scale entrepreneurs – such as farmers. The medium-sized firm operating in the solar sector predominantly imports solar lamps and small solar panels for phone charging. The firm engaged in the education business – a university – provides technical education in the form of lectures. The conglomerate operating in the energy sector provides access to power utility by extracting methane gas from a lake which is then put into a generator in order to produce energy. Notably is that this mission is the first project of its kind globally. The radio station – which is one of the oldest foreign organizations in Rwanda – receives radio signals via satellite and transmits the signals then by the use of large antennas continental-wide. The medium-sized firm operating in the software and service industry is mainly engaged in the importation and selling of software as
well as to provide software training and consultation services. The small food producer predominantly purchases agricultural raw materials for food processing. The engineering consulting enterprise provides consultation services concerning the supply of clean drinking water, the topics of commodity chain and hydro power. The firm that offers transport solutions – such as international freight transportation, clearing, warehousing, local deliveries and supply chain management – works in the logistics industry. The construction conglomerate is engaged in the construction of infrastructure – such as roads, bridges or the Kigali airport’s runway.

The interview query “From which sectors/industries are your customers coming from” reveals that the MNEs’ national and international customers are mainly coming from the sectors or industries of agriculture, energy and renewable energy, domestic and foreign governmental agencies, supranational and non-governmental agencies (NGO) – such as the UN – foreign and domestic universities, the food industry and private – domestic and foreign – individuals living in Rwanda.

As shown in table 3.5, the fifth research question “Is the infrastructural system – such as schools roads, internet or energy – in the country of Rwanda sufficient enough to carry out commercial business activities” makes reference to two interview questions.

The First Interviewee states to the question “Is the national infrastructure system – such as roads, energy, and internet – sufficient for your firm” that the most important – essential – infrastructure is available in Rwanda. Firms especially need the access to energy, internet, telecommunication, clean water, an adequate road network and an international airport as well as land to build office buildings and plants. Several interviewees mention that the lack of a railroad system connecting Rwanda with the seaports of Mombasa, Kenya, and Dar es Salam, Tanzania is challenging. Concerning Rwanda’s infrastructural sufficiency, it is reported by all interviewees that the nation’s road network is rather developed compared to other African nations. The Interviewees number Three and Six inform that the supply of clean drinking water for corporate and industrial customers is sufficiently working – also in the rural areas. However, all interviewees answer that the speed of the internet is rather insufficient and that the supply of energy is not very stable and constant. Hence, generators and stabilizers are needed in order to not face the risk of destroying sensitive machines and equipment. The costs of energy and internet are rather expensive – an example given by several interviewees is that an average internet connection for businesses with a speed of 2.5
MB costs as much as $2,500 per months (please note that a normal high-speed internet connection costs approximately $200 per months (Tigo, 2013) but is – according to the interviewees – not reliable enough). Please note that the figure of $2,500 for a 2.5 MB connection is mentioned by several interviewees but could not be officially confirmed by searching the internet.

The question” How would you rate the education system in Rwanda – is this sufficient for your purposes” reveals that apart from rather expensive foreign – francophone and English – primary and secondary private schools and universities, all interviewees rate the country’s education system as very poor. All interviewees argue that Rwanda’s current education system – including the lack of specialized educational programs and apprenticeships, such as artisan apprenticeships or programs for business clerks – is very questionable in terms of educating persons that are suitably knowledgeable to apply for a job at a private commercial enterprise on the labor market – especially when considering that MNEs are usually striving for the production of high quality products and services. Furthermore, the Republic of Rwanda changed its official language from French to English by the midst 1990s – due to English being the lingua franca of business. As reported, a large number of older citizens – including teachers and university professors – have therefore relatively poor English language skills. The majority of the interviewees inform that persons being taught English by teachers who do not speak English perfectly themselves are not able to make adequate use of the language fluently – spoken and in writing. The Interviewees One, Two, Four, Five, Eight and Nine inform that teachers and professors are usually underpaid which – in turn – contributes to the fact that a lot of staff members working in education are demotivated and that some of them are even leaving their jobs in order to work for MNEs – for example in construction – because they have the possibility to triple their salaries – this is especially noted by Interviewee number One. According to the interviewees, the Republic’s education system is relatively young since it was completely renewed after the civil war. Therefore, all interviewees inform that national schools, colleges and universities are not sufficient enough to cover the needed quality standards of foreign enterprises. Interviewees Nine and Ten mention that Rwanda’s investment authority especially tries to attract enterprises of the IT sector but the country is not able to offer enough IT specialists due to the lack of quality universities being specialized in computer and software technology. Only one university’s general syllabus for IT students is conform to the sectors’ requirements, as further argued by
the interviewees. However, this university is – first of all – the country’s only organization of its kind and – secondly – of foreign origin.

As visualized in table 3.6, the sixth research question “Are there enough resources – such as sufficiently educated human resources, service enterprises, technology, machinery and equipment – to be found on the local markets” makes reference to six interview questions.

When asking the two questions “Are there enough resources to be found on the local market” and ”Do you import the resources you need to run your company, or do you purchase them locally”, all interviewees answer that domestically produced resources are relatively scarce. They inform that available resources include agricultural raw materials for food processing, certain commodities – such as coffee or tea and minerals – for instance copper – and to a certain extent – human resources. Non-locally produced goods are largely available. However, the majority of the interviewees explain that imported products are often more expensive than in the EU or U.S. due to rather high import taxes. A good example provided by Interviewee number Seven is that cars are comparatively expensive to other countries of the EAC and much more expensive than in the EU and U.S. The person further informs that cars imported from the EU or U.S. are up to 50 percent more expensive than in the EU – computers are also higher priced. Challenging is – according to all interviewees – that the majority of technical products available on the market are often cheap imitations of commonly known brand names. The Interviewees number One, Two and Nine inform that special tools, machinery, construction machineries, special raw materials – such as cement or steel –, trucks and large amounts of Diesel for generators are usually self-imported due to the lack of high quality goods on the market. The same three persons state that technical equipment needs to be self-imported due to the poor quality of locally sourced products. Important to mention is that some interviewees see this situation as an opportunity for foreign enterprises to successfully enter the Rwandan market by selling these resources to – mainly foreign – business clients domestically. The interviewees say that the self-importation of available equipment – which is of a certain quality – is not recommended since import duties are quite heavy – which makes domestically purchased goods cheaper than self-importation. Nevertheless, checking and controlling of locally sourced products regarding their quality is strictly necessary – as informed by the interviewees.
The two similar questions “Are there enough service enterprises you could use – such as logistic companies or consultants – in Rwanda” and “Do you have access to (inexpensive) and sufficiently educated labor – or is it a problem to find educated personnel at an adequate salary” reveal that Rwandan service enterprises are only available in the areas of auditing, tax-consulting, book keeping, car maintenance, cleaning or related – rather basic – services. All of the interviewees inform that other business relevant service enterprises, such as (management) consulting companies, logistical service providers or maintenance corporations for industrial plants, machinery and equipment are also locally available. These enterprises are – to a large extent – MNEs from the EU, U.S., Turkey, China, India or Israel. Nevertheless, it frequently occurs that special services are imported – such as specialized technical consulting, maintenance for complicated technical machinery and services for highly complex – mostly technical – equipment – as mentioned by the Interviewees number One, Two, Four, Six, Seven and Eight. All interviewees allude that the availability of skilled human resources is a major problem. All interviewees acknowledge that it is very difficult to find adequately skilled experts. In consequence, skilled employees – such as executives, managers or specialists are very scarce and hence very expensive. Furthermore, sophisticated engineers, technical specialists and skilled workers with working experience can hardly be sourced locally. Except the Interviewees Three and Nine, all interviewees inform that if these people are locally available they are either of foreign origin or Rwandan nationals that are educated abroad. Domestically available specialists and experts are hence very costly – the average salary of these people is often twice as much as a European specialist’s income – as stated by the Interviewees One, Two, Four and Seven. Another problem is – according to the Interviewees number Eight, Four, One and Two – that applicants often falsify their documents – such as university degrees – in order to get into a certain job position. Concerning the question whether enough skilled and unskilled workers are available on the Rwandan labor market, it is told that these people are – due to a relatively low unemployment rate – relatively limited. Nevertheless, it is possible to find workers – often done with the help of recruitment agencies. However, domestic staff members’ working mentality is not to be compared with people from the EU, U.S., Asia Northern Africa or India – this is especially mentioned by the Interviewees number One, Two, Four and Eight. People need to be trained for a longer period of time in order to become adequately skilled human resources; some interviewees inform that four to five relatively experienced Rwandan workers are doing the job of one or two European employees. Employees who are trained at a foreign subsidiary often rapidly increase their salary expectations shortly after the training period is over; this is mentioned by
all interviewees. In turn, the majority of the interviewees inform that some of these employees are using their experience in order to apply for a job that pays a higher salary at a MNE or a local firm operating in Rwanda; some of the best experienced workers are also applying for employment in other African nations and overseas.

For the question “How would you rate the education system in Rwanda – is this sufficient for your purposes” please refer to the paragraph above. The inquiry “How do you supply your goods or services” is answered by stating that the services are delivered directly by employees and consultants who either go to the customers nationwide in order to deliver the service, or that the customers come to the enterprises’ offices which are all situated in the capital city Kigali. Interviewee Two’s employer delivers the energy at the agreed selling point not far from the production side. Interviewee Nine’s enterprise markets its physical products directly to the end customer via own agents. The firm of Interviewee Two performs its service at the agreed point and the Eights Interviewees’ company delivers its services through modern telecommunication technology. The remaining firms use locally available distributors, agents, personal selling and logistical service enterprises – which are mostly of foreign origin.

As visualized in table 3.7, the seventh research question “Which country offers the most inevitable investment terms for foreign entities” gives reference to five interview questions.

The answers to the two interview questions “How important is political stability for your company” and” How would you describe the country’s current political situation” reveal that eight out of ten interviewees state that political stability is of utmost importance for their enterprises. As mentioned, political instability – such as war, Rwanda’s civil war of 1994, or riots can be responsible for supply shortfalls or may force international customers out of the country. Furthermore, such events are – according to the Interviewees number One and Two and number Four to Nine – possibly to be associated with the country’s economy stagnating or declining due to increasing corruption, an uncontrolled political situation, increasing violence or the rise of warlords and dictators. However, two interviewees argue that politically unstable countries can be relatively good markets because of the possibility of rapidly increasing prices or profiting from monopolistic market positions because competitors stop operating in the country. Rwanda’s current political situation is described by all interviewees as relatively stable for foreign investors in which corruption tends to be very low – especially compared to other African nations. The interviewees argue that the president –
Paul Kagame – and his ministers control the country’s political situation very well by – for instance – preventing riots or demonstrations – also with the help of military forces. This is – according to some interviewees – only possible because of Kagame’s strict ruling as a dictator and Rwanda’s highly controlled political environment. The army controls the entire country and delivers security and stability for foreign firms in Rwanda, as argued by the majority of the interviewees. However, all interviewees named the situation at the country’s border as threatening because conflicts with war lords and rebel groups operating in the DRC could – and sometimes do – spill over into Rwanda’s territory. Problematic is also – according to the Interviewees number Four and Six – that two rebel groups sometimes cause riots within the country. All interviewees mention that Kagame’s succession – which is to be done during the president elections in 2017 – is one of the most serious threats concerning the question of political stability in Rwanda because the change of a regime’s leadership could negatively impact FDI and may therefore be responsible for the country’s economy stagnating due to political turmoil and/or war.

Concerning the questions “Did you receive any government incentives or other enticements when entering Rwanda” and “Did/does the local government help you to establish your firm”, the interviewees answer that companies which invest a relatively small amount of money as initial investment – usually below $500,000 – face difficulties to receive tax incentives due to government regulations. However, Interviewee number Five’s enterprise – which invested an approximate initial amount of $100,000 – managed to negotiate a one-year tax exemption due to providing an excellent business plan. According to the interviewees, enterprises which invest amounts between $500,000 and $1 million are granted tax exemptions between three and five years. As further informed, the length of tax incentives for enterprises initially investing $1 million and above is negotiable. Rwanda’s official policy concerning tax exemptions for foreign investors is (Rwandan Revenue Authority, 2013) rather vague defined and states that “foreign companies that have theirs [sic] headquarters in Rwanda that [sic] fulfils the requirements stipulated in the Rwandan law on Investment Promotion is entitled to: 1° pay corporate income tax at the rate of zero per cent (0%); 2° exemption from 15% withholding tax mentioned in Article 51 of the law nº 16/2005 of 18/08/2005 on direct income; 3° tax free repatriation of profits”. Noticeable is that the first two interviewees’ enterprises are granted a corporate tax exemption of ten and 25 years due to their relatively high investments of $6 and $500 million. One of these two companies is fully corporate tax exempted and the other enterprise has to first pay the tax rate but is granted it
back by a governmental organization at a later point in time – due to the government being the sole customer. However, the interviewees also mention that tax exemptions are often negotiable due to Rwanda’s vague defined tax incentive policies. Since the Rwandan investment authority was not in office before 2008, MNEs which have been founded before this date have not been receiving any official incentives – as mentioned by the Interviewees number Four, Six and 11. Six interviewees answer that they are not helped by any governmental agency in order to establish their businesses. Besides that, government officials often help organizing work visas and permits for foreign employees in order to facilitate the process of having access to skilled and experienced specialists and labor, as further informed. Furthermore, introductions to key people, local government officials and local community leaders are done by governmental institutions in order to help some of the interviewees’ enterprises to establish themselves on the market – this is mentioned by the Interviewees One, Two and Six.

In order to verify whether foreign investors usually pay Rwanda’s official tax rates, the question “How many taxes do you pay” is asked. This reveals that all interviewees’ firms – except those being (corporate-) tax exempted – pay the official tax rates of 30 percent corporate tax, 15 percent withholding tax, 18 percent VAT and 30 percent income tax for employees. Additionally, a presumptive tax of four percent is charged from corporate tax payers with a turnover of less than RWF20 million ($29,828, October 2013) per year – which can be referred to as an alternative minimum tax. On top of that, a social security surcharge of five percent has to be paid by MNEs for their employees – another three percent needs to be paid by the employee. Important to mention is that 15 percent withholding tax – also to be called reverse tax – for invoices paid to companies residing outside of Rwanda’s territory cannot be claimed back – as mentioned by Interviewee number Seven. All interviewees argue that Rwanda’s relatively high taxes – especially compared to other countries of Sub-Saharan Africa – are challenging because competitors that operate in countries which have lower tax rates are often able to offer their products and services at cheaper rates; this is specifically named by the interviewees of the enterprises that mainly export their products.

As visualized in table 3.8, the seventh research question “Which international trade agreements are existent and to what extend are they functioning sufficiently in terms of the exportation of products and services to other African nations and to countries overseas” gives reference to two interview questions.
International trade agreements are – according to the majority of the interviewees – not the main reason of investment in the country. However, the EU’s EBA and the U.S.’s AGOA agreements make it possible to export domestically produced products and services to the EU and U.S. without paying import taxes. Besides that, companies exporting their domestically produced products and services to MS of the EAC profit from facilitated export procedures at Rwanda’s border to another MS – this is especially mentioned by Interviewee number Four. An example is provided by informing that it took up to nine days to get a truck through the Ugandan border before the EAC was established, while it now takes only two days – due to common processes between the MS. The two Interviewees number Three and Nine state that the EAC’s agricultural act ensures that agricultural raw materials – non-processed goods – can be freely moved from any MS to any MS without paying any import tariffs. However, all interviewees engaged in the exportation of goods to other EAC MS mention that the EAC’s free movements of goods act from one MS to another MS does not work in practice yet – as theoretically agreed by the MS. Additionally, the Interviewees number Two, Four, five, Six and Seven argue that a relatively high withholding tax rate of 15 percent has to be paid when paying invoices of companies incorporated in another MS. Hence, the EAC’s free movement of capital act does not work as theoretically agreed by the MS – as further argued by the five persons.

The interview question “Do you need to pay taxes twice when you transfer your profits to the mother enterprise or is there a double tax treaty with Rwanda and your country” discloses that all interviewees’ enterprises who transfer their profits to foreign countries – except the Interviewees number Two and Six’s firms – mention that the lack of a receiving country’s DBA with Rwanda is often challenging because taxes need either to be paid twice or the case must be explained to the corporations’ countries tax authorities in order to be potentially exempted from double taxation. Rwanda only has two DBAs with two nations globally – Belgium and Mauritius. Therefore, Interviewee number Six – a Belgian company – states that the person’s firm does not face any difficulties when transferring its profits to Belgium. Interviewee number Two argues that the person’s mother company holds a subsidiary in Mauritius – which is solely established for the purpose of receiving revenues from other subsidiaries due to Mauritius’ large amount of DBAs with countries globally. Since the establishment of the EAC, enterprises can transfer domestically generated revenues to another MS of the EAC due to common tax agreements resulting from the community’s free movement of capital regulation, as informed by the interviewees. As reported, the EAC
therefore has facilitated the ease of revenue transfer. In this regards, Interview partner number Five says that the person’s corporation transfers its profits from the Rwandan branch to the Ugandan branch without paying any additional taxes or fees. This amount is then transferred to the firm’s mother company since the Republic of Uganda has a DBA in place with the firm’s headquarter country. Some interview partners additionally inform that – in order to avoid double taxation in the receiving country – profits are to be transferred by paying management fees to the mother company – which are to be declared as invoices to the Rwandan revenue authority. As observed, using this technique involves that MNEs operating in Rwanda need to pay a withholding tax rate of 15 percent when paying the management fees to the mother company.

As visualized in table 3.9, the last interview question “What are the main drivers and the most important restraining factors for foreign investors to invest in Rwanda” makes reference to seven interview questions.

The answers to the question ”Would you – generally – recommend other foreign investors to invest in the country” firstly reveals that Rwanda’s market environment is highly political due to – mostly unofficial – control over corporate activities by governmental institutions – this is stated by all interviewees. Secondly, it is argued by the Interviewees One and Two, Three to Eight and Ten that FDI is strongly controlled because the government carefully selects which corporate entities are allowed to join the market. Thirdly, all interviewees inform that the Rwandan market is relatively small and that local purchasing power of domestic customers does hardly exist in the rural areas. Another issue is that the big players – such as large MNEs and global players – have the most market share – which is specifically argued by Interviewee number Five. This is followed by the comment that entry barriers for small and medium sized enterprises are relatively high since the often oligopolistic market is usually very aggressive in terms of the entry of new competitive rivals. Interviewee number Five adds that especially competition from foreign specialized firms – such as providers of machinery and equipment for other businesses – is an argument against a positive recommendation for foreign MNEs to enter the Rwandan market because of their long establishment to be associated with excellent contacts to a few very important key people and customers. The person further argues that such specialized firms usually employ human resources who are trained internally. Furthermore, sufficiently skilled and trained human resources are not available on the local labor market due to a rather poor education system. The only skilled labor is already employed by these foreign firms. Interviewee number Seven
states that employing foreign human resources from African neighboring countries has been becoming more difficult during the last three years due to a rather complex – long lasting – bureaucratic government process which includes that enterprises wanting to employ foreign human resources must prove that domestic labor is not available. Eight out of ten interviewees argue that the government does not provide sufficient support for foreign investors by – for instance – solving a problem, providing a formal decision or offering a proposal to solve a problem. All interviewees – except number Three and Nine – further inform that the decision making process of governmental agencies and officials can be very long-lasting – sometimes up to several years. The reason for this is – according to the Interviewees number One, Two, Four, Five, Six and Seven – that people are afraid of making the wrong decision. Therefore, long-lasting bureaucratic procedures are existent. As a potential reason for this – the Interviewees number One, Two, Four, Five, Six and Seven inform – that decision makers’ colleagues could be dissatisfied with a particular decision and would report the person who makes a certain decision. At this point, it needs to be mentioned that the Interviewees Two and Four inform that government employees who report other employees for being corrupt receive 20 percent of the people’s fine they report. The Interviewees number One and Two and Four to Eight argue that laws, rules and regulations – such as Rwanda’s anti-corruption policy – are also to be associated with a relatively long lasting decision making process because people are afraid of being – wrongly – accused of corruption due to a quickly made decision that usually takes a longer period of time. The majority of the interviewees state that government incentives are usually not received by enterprises which provide relatively small amounts of money as initial investment. Interviewee number Four states that the country’s geographic situation can also lead to a negative recommendation for foreign investors due to relatively long ways to the sea. Problematically is – according to the majority of the interviewees – that power is often unsteady and power cuts occur. On top of that, all interviewees disclose that energy prices are relatively expensive compared to the neighboring countries. The Interviewees Four, Six and Seven mention that invoices are not paid on time by governmental and individual customers – only by foreign – mostly Western – enterprises operating on the market. Interviewee Four argues that some foreign enterprises are attracted by the government’s statement to make Rwanda a hub to be used by MNEs exporting its domestically produced goods to the neighboring nations due to cross-country trade facilitation. The Interviewees Four and Five inform that concerning trade with the neighboring countries, Rwanda’s constrained relationship with the DRC makes it very difficult to import domestically produced goods into the country. Interviewee number Seven
says that it is almost impossible to send employees holding a Rwandan passport into the DRC due to the fact that they most likely do not return. The same person shares that the Rwandan Revenue Authority is very strict – due to high penalties for a few days of taxation payment overdue. All interviewees agree that the corporate tax rate and the high withholding tax rate make Rwanda not very recommendable for MNEs. Rwanda’s good governance policy – for instance the non-corruption rules – is mentioned as a reason to recommend the country for MNEs because business activities usually run smoother without being forced to engage in corrupt process. The country’s relatively low level of corruption and the actuality that international entrepreneurs and MNEs are welcome – which can be experienced by the fact that registering a company in Rwanda can be done within one day by visiting a one-stop center – are mentioned as positive factors by all interviewees.

The answers to the question “Why did you choose to invest in Rwanda” reveal that most of the interviewees believe that their firms’ goods and services are needed because of Rwanda’s development activities. An example made by the Interviewees number Three and Eight is that the country is relatively poor. Hence, the promotion of agricultural entrepreneurship – and agricultural consulting – is needed. Interviewee number five states that the demand of substitute products – such as solar products to generate power – is needed because of either the main products – such as power – are not available or are too expensive for large parts of the population – especially in Rwanda’s rural areas. Eight interviewees mention that Rwanda – as one of Africa’s least developed post-conflict countries – still has a relatively oligopolistic market environment due to Rwanda’s history and its relatively small market. Finding a niche market is – according to all interviewees – more likely in Rwanda than in any developed or developing country due to Rwanda’s turbulent past – which still hinders foreign firms to invest in the country. Interviewees of foreign enterprises which have been established in Rwanda before the genocide in 1994 argue that the country was a preferable place for foreign enterprises due to its colonial past. Hence, enterprises from Belgium moved to Rwanda – before and after the country became independent from Belgium in 1962 – in order to profit from factors such as a common language and valuable contacts with the government via former employees of the colonial power that staid in the country. The country’s high safety standards and the non-existence of political turmoil, riots and demonstrations are – according to all interviewees – the main reasons for the participating MNEs’ moving to Rwanda as well as its closeness to the DRC – which is an important market for foreign enterprises that use Rwanda as a hub for exporting products to the DRC. For the
question “Are your customers national or international” please refer to the second paragraph of chapter 4.3.2.

The question “Is corruption a problem for you” reveals that corruption in Rwanda is perceived as very low compared to other African countries. This is – according to the interviewees – an opportunity because no additional expenses in order to facilitate processes are to be spent. Due to the government’s anti-corruption law – which is mainly driven by Kagame – government officials are scared of being accused of corruption. Therefore, decisions of government officials can last for a very long time. However, if a local company engages in trade activities with the neighboring countries – such as the DRC or Uganda – the bribing of border officers from the other side is needed in order to get the products into the other country – as informed by the Interviewees number One, Two, Four, Five and Seven.

The question “Do you face hard competition from local or other foreign firms” reveals that competition from Rwandan companies for MNEs targeting international customers on the Rwandan market is – according to all interviewees – only a minor threat due to domestic firms’ producing relatively low quality and because of to the lack of adequate machinery and equipment as well as the absence of sufficiently skilled and experienced human resources. However, Rwandan enterprises providing basic products – such as food – can be a serious threat because of the ability to provide cheaper prices for products and substitute products due to offering lower quality goods – this is especially recognized by Interviewee number Nine. All interviewees answer that competitive rivalry of other MNEs and global players – which are either established in Rwanda themselves or import their products from overseas – is very threatening. Some of these corporations are very powerful and have hence the ability to invest large amounts of money, as informed by the interviewees. This often results – according to the Interviewees number Four, Five, Seven and Eight – in large enterprises’ competitive advantage because of the possibility of receiving relatively long-lasting (corporate) tax exemptions due to relatively high initial investments.

The answers to the question “What are the biggest (local) constraints for your company and other foreign MNEs in Rwanda” elucidate that firms often face strong difficulties with finding adequately skilled human resources who are domestically available. According to all interviewees, high salary expectations of skilled and experienced Rwandans are threatening since these wages are often three times as high as in a central European country. The second largest constraining factor is indicated by mentioning that Rwanda’s
corporate tax rate – and other national taxes such as the tax on labor, or the withholding tax – is relatively high compared to other African countries and to the industrialized world. All interviewees mention that the Rwandan revenue authority is considered as disadvantageous for MNEs because it is known for its strictness concerning very high penalties for comparatively low fiscal malfeasances. Furthermore, relatively volatile exchange rates to other African – and industrialized – nations’ currencies are considered as relatively risky by the majority of the interviewees. Besides that, the country’s highly political environment – in which the president and his people have full control over the country – is mentioned as constraining by all interviewees except Interviewee number Three and Nine. Very worrisome is – according to all interviewees – Rwanda’s presidential elections in 2017 – to be associated with Kagame’s succession – since this may result in political turmoil, riots or civil war. Rebel groups fighting against each other within the country’s territory as well as rebel groups and war lords that fight against the country of Rwanda from the DRC are named as a severe threat since the situation at the border of the DRC and the Republic of Rwanda can escalate quickly. Interviewee Five mentions that in response to the war in the DRC, orders from customers situated in the DRC are often decreasing when conflicts and fights increase. Another politically related constraining factor mentioned by the Interviewees number One, Two, Four, Five, Six, Seven and Eight is that the country has a large quantity of relatively strict and inscrutable laws, rules and regulations. Apart from political constraints and threats, economic challenges – such as the issue that Rwanda is a landlocked country, that it is a comparatively small market or that it is relatively poor in terms of GDP and citizens’ low purchasing power – are stated by all interviewees. The fact that Rwanda switched from the French to the English language not long ago can be challenging due to workers, service providers and teachers not speaking English adequately – this is especially mentioned by the Interviewees One, five and ten. As further stated, the older generations are fluent in French and only the latest generation starts being fluent in English due to the language switch and 1994’s civil war where the school system suffered tremendously. As a result, people who are between 20 and 30 years old often do not speak any of the two languages fluently but Kinyarwanda. Interviewee number Five explains that if a harvest could not achieve the expected yields, a lot of potential customers do not have enough money to purchase the products provided by MNEs operating in the country due to the majority of Rwanda’s inhabitants being farmers. Another point is that Rwanda is a relatively expensive country compared to other African nations. Worker’s average salary is – according to the interviewees – $80 per month. In this regards, the interviewees inform that the average worker cannot afford rather expensive – high quality –
products. As mentioned by the majority of the interviewees, Rwanda does not possess a lot of raw materials and commodities due to its size. Furthermore, Rwanda’s markets have a relatively weak private sector where only a few commercial enterprises compete. This results in the situation that lobbying – and its possible impact – hardly exists – as informed by Interviewee Five. The interviewees inform that physical aid from foreign governments or NGOs in terms of the supplying and distribution of products and services – such as solar products or consulting services for entrepreneurs and farmers – at either very competitive prices or for free can be challenging since sales of these products may be stagnating – this statement is especially acknowledged by the Interviewees number Two, Five and Seven.

Since tax exemptions and other incentives are usually not granted to companies investing less than $500,000 as initial investment, entering the country is easier for larger MNEs but very challenging for small start-up companies due to the lack of a possible competitive advantage resulting from favorable tax rates and tax holidays – as informed by the Interviewees number Two, Four, Five, Six Seven and Nine. The country’s weak education system is – according to all interviewees – a constraining factor for MNEs operating in Rwanda since a poor education does not guarantee the availability of adequately skilled human resources on the country’s labor market. Another threat MNEs operating on the Rwandan market are facing with is government officials’ slow decision making process which is to be associated with the country’s non-corruption policy – as mentioned by all interviewees except number Two. The Interviewees One, Two and Four explain that the country’s anti-corruption policy involves another challenge which is that facilitation processes concerning issues with government authorities are impossible to be solved with inducements. Complex bureaucratic processes are mentioned as challenging by all interviewees because government authorities need a very long time to issue important documents – such as permits or licenses. The Interviewees number Four and Seven state that the decrease of aid from foreign countries – due to political issues such as violation of human rights in Rwanda – is described as challenging since less foreign currency enters the economy. In turn, the government spends less money which often results in decreasing order situations for MNEs operating in Rwanda. The Interviewees number Four, Five and Six argue that if the government is out of money, the economy is partly stagnating because Rwanda’s economy is mainly government driven. The EAC’s attempt to facilitate cross-country trade with its MS does not work sufficiently for all participating enterprises that are engaged in cross-country trade with EAC MS since it is still in the development face. As told by the interviewees, ratified EAC treaties often take a very long time before they are converted by every single government official involved.
Furthermore, infrastructural development works very well in Rwanda – as it is informed by seven interviewees. However, the lack of stable energy supply without power cuts results in higher costs for MNEs because equalizers and generators are needed. Moreover, a relatively slow internet network results in difficulties to use internet based telecommunication services such as voice of IP or video conferencing. Relatively high costs for internet and energy – especially compared to the industrialized world but also to other African nations – is considered as a financial challenge by all interviewees’ enterprises since this directly impacts a firm’s profits. Due to Rwanda being landlocked, relatively high transport costs to the seaports of Mombasa and Dar es Salam are pointed out as challenging as well as the transport time of three to four days in order to forward a container to one of the two ports. All interviewees agree that heavy import duties on foreign products to Rwanda – such as cars, trucks, machinery or special equipment – result in higher costs for MNEs. The Interviewees number One and Two, Four to Eight and Ten argue that Rwanda’s business culture – especially employees’ different working mentality – can be a challenging factor because it often includes MNEs being less competitive due to workers’ slowness resulting in less efficiency. Interviewee number Seven mentions that international rules stating that goods and services for aid have to be purchased locally do not work in practice – especially because of the fact that tenders – often being mega-contractors – are usually situated in the industrialized nations. Hence, there is little chance to compete for small and medium sized foreign investors operating on the Rwandan market due to mega-contractors being directly awarded with contracts in the industrialized world. Interviewee Nine informs that certificates for imported food products from companies operating in Rwanda are very difficult to be obtained due to very high food-safety import requirements – especially in the EU and the U.S. A large number of interviewees mention that delayed VAT back-payments from the Rwandan revenue authority involve that a lot of money is outstanding for a relatively long time which leads to the fact that an enterprise is less liquid.

Concerning the last interview question “What are the biggest (local) opportunities for your company” all interview partners disclose that Rwanda’s geographic situation does not only involve challenges for MNEs situated in Rwanda. Due to the DRC’s closeness, MNEs exporting goods and services to the country are advantaged because the republic can be reached from the city of Kigali within five to seven hours – depending on the traffic. Moreover, the Interviewees Four and Five explain that the DRC’s market for Rwandan imports can be described as rather good due to relatively high prices for products and services.
within the DRC compared to Rwanda. On top of that, the DRC is using the U.S. Dollar as the main currency due to high inflation. Therefore, invoices from DRC based customers can be paid on a Rwandan Dollar bank account. The Interviewees number Four, Five and Nine state that the closeness to the Republic of Tanzania and Uganda is also positively contributing to the firms’ commercial activities since customers in these two countries can be reached easily. Furthermore, the EAC is striving to facilitate trade activities between the companies situated in each MS – which is especially important for the Interviewees number Four and Five. Additionally, Rwanda’s geographical situation is opportunity rich for MNEs since it can be used as a hub for foreign investors in order distribute goods and services to other African nations – as it is already done by the enterprises of the Interviewees number Four, Five Seven and Nine. Rwanda’s very low level of corruption is named by all interviewees as one of the strongest opportunities for foreign investors since firms operating on the Rwandan market do not face the risk of spending large amounts of money for facilitation and inducement processes. All interviewees affirm that the RDB’s one stop center for future entrepreneurs makes it very easy to start a business in the country because all processes can be done at one place and within one single day. Furthermore, the interviewees explain that the RDB’s processes are very transparent and are hence contributing to a positive feeling. Due to the country’s highly controlled – political – environment, all ten corporate interviewees argue that Rwanda is a safe place where foreign MNEs can conduct their business activities without facing any sign of insecurity. Furthermore, the president’s regime controls the entire country and keeps everything stable and running because Kagame delivers stability, deescalates conflicts and tensions and establishes the way for a stable investment climate with good governance since corruption is strictly prohibited. Unstable energy and power cuts are mentioned by the Interviewees Two and Five as opportunities for providers of alternative energy – such as solar power, Diesel generators or equalizers – because some individuals and enterprises cannot afford to be out of energy. Since most of the global players are operating on the market already, the country’s niche markets are an excellent opportunity for some of the interviewee’s firms since these areas are not covered sufficiently yet. Interviewee Ten provides that the Republic of Rwanda offers tremendous opportunities in the IT sector due to the country’s plan to make Rwanda one of the preferred places for IT technology in Africa. An example provided by Interviewee number Ten is that Rwanda is one of the few African countries which implements optical fiber networks for internet and telecommunication services. On top of that, the person states that Rwanda is the first country in Africa which implements 4G technology for cell phones. Several interviewees say that Rwanda’s
government tries to connect the country with Dar es Salaam’s seaport via railroad by cooperating with the Tanzanian government. If this project should be constructed, sea cargo could be arriving at Tanzania’s port within 24 hours after dispatching. It is hence argued that this project implies a tremendous opportunity since it is guaranteed that cargo can be transported fast and safe to Dar es Salaam. Interviewee One states that due to foreign governments supporting Rwanda’s infrastructural development, the possibility for MNEs operating in the energy and construction sector to be awarded with long-lasting contracts is relatively large. Positive is – according to the firms operating in the infrastructural, consulting and construction sectors – that invoices are paid directly to the company’s headquarters by foreign – mostly European – government authorities. Interviewee Seven informs that getting in contact with very high level decision makers – such as ministers – is relatively easy. Interview partners working for companies which serve the Rwandan government – such as the Interviewees number One, Two and Seven – explain that tenders can be done easily – without a lot of time involved. However, the same persons inform that foreign competitors from Israel and China are severe rivals due to cheaper offers. Rwanda’s relatively positive relationship to the country of Congo (Congo-Brazzaville) is named as advantageous by Interviewee number Seven since trade between the two nations can be done without major complications. Furthermore, cross-country trade agreements are in place. Interviewee number Five argues that Rwanda’s relatively poor inhabitants are seen as a large target group for low priced basic products – such as fast moving consumer goods, telecommunication or solar power. Rwanda’s DBAs with Belgium and Mauritius are mentioned as positive factors by two interviewees – number Two and Six – since no double taxation takes place when a firm transfers its profits to these countries. All interviewees assure that Rwanda is a good market for rather small and flexible firms due to a fast changing market environment.

4.4 The Republic of Uganda

As for the country of Rwanda, this section contains facts and data about the country of Uganda – such as geographic and demographic information. The segment’s second part presents the interviews’ results – which are listed by considering each single research question and sub-question separately.
4.4.1 Geographic and Demographic Information

The Republic of Uganda is a landlocked country that is bordered with the Republic of South Sudan on the North, the Republic of Kenya in the East, the Republic of Tanzania in the South, the country of Rwanda in the South-West and the Democratic Republic of Congo on the West (CIA, 2013). Approximately 35.873 million inhabitants are living in the country – from which 1.7 million live in Kampala, Uganda’s capital city.

In 1889, Germany did not follow its plan to enlarge its East-African empire by Uganda anymore and agreed to the British Empire taking over the country in return for the small island of Helgoland, which is located just North of Germany’s coast (Gruender, 2012, Hennig, 2013). In consequence, the territory of Uganda became part of the British East Africa Company in 1894 and was declared a British protectorate in the same year (the British Empire, 2013). Since then, English is Uganda’s official language (CIA, 2013). After Uganda became independent from Britain in 1962 (BBC, 2013) Uganda maintained its Commonwealth membership (the Commonwealth, 2013). The country’s first president was Sir Edward Luwangula Walugembe Muteesa II, who led the country for almost three years. After the second president – Milton Obote – was deposed from power following a military coup, the dictator Idi Amin Dada became Uganda’s ruler for a period of eight years (the State House of Uganda, 2013). During the Amin regime, approximately 300,000 people were killed by the government in order to guarantee that Amin stays in power. Furthermore, the entrepreneurial minority from Asia – mostly of Indian origin – was driven out of the country by Amin – which led the country’s economy to collapse (BBC, 2013). During the Uganda-Tanzania war, the era Idi Amin was ended and President Yusuf Kironde Lule became Uganda’s political leader for a period of three months. After president Godfrey Lukongwa Binaisa was in office for one year, Milton Obote became Uganda’s president again for a period of five years. Obote was followed by Tito Okello Lutwa who was deposed after 1986’s Bush War. Then, Yoweri Museveni became Uganda’s president who has been in power as the head of state and the head of government since 1986 (the State House of Uganda, 2013). Even though president elections were held in 2006 and 2011, president Museveni stays in office. However, not only because of the fact that Museveni wants his son to become his successor, critics argue (Ferim, 2011) that Museveni is a dictator who does not follow democratic rules. On top of that, it is argued (Gore, Muwanga, 2013) that Museveni is responsible for the whole country’s relatively high level of corruption.
Uganda’s judiciary system follows English Common Law in which the highest court is the Supreme Court of Uganda. Civil disputes are taken care of by local committees; the police council decides about law enforcement policy (the Republic of Uganda, 2013).

The republic’s GDP was $21 billion and the GDP per capita in terms of purchasing power parity (PPP) was $1,400 in 2012 (CIA, 2013, Trading Economics, 2013). Uganda’s GDP was $16.82 billion in 2011, $17.20 billion in 2010, $15.80 billion in 2009, $14.44 billion in 2008 and $11.92 billion in 2007 (World Bank, 2013). Uganda’s inflation rate ranges from 27 percent in January 2012, 18 percent in July 2012, 5.4 percent in January 2013, 3.6 percent in June 2013 and 7.3 percent in August 2013 to 8.1 percent in November 2013 (Trading Economics, 2013). The country’s currency is the Ugandan Schilling (UGX) – $1 = UGX2,573 in September, 2013 (Trading Economics, 2013).

In Uganda, the key export products are coffee, tea and cotton, which are mainly sold to the U.S., the United Kingdom (UK), France and Spain (African development Bank, 2013). About 44 percent of the country’s GDP comes from agriculture, in which food crop production is very important. Production and manufacturing account for nine percent of Uganda’s GDP. Furthermore, logistical services are very important for the country’s development. Important is also that Uganda joined the EAC in 2000 with the purpose of liberalizing the free movements of goods, services, capital and labor within the union in order to push its domestic economy (EAC, 2013).

Uganda’s infrastructural system can be described as rather poor. The country has approximately 27,000 kilometers of roads and 1,240 kilometers of railroads (World Bank, 2013). However, the railroad system is in a relatively poor condition because it was built during British colonial power and has been barely maintained since the country became independent (the British Empire, 2013). Furthermore, most of the country’s roads are not paved yet (the State House of Uganda, 2013). The country hosts one international airport – Entebbe Airport – which is situated 40 kilometers South of Kampala city (CIA, 2013) and connects the country with the U.S., other African nations and the EU by offering several international flights on a daily base (Civil Aviation Authority Uganda, 2013).

Uganda’s educational system is moderately advanced, since the country operates several public and private schools and universities. The education is structured in seven years of primary education, six years of secondary education and 3 to 5 years of University – to be divided in Bachelor and Master studies (Ministry of education and Sports, 2013). However,
critics argue that the educational quality is still to be considered very low in comparison to developed countries (Unesco, 2013).

4.4.2 Interview Results Uganda

In the following, the interviews’ results are reported by grouping the findings to the relevant interview questions under the headline of each single research question.

For a description of the participating enterprises, please refer to table 3.11. Please note that the two professors – one economist and one business specialist – of Makere University’s Business School receive a different question catalogue which is similar to the enterprises’ questions. Hence, the questions are not separately introduced in the methodology section but are to be found in the document’s appendix.

As visualized in table 3.1, the first research question “To what extent are foreign companies investing in Uganda” gives reference to five interview questions.

Concerning the two questions “How many local employees do you have” and “How many foreign employees are working at your company” please refer to table 3.11. Concerning the question “How big is your enterprise” the interviewees argue that most of the service enterprises either rent or purchase offices with three or four rooms. The two coffee processors hold several processing plants and mills for the coffee beans. The two logistics enterprises have several offices – such as border offices or an office at the international airport –, the café and bakery operates more than ten shops and two cafés, the metal processer owns two very huge production plants and the importer of fast moving consumer goods operates a larger area with several warehouses and office buildings where the goods are repacked and made ready for distribution. For the query “How much turnover and profit is your enterprise making per year” please refer to table 3.11. The question “How large was the initial investment” shows that Interviewee One’s enterprise invests a small amount of approximately $10,000 as initial investment because of the firm’s attempt to slowly enter the market. Mentionable is that the initial investment consist of the owners’ equity. The Interviewees Four and Six enterprises’ initial investment consists of approximately $50,000 to $60,000 each. The capital is raised with equity. Interviewee Seven raises $1 million as initial investment while interviewee 11’s corporation provides an amount of $9 million as initial investment. Both firms finance the venture with own equity by making exclusive use of external financing in foreign currency – mostly U.S. Dollar, Euro and Swiss Francs. Since the two Interviewees’ enterprises – number
Five and Nine – establish their warehouses and storage areas over time, the initial investments of $1 million to $2 million is stated as relatively low. Both firms use their mother companies’ equity. Interviewee one informs that the person’s company uses an initial investment of approximately $1 million – which is raised by both JV partners. Some interviewees mention a relatively low initial investment – below $500,000 – as unfavorable since governmental incentives – such as tax exemptions – may not be as high as desired.

As visualized in table 3.2, the research question “What are the source countries for foreign direct investment in Uganda, respectively” gives reference to four interview questions.

For the interview question “Where is your firm’s direct mother company incorporated” please refer to table 3.11. The question “Does your enterprise have subsidiaries in other (African) countries” reveals that three of the interview partners’ enterprises are single projects and are hence the only subsidiary. Interviewees Three and Five state that their firms host between one and six subsidiaries in other developing and LDCs of Africa – these include countries such as Kenya, Rwanda, Burundi, Malawi, Mozambique or Zambia. Another interviewee – Interviewee number Nine – states that the mother company hosts 18 foreign branches globally – in countries such as Rwanda, Kenya, Ghana, India, China, South America, Malawi, Ethiopia and the EU. The Interviewees Five and 11 inform that their mother companies have 65 and 75 subsidiaries – these firms are in nations of the Central, Eastern and Western part of Africa, in Asian developing countries and LDCs, in Central and South America as well as offices in the EU and the U.S. On top of that, the Interviewees number Nine and Ten inform that their two corporations’ mother companies are global players which operate many locations worldwide.

The question “Is your company’s mother enterprise being hold by another mother firm – where is this firm located” reveals that only the two interviewees number five and ten have mother companies that are hold by a large corporation. One interviewee states that the firm’s direct mother is incorporated in the Netherlands and the UK but the holding enterprise has its corporate headquarters in Mauritius. Interviewee Five states that the direct mother is incorporated in Belgium but the holding firm is situated in Dubai. Both interviewees inform that this is done due to favorable tax rates in the two countries. The question “Are your customers national or international” reveals that interviewee number one’s enterprise serves international customers only – who are made up of wholesalers and individuals. The third
interviewee states that 60 percent of the revenue is made by selling to international individual and business clients situated in the country of Uganda. Interviewees Nine and Ten state that their enterprises’ clients are mostly international customers from Europe, North America and Asia. The two investors operating in the agricultural industry – Interviewees number Four and Six – almost exclusively serve international customers – mostly firms headquartered in the EU. Interviewee number Nine’s enterprise mostly sells to national customers either through wholesalers or via its own shops. Chinese and Indian companies operating on the Ugandan market are named as important business customers for MNEs in Uganda.

As shown in table 3.3, the research question “Which mode of foreign direct investment is preferred by foreign investors in Uganda” gives reference to one interview question.

The question “How did you establish your firm” discloses that MNEs entering Uganda before president Museveni implemented the law that foreign enterprises are allowed to own their businesses entirely – in order to promote FDI – were not allowed by law to own 100 percent of their firms’ shares. Hence, enterprises often entered the market by forming a JV with a local partner. This is the case for Interviewee number Eight’s employer operating in the fast moving consumer goods sector. The two Interviewees number five and Nine as well as number Four state that their firms have been established prior to the law and were hence formed via a JV. However, all companies took over the remaining shares from their local partners when the law was canceled. The interviewee representing the firm that imports and distributes solar products – Interviewee number Two – discloses that the enterprise was first established together with a local minority shareholder – who owned ten percent of the shares in order to profit from the person’s market experience and networks to key people and the government. One of the two logistical enterprises has a local partner – of foreign origin – as minority shareholder, who holds 30 percent of the shares – due to the person’s market knowledge, experience and extensive network. The sole agricultural entrepreneur founded the business in Uganda with the help of a Ugandan lawyer who – officially – holds one percent of the firm’s shares – this is done due to the former regulation that foreign citizens are not solely allowed to found a commercial business in the Republic of Uganda. Interviewee Three’s company is operating in a JV with a local partner. Noticeable is that this JV is not a minority agreement between the foreign entity and the local party. In this case, both parties hold 50 percent of the business. According to the interview partner, this is done due to the local partner’s extensive market knowledge. The JV partner’s contacts – such as to government
officials, key people, custom officials or suppliers – are also considered as one of the reasons why the foreign entity engages in this company structure. The fact that the foreign entity has the possibility to mainly control the active business operations – by managing and running the business – is considered as one of the most important issues why the JV is carried out.

Interviewee number Nine informs that the firm first merged with a foreign (German) enterprise – which has been operating on the Ugandan market for almost two decades prior to the merger – by purchasing 20 percent of its shares. A few years later, the German firm has been acquired by the corporation’s mother company. Interviewee Eight informs that the MNE entirely founded the corporation by conducting a green-field project in order to run a wholly owned subsidiary. Due to the power and size of the project – financially and in terms of the employment of a large number of human resources – the founding family has been allowed to establish the enterprise as a wholly owned subsidiary – even though laws officially prohibited that at the time of establishment.

As visualized in table 3.4, the research question “Which industrial sectors are predominantly chosen by foreign companies investing in the country of Uganda” gives reference to four interview questions.

For the question “What sector is your company operating in” please refer to table 3.10 The questions “What kind of service do you offer/what do you produce” and “What are you exactly doing “ reveal that the interviewees’ enterprises are mainly operating in the sectors of coffee processing and the export of coffee beans to customers globally (Interviewee Seven and 11), fast moving consumer goods (Interviewee Ten) – the importation and distribution of every day products –, logistics and related services – such as warehousing or supply chain management – (Interviewees Five and Nine), metal and steel processing – such as the production of corrugated metal and steel girders – (Interviewee Eight), agriculture and horticulture (Interviewees Four and Six) – the importation and selling of vegetable and seeds from the Netherlands as well as agricultural consulting –, the food industry (Interviewee Three) – bakery and café business –, the solar sector (Interviewee Two) – the importation and selling of solar lamps and solutions for phone charging – and in the tourism industry (Interviewee One) – by providing gorilla watching and guided tours into Uganda’s national parks, to Rwanda, the DRC, Tanzania and Burundi. Please note that two of the interviewed persons’ employers (Interviewees Nine and Two) are sister companies of MNEs which are also interviewed in the Republic of Rwanda. Interviewee Three’s customers on the domestic market are mostly coming from the hotel, restaurant and food industry. Interviewee One
informs that the firm is predominantly selling to wholesalers and to some individual clients through the company’s own websites which are offered in different languages. Interviewee Four and Six’s enterprises sell to firms coming from the same – or related – industries and Interviewee Ten notes that the consumer goods are mainly sold to end consumers via distributors and retailers. Interviewee Eight’s clients are either individuals or construction enterprises. The Interviewees Seven and 11 are selling to international commodity traders. The Interviewees Five and nine have customers from sectors such as infrastructure, construction, electricity providers, the oil and gas sector, the communication industry and firms that export minerals, other raw materials, tea, coffee, cotton, fish or timber.

As visualized in table 3.5, the research question “Is the infrastructural system – such as roads, internet or energy – in the countries of Rwanda and Uganda sufficient enough to carry out commercial business activities” gives reference to two interview questions.

The answers to the question “Is the national infrastructure system sufficient for your firm” bring up that the participating firms mostly need access to internet, telecommunication, clean water, roads, railroads and (international) airports. All interviewees inform that companies often face difficulties due to expensive internet and electricity prices – especially compared to the industrialized world. An example mentioned by interviewee one is that a business internet connection of one MB costs approximately $600 for corporations per month. The person states that the internet speed is not as fast as desired. Nevertheless – as further mentioned – it is possible to obtain a high speed connection. However, this connection costs much more than a regular connection. Please note that the official average internet price for a normal internet connection is US$ 300 for 256 Kbps (Uganda Telecom, 2013). However, an official rate for a business connection of one MB is not stated. Interviewee Eight informs that power is very instable and its supply is seen as unreliable due to power cuts that occur on a regular basis. Hence, costly power equalizers and Diesel generators are needed in order to prevent expensive production machines from being damaged. The three Interviewees number Three, Four and Six argue that water is often contaminated with chlorine which makes food production difficult. The lack of adequately paved roads and a sufficiently developed highway that leads to the borders of Kenya and Tanzania is seen as problematic by all interviewees – but especially by number Five and Nine. Interviewees Seven and 11 complain about very poor conditions of the roads that lead to farmers and plantations. The lack of land – especially in the city of Kampala – increases prices for office space and green-field projects – as argued by the majority of the interviewees. Interviewees number Five and Nine argue that the
railroad which connects the country with the seaports of Mombasa and Dar es Salaam is in a poor condition because it is very old – built by the British during the colonial time – and is barely maintained. Additionally, oil is transported via truck because a pipeline does not exist – as informed by the Interviewees number Four, Five, Six, 12 and 13.

The question “How would you rate the education system in Uganda – is this sufficient for your purposes” brings to the surface that even if Ugandans have been educated at the best local schools and universities – such as Makere or Kampala University – local human resources do not have the right working mentality in order to produce and deliver high quality products and services from the beginning – this is argued by all 11 corporate interviewees. Therefore, all interviewees state that managers, employees and workers need to be trained by either giving them long-lasting in-house trainings or by sending them to the mother company, or to other subsidiaries. Following this, all 13 interviewees tell that the Ugandan education system does not sufficiently educate future managers, executives, employees and workers yet since it is very poor. The quality of most university lectures and school classes is questionable because teachers and professors are – very often – not very knowledgeable themselves, as informed by the majority of the interviewees. However, Interviewee 12 discloses that some foreign schools – not universities – can be found on the local education market – but they hardly educate Ugandans due to their very high tuition fees.

As visualized in table 3.6, the research question “Are there enough resources – such as sufficiently educated human resources, service enterprises, technology, machinery and equipment – to be found on the local markets” gives reference to six interview questions.

The three queries “Are there enough resources to be found on the local market”, “Do you import the resources you need to run your company, or do you buy them locally” and “Are there enough service enterprises you could use” reveal – according to all thirteen interviewees – that everything needs to be imported but basic supplies for businesses can be found at local importers and distributors. Interviewees number One, Three, Four, Five, Six, Seven, Nine, Ten, 11, 12 and 13 argue that cars, trucks and construction vehicles are very expensive due to the high import duties; the interviewees further inform that these items are usually 20 to 30 percent more expensive than in the EU. Special machinery, equipment and raw materials are not to be found locally – including spare parts for machines – which is a problem for Interviewee number Eight’s enterprise because the importation and clearing process of such items can be long-lasting. Problematic is – according to the majority of the
interviewees – that imported (falsified) low quality products from Asia are flooding the market. In consequence, special ingredients, machinery, and technical equipments need to be self-imported from either other African countries – such as Kenya, Namibia or South Africa – or from overseas. Disadvantageously mentioned is by all 11 corporate interviewees that import taxes for foreign – Western produced – products are relatively high. Furthermore, Interviewee number Eight states that custom clearance processes at the border can be time-consuming – this is challenging, especially when spare-parts are instantly needed. Concerning the question whether service enterprises are locally available, all interviewees explain that enough local auditors and tax consultants are established in Uganda. However, they often deliver low quality services at very expensive rates. Foreign consulting enterprises – such as IT advisers or management consultants – are locally available at rates which are comparable to those in the EU – as mentioned by the Interviewees number Three, Four, Six, Seven, Nine, Ten and Eleven. Logistics service enterprises are usually of foreign origin but locally available – such as the two Interviewees’ employers Five and Nine. Interviewee Three informs that specialized service firms – such as certifying enterprises for internationally recognized certificates – and technicians for foreign produced production machinery, technical equipment and special software are not to be found locally. Hence, outside contracting is required and technicians need to be flown in from South Africa, the U.S., the EU or Japan. For the question “How would you rate the education system in Uganda – is this sufficient for your purposes” please refer to the paragraph above.

The inquiry “Do you have access to sufficiently educated labor or is it a problem to find educated personnel at adequate salaries” brings to the surface that it is very problematic for the participating companies to find adequately skilled and educated human resources. In this regards, the interviewees explain that knowledgeable and experienced Ugandan managers and executives are – most of the time – foreign educated and are therefore very expensive. All interviewees inform that these people can barely be maintained for a long period of time since the demand for good managers and leaders is greater than the supply. All interviewees inform that headhunters are often used to entice good personnel away. The Interviewees number Seven, Eight and Nine inform that since NGOs – such as the World Bank – increase the price of skilled labor by paying very good salaries, qualified employees either have very high expectations or can easily apply for a job that pays a higher salary. The question “How do you supply your goods or services” reveals that all consulting services are delivered face to face – as the two Interviewees number Four and Six inform. Interviewee number Eight’s employer
informs that the firm either sells its goods in own shops or uses its own trucks in order to deliver the goods to the end customer – sometimes directly to construction sides. The Interviewees Five and Nine sell their services via (own) agents. Number Ten’s firm uses external wholesalers, agents and distributors in order to deliver the corporation’s products throughout Uganda. The firm of Interviewee Three uses either own vehicles to distribute and deliver the products to hotels, restaurants and cafes for the domestic market or external logistic enterprises to dispatch raw materials and semi-produced goods to its Rwandan branch. Interviewees number Seven and Eleven make use of external logistical service providers in order to dispatch full container loads to the seaports of Dar es Salaam or Mombasa.

As visualized in table 3.7, the research question “Which country offers the most inevitable investment terms for foreign entities” gives reference to five interview questions.

The two questions “How important is political stability for your company” and “How would you describe the political situation” show that nine of eleven interviewees acknowledge the political stability’s high importance because eight corporate interviewees mention that without stability, it is very difficult to run business activities smoothly. However, Interviewee Six argues that it is relatively easy for a rather small service enterprise to withdraw from the Ugandan market in the case of serious political turmoil or war. Another interviewee – Interviewee Ten – argues that large corporations can easily arrange with regimes in times of political turmoil or war but at a much higher cost due to the potential need of special security forces, extra payments and bribes to government officials, rebel groups or war lords. All interviewees describe Uganda’s current political situation as relatively stable. Worrisome is – according to all thirteen interviewees – the conflict in the DRC, which sometimes spills over to Ugandan territory and the non-adherence of human rights as well as president Museveni’s succession in 2016. Due to Museveni suggesting his son as successor, demonstrations and riots are very likely. Interviewee number Seven informs that it is alarming that the Ugandan government slowly employs more than 100,000 soldiers and police officers in order to prevent a potential conflict associated with the president’s succession.

All interviewees answer to the two questions “Did you receive any government incentives or other enticements when entering Uganda” and “Did or does the local government help you to establish your firm” that official tax incentives are only granted to enterprises investing more than $500,000 as initial investment. Due to the firms that were
established before president Museveni started to target FDI by offering incentives in the late 1990s, only five enterprises receive corporate tax holidays of five years each. Two of these firms – the employers of the Interviewees Six and Seven – are able to renegotiate this agreement in order to receive an extension for another five years. At this point, it needs to be mentioned that the Ugandan Revenue Authority states (2013) that a ten year tax holiday is possible for foreign companies establishing subsidiaries in Uganda. Additionally, four companies inform that they are given free land (of several acres) to establish plants, production halls, warehouses and office buildings – this includes the enterprises of the Interviewees Three, Four, Six and 11. All interviewees mention that Uganda’s investment authority helps MNEs to obtain visas and working permits for foreign employees and engage in network sharing. Interviewees Nine and 11 explain that the diplomatic community in Uganda can be very useful in terms of the introduction to key people and high government officials. The interview question “How many taxes do you pay” reveals that all enterprises – except those being tax exempted for the first years on the market – pay a corporate tax rate of 30 percent, a tax on employees’ salaries of 18 percent, a social security contribution of ten percent, a VAT of 18 percent, a withholding tax on invoices to other nations of six percent and a one percent export tax. Additionally, all ten corporate interviewees argue that the claiming back procedure of the VAT can be long-lasting and takes – sometimes – up to several months.

As shown in table 3.8, the research question “Which international trade agreements are existent and to what extent are they functioning sufficiently in terms of the exportation of products and services to other African nations and to countries overseas” gives reference to two interview questions.

To the interview question “Do you profit from any international trade agreements” the interviewees answer that enterprises exporting domestically produced products and services to other MS of the EAC profit from the EAC’s regulations to facilitate trade – such as the Interviewees Two, Five, Nine and Ten. An example provided by Interviewee Five is that custom clearance processes at EAC borders are minimized. Consequently, containers can be trucked from the seaports of Mombasa and Dar es Salaam within two to three days, instead of formerly eight to ten days. However, the majority of the interviewees informs that the EAC is relatively young. Therefore, its procedures are not fully working yet. In this regards, it is stated by the Interviewees Five and 12 that goods being trucked to another MS need sometimes to be declared – and duties apply – and sometimes everything works according to
EAC rules – and no duties apply. Interviewees Four, Five, Six, Nine, Ten and 11 inform that the EBA agreement ensures that exports to the EU are tax exempted; likewise does the AGOA agreement ensure that no duties have to be paid for U.S. exports. However, relatively strict import restrictions for food products to the EU and U.S. are challenging – according to Interviewee Six. Interviewee Nine argues that the COMESA agreement intends – theoretically – to facilitate trade between Africa’s COMESA MS, but – practically – it does not fully work for the interviewee’s firm which is engaged in trade between COMESA countries. However, the COMESA agreement works relatively well with Southern-African MS – such as Zambia or Zimbabwe. The Interviewees Seven and 11 mention that coffee is import tax exempted in most of the countries globally. The two agricultural firms’ employees assure that the import of agricultural products to the EU is tax exempted because of special agreements. However, Interviewee Seven explains that a one percent export tax for commodities needs to be paid to the country of Uganda. Interviewee Two explains that the importation of foreign produced solar products to Uganda, such as lamps – but not the sole panels – is favorably treated. Besides that, the two interviewees working for logistic enterprises – Interviewee Five and Nine – inform that their enterprises profit from all trade agreements their customers are profiting from because these agreements cause an increase in the transportation of cargo to foreign nations.

The interview question “Do you need to pay taxes twice when you transfer your profits to the mother enterprise or is there a double tax treaty with Uganda and your country” brings to the surface that some firms unofficially transfer their revenues by paying invoices to their mother or sister enterprises in order to avoid double taxation. The Interviewees number Five and Ten inform that no taxes apply for enterprises incorporated in the United Arab Emirates (UAE). Since these two corporations have sister firms in the UAE, the enterprises transfer their revenues to their sister firm in the UAE without paying any additional taxes. It is informed by the remaining interviewees that their companies are not committed to paying taxes twice when transferring their profits to their mother enterprises due to the availability of DBAs with Uganda and the Netherlands, the UK, Germany, Belgium and Switzerland.

As shown in table 3.9, the last research question “What are the main drivers and the most important restraining factors for foreign investors to invest in Uganda” makes reference to seven interview questions.
The interview question “Would you – generally – recommend other foreign investors to invest in the country” brings to the surface that it is – on the one hand – not recommended to invest in Uganda by establishing a subsidiary because of the country’s high level of corruption in combination with a high level of bureaucracy – as mentioned by the entire interviewees. This seems to be – according to the Interviewees Five, Eight, Nine, Ten and 11 – only a problem for SMEs because companies which invest very high sums into the country are usually – unofficially – protected against corruption by higher politicians who often help large MNEs speeding up government processes. Another factor mentioned by all interviewees is that relatively high taxes for private sector companies apply. As further argued, a large quantity of – often intransparent and inscrutable – rules and regulations for commercial business activities are in place. The same interviewees mention that laws – especially concerning the exportation of domestically produced products and services – can change quickly – and without any official notice. Crucially stated by the Interviewees number Three, Five and Seven is that partnering with a local enterprise is recommended due to the lack of market knowledge. However, Interviewee Three says that this involves large difficulties since some local enterprises often follow illegal business practices or are not trustworthy. Another argument against a positive recommendation for foreign enterprises to enter the Ugandan market is – according to the Interviewees Four and Six – that global players already cover the main market share in the major commercial sectors. Hence, niche markets need to be found to successfully operate on the market. An example for this statement given by the two Interviewees Seven and 11 is that the commodity market – coffee and tea – is occupied by the global players. Consequently, high market entry and exit barriers for competitors are existent. All interviewees inform that Uganda is a highly political environment in which everything is controlled by the president, his ministers and advisers. The Republic of Uganda is named by the Interviewees Five, Eight and Ten as a favorable place for FDI due to a tremendous economic development, growing markets an increasing GDP per capita, the populations’ steadily increasing purchasing power and a raising middle class. Besides that, business opportunities in the areas of natural resources – such as the exploitation of oil, gas, copper or timber – and the large availability of fertile cropland to grow agricultural products and commodities – such as coffee and tea – are brought up as reasons to recommend FDI in Uganda by the Interviewees Two, Three, Four and Six. Interviewee One states that the occasion that the Ugandan revenue authority will not notice that a foreign company is operating on the market during the first months and years – because of a slow official system – implies the possibility for firms to gain an advantage due to the suspension of fees and taxes
during this time. Businesses that have expertise and knowledge in a certain area are recommended to join the market by the Interviewees One and Three due to the lack of high quality products and services – which can be quickly turned into a competitive advantage. Interviewee Eight argues that Uganda is a good market for steel retailing and processing companies due to a large demand and relatively inexpensive labor costs. Uganda is additionally recommendable for FDI by all interviewees – but especially by number Five and Nine – because it is closely located to the two conflict countries of South Sudan and the DRC. Interviewee Seven adds that if a firm is willing to engage in corruption, Uganda is a good market because everybody can be induced in order to facilitate business processes.

The answers to the question “Why did you choose to invest in Uganda” reveal that most participating firms have chosen for the location because of geographic-strategic factors due to the country’s function as a hub to the neighboring countries – the DRC, South Sudan, Rwanda and Tanzania. The country’s high levels of security and political stability – especially compared to other African nations – are named by all interviewees as two of the main drivers for the decision of establishing a subsidiary on the Ugandan market since the likelihood that riots, demonstrations, violations or infringements are hindering commercial business activities is seen as relatively low. Additionally, all ten corporate entities inform that Uganda’s economic stability positively contributes to MNEs’ moving to the country. The country of Uganda is mentioned as an important market by the Interviewees Two and Ten because a lot of poor people in the rural areas – who do not have sufficient access to basic items such as every day products, energy or light – can be targeted. Interviewee Three informs that high quality products and services are usually highly demanded by foreign private and corporate entities situated in Uganda. A favorable investment climate, the availability of tax incentives and the granting of free land for large MNEs in order to build a subsidiary is seen as one of the main drivers for FDI by all 11 corporate interviewees. Interviewees Five and Nine argue that the need to do logistics in Uganda – because of the availability of important international existent customers – is an indispensable opportunity for international freight forwarders due to the availability of raw materials, commodities and natural resources. For the interview question “Are your customers national or international”, please refer to paragraph two of this chapter.
To the query “Is corruption a problem for you” all interviewees inform that Uganda has a relatively high level of corruption. All interviewees inform that business can hardly be done by foreign enterprises without being engaged in facilitation processes and bribing. This is especially crucial when goods are crossing the borders – as informed by the two Interviewees Five and Nine. Interviewees Six, Eight, Nine, Ten and 11 inform that larger corporations and global players can often succeed without being corrupt due to their powerful – direct – contacts to high government officials who often directly initiate that official authority processes are being pushed through.

The question “Do you face hard competition from local or other foreign firms” shows – according to all interviewees – that rather small local competitors can be a threat because such firms often do not pay any taxes and can hence offer their products or services at cheaper rates. Interviewee Two states that local competitors are predominantly targeting customers of the low-price segment by mostly selling imported products from Asia. In this regards, the majority of the interview partners informs that local enterprises can usually not compete with foreign MNEs because of their comparatively low quality of products and services. All 11 corporate entities argue that the most severe threat for MNEs operating on the Ugandan market are other MNEs and foreign enterprises which import their products and services into the country. On top of that, a few Ugandan enterprises – which are managed by foreign, mostly Western, executives – are named as serious competitive rivals by the Interviewees One, Five, Six and Nine due to their ability to satisfy customers’ wants, needs and expectations by offering high quality products and services, a good customer service and a reasonable after care in combination with the (local) owner’s market knowledge and contacts.

The answers to the question “What are the biggest – local – constraints for your company in Uganda” elucidate that all interviewees believe that the high level of corruption – to be associated with the bribing of government officials and the high corruption involved when tendering on official contracts – represents one of the most serious constraining forces for MNEs. Uganda’s large quantity of official rules and regulations – which can change quickly and often without further notice – in combination with strict taxation rules for MNEs – are considered as important constraints by all thirteen interviewees. All of the participating interviewees acknowledge that the relatively high level of corporate taxation and the issue that a large quantity of smaller – mostly domestic – competitors does not pay taxes forms a competitive disadvantage for foreign investors due to the argument that these competitors are able to offer lower prices. The large amount of Chinese enterprises entering the Ugandan
market is described as a severe threat by the Interviewees number Two, Five, Eight, Nine and Ten since Chinese competitors are serious rivals because they are able to offer comparatively low priced products and services. Local competitors selling often low-quality products at rather cheap prices are also considered as constraining by the majority of the interviewees because of their competitive advantage in terms of price. Another issue is – according to Interviewee One – that the Ugandan government does not promote tourism very well in order to attract foreign visitors. Furthermore, big oil companies are extracting oil in the country’s national parks, which decreases tourism due to the park’s inaccessibility and the flush of animals. All interviewees explain that Uganda’s relatively poorly developed roads are a disadvantageous for MNEs entering the market because of longer – more time-consuming – ways and the issue that cars and trucks are damaged, which causes higher costs. All 11 corporate entities name the scarcity of sufficiently educated human resources in combination with Uganda’s relatively poor education system as a severe threat. Additionally, the maintaining of skilled labor involves increasing costs – due to associated pay raises. Interviewees One, Three, Four and Six to Ten inform that expensive in house training is required because employees are not sufficiently educated. After the training period, employees often either increase their salary expectations or leave to competitors since they are educated, as informed by the same interviewees. People’s minimalistic working attitude to be associated with a different business culture implies that it is very hard for MNEs to find good staff members with an entrepreneurial thinking – as explained by Interviewee Six. Supra national organizations and NGOs raising the costs of workers and specialists on the labor market are also mentioned as a constraining factor because potential employees either prefer working for them or are able to justify their relatively high salary expectations – this issue is raised by the Interviewees Two, Five and Nine. The war in the DRC is argued to be a threat for foreign enterprises being engaged in the exportation of goods or services to this country due to a border that is closed very often – this is especially experienced by the Interviewees’ enterprises number Five, Eight, Nine and Ten. Hence, goods cannot arrive on time and people delivering services – such as technicians – are prohibited from entering the country. The bad cross-country relationships between Uganda and its neighboring country South Sudan is described as a threatening factor by Interviewee Four due to difficulties of Ugandan produced goods and services crossing the border. All interviewees state that president Museveni’s succession in 2016 is a severe threat for MNEs because it is believed that riots – and civil war – may break loose. Moreover, it is not known what kind of a leader – or dictator – Museveni’s successor will be. Interviewee Two explains that aid – in the form of cheaply supplied
products which are also sold by foreign enterprises on the market – can be competition and may hence decrease a firm’s turnover. The Interviewees One, Two, Three, Five, Six, Nine and Ten mention exchange rate fluctuations due to volatility with certain – major – currencies in combination with high banking fees and rather expensive hedging expenses for MNEs transferring their revenues to their foreign mother companies as a threat. Interviewee Two argues that the country’s inflation rate of approximately eight percent (October 2013) often causes a problem for firms targeting the poorer population because if inflation is relatively high, people only purchase the most essential products. Interviewee Eight informs that custom duties for foreign products – high quality machinery and equipment – are very high. The interviewee further states that custom officials are corrupt, which makes it almost impossible to let goods crossing the border without paying any extra secret commission. Interviewee Three argues that a local JV partner is usually used to be extremely corrupt – which often does not match foreign firm’s corporate social responsibility (CSR) policy. It is further mentioned that national partner companies are generally not as trustworthy as Western entities due to different cultural norms and values. An example mentioned by this person is that the JV partner is – sometimes – lacking behind with the financial contribution. All 11 corporate interviewees name a different working culture – such as the issues of punctuality or trustworthiness – to be challenging for MNEs since these issues may hinder business activities from going as frictionless as desired. Interviewee Three informs that internet banking in the country of Uganda is not sufficiently available. This is considered as one of the challenges for the person’s MNE since business people have to leave the office when money is to be transferred, or invoices are to be paid. Interviewees One, Three, Four, Six, Seven, Nine, Ten and 11 mention counterfeited university diplomas and school certificates as challenging because the possibility to buy counterfeited certificates makes it possible for employees to apply for jobs they are not qualified for. This occurs – according to the interviewees mentioned above – very often. High interest rates for local loans, high – corporate – taxes and a long-lasting VAT back-claiming procedure are mentioned as severe problems by the majority of the interviewees – which often causes difficulties due to being financially less liquid and hence less flexible. Government authorities’ high level of process bureaucracy is described as challenging by all participating employees since the issuing of permits – and other official documents – takes a long period of time, even when corruption is involved. Foreign global players and conglomerates controlling the market are believed to be a constraining factor for foreign SMEs due to their power – as described by the Interviewees Two, Five, Seven, Eight, Nine and 11. All interviewees inform that Uganda’s strict revenue
authority forces MNEs to use local auditors and tax accountants. Furthermore, these people often do not know the latest taxation-law changes themselves due to laws, rules and regulations’ characteristics of changing relatively quickly – as informed by the interviewees. All interviewees mention prices for products and services being much more expensive in Uganda than in some other African countries and industrialized nations as a threatening factor since expenses are higher but revenues are not necessarily higher due to high fees, taxes and a relatively high level of corruption – which often causes additional costs. The two Interviewees Seven and 11 mention that the relatively unclear legal situation concerning the rules of ownership for land and the certificates regarding it are considered to be a problem because the government sometimes gives free land to foreign investors (in order to attract them) which is officially owned by somebody else. In case such a conflict arises – it is explained – that investors have to proof that they have legally obtained the land, which can involve a long-lasting and costly litigation process. All interviewees agree that the Ugandan Development Board’s after care services for foreign investors are not as good as they could be – especially in terms of problem solving of rather simple issues. However, it is assured – by the Interviewees Two, Seven and 11 who also operate branches in Rwanda – that the issue of support services for market entrants is much better organized than in the Republic of Rwanda.

The answers to the question “What are the biggest (local) opportunities for your company” elucidate that the country offers tremendous market opportunities for MNEs – especially for those being involved in construction and technical consulting – due to large development activities, such as infrastructural development. The availability of natural resources – such as oil, metals or gas – is described as a large opportunity for foreign investors of the oil and logistics industry – as suggested by the two Interviewees Five and Nine. Interviewees Four, Six and Ten argue that the availability of fertile land in order to grow commodities – such as tea or coffee – and agricultural products – for instance food and vegetables – encompasses an opportunity for MNEs since these products are highly demanded globally. All interviewees inform that the availability of rather cheap labor – approximately $80 for a worker’s monthly salary – enables enterprises to operate relatively cost effective since this is rather inexpensive compared to the average salaries of workers in developing and industrialized countries. Interviewee One mentions that the Ugandan authorities’ high level of bureaucracy slows down processes at the beginning of a firm’s registration on the market. As further described, the collection of taxes – and an entirely completed registration process – can last for a relatively long time – sometimes up to one to two years. This, in turn, provides
flexibility to foreign investors since more operation money is available during the first months of establishment because no taxes can be paid during this period of time. Interviewees One and Seven argue that the possibility to avoid paying taxes by engaging in corrupt processes is an opportunity to decrease costs because the payments of secret commission ensures that only a fraction amount of money needs to be paid – instead of paying a company’s full taxation. Interviewees Five and Nine state that NGOs and supra national organizations are good customers. Since foreign governments – such as the EU or the U.S. – promote the establishment of foreign NGOs in the country, these organizations are described as good clients because foreign entities are seeking highly qualitative products and services. Interviewee Two informs that the country’s lacking energy system – especially in the rural areas – provides possibilities for companies which market instruments that can be used to produce energy in the rural areas – such as solar panels or Diesel generators. Uganda’s economic development – in general – and a growing population are described as opportunities by all interviewees because of an increasing middle class and people’s growing purchasing power. The country’s relatively stable political situation – mainly due to Museveni’s strict ruling – is mentioned as advantageous for foreign investors because firms – and their employees – are safe and secure. All interviewees further mention that business activities can usually be carried out as desired without any major politically caused problems. The relatively nonvolatile exchange rate of the UGX to the EUR and vice versa is commented to be a tremendous advantage for foreign companies transferring large amounts of money from the EU to the Republic of Uganda and vice versa – this is acknowledged by the Interviewees One, Three, Five, Six and Ten. Interviewees Five, Eight, Ten and 11 state relatively low competition in the fields of providing highly specialized – often technical – products and services as opportunity rich for MNEs because niche products – such as special manufacturing machines and equipment – are usually not domestically available. All interviewees name that the government aggressively promotes FDI in Uganda results in MNEs being given large incentives and tax incentives. As observed, firms are getting granted up to ten years of corporate tax exemptions. According to the Interviewees Seven and 11, the Ugandan government grants free land for foreign enterprises investing large amounts of money in order to encourage them establishing a subsidiary. This situation is described as extremely opportunity rich since a firm faces fewer expenses when entering the market. Uganda’s geographic situation is – according to all interviewees that are engaged in the exportation of domestically produced products and services to other African nations – a great possibility for firms because goods can be easily exported into the neighboring countries –
such as the DRC or to the country of South Sudan. Interviewees Four and Six argue that Uganda is a good country from an agricultural point of view because farmers and agricultural enterprises have the possibility to harvest three times a year due to East-Africa’s favorable climate. Most interviewees state that Uganda’s status of not being a democracy is perceived as favorably because it facilitates doing business in the country due to being able to negotiate special terms in combination with extra payments to government officials in order to gain a competitive advantage by being favorably treated. Another positive factor for MNEs operating in Uganda is described by stating the country’s relative closeness to the seaports of Mombasa and Dar es Salaam – this is specifically underlined by the Interviewees Five and Nine. In consequence, this situation enables container loads of domestically produced products to be on a container vessel within two to four days, as further argued by the Interviewees Five and Nine. The country’s international trade agreements with other – non-African – nations are described as huge opportunities by the Interviewees Five and Nine since agreements – such as the EBA or the AGOA agreements – are enabling firms to export domestically produced products and services to certain countries without paying any import tariffs. The same interviewees argue that the EAC facilitates trade between its MS – from which Uganda is one of them. Therefore, goods can be imported and exported from one MS to another without any quotas. Moreover, the waiting time of trucks at MS borders has been extremely reduced. However, the EAC is not fully functioning as a trade union and an internal market yet, as mentioned by the majority if the interviewees. According to the Interviewees One, Five, Ten and 11, the Republic of Uganda has DBAs in place with various countries globally. This is – according to the same interviewees – fortunate for their activities since no double taxation applies when transferring the profits to the mother enterprise. An important factor which turned out to be an excellent opportunity for the Interviewees’ employers number Seven, Eight, Ten and 11 is that the processing or adding value procedure of certain products – such as fast moving consumer goods, coffee or oil – is advantageous due to the availability of rather inexpensive workers, cheap (or even free) land, government enticements and the possibility to facilitate business related issues due to lobbying activities and extra payments. The fact that business to business activities are usually invoiced in U.S. Dollar – especially when MNEs are doing business with each other – is mentioned as opportunistic by the Interviewees Two, five, Seven, Eight, Nine, Ten and 11 because the Dollar does not fluctuate as heavy as the UGX. In turn, MNEs transferring their revenues to their home countries usually face a lower financial risk because of an exchange rate being less volatile.
Interviewees Three and Six describe that the exchange rate of the U.S. Dollar to the Euro is less volatile than the exchange rate of the Ugandan Schilling to the Euro.

In chapter four, the interviews’ results are reported and summarized. Additionally, the two countries are introduced by stating facts such as geographic and demographic information. Furthermore, a short explanation of FDI in Eastern Africa is given. The next chapter – chapter five – provides the discussion of the interview results. This is done by analyzing the data according to the literature provided in chapter two of this document.
5) Discussion

In chapter five, the previously summarized results are analyzed and discussed using the theoretical foundations of this study. Specifically, the literature review’s structure is partly used as a guideline in order to analyze and discuss the interviews’ results by section and country.

5.1 Rwanda

Chapter 5.1 includes the analysis of chapter 4.3.2’s interview results, which are examined by using the literature provided in chapter two.

5.1.1 Multinational Enterprises

As indicated in chapter 2.1, Moosa (2002) specifies that “firms become multinational when they undertake FDI” (p. 7). Moosa (2002) argues that the term MNE refers to any enterprise which extends its business activities by establishing foreign subsidiaries. Since most of the research study’s interviewees in the Republic of Rwanda are working for companies which are headquartered in different countries globally, it can be argued that these enterprises are MNEs. However, Interviewee Nine’s employer is a company which is solely established in Rwanda and does not host any subsidiaries. Since this enterprise has been founded by foreign citizens – who moved to Rwanda with the sole purpose of establishing an enterprise – this company perfectly fits in the study’s sample but is not to be called a MNE. The enterprise can be referred to as an international organization since it sells a large quantity of its domestically produced goods to customers internationally, which matches Dunning’s (1977) definition that the term international enterprise refers to a firm which mainly produces its products domestically and exports its goods to customers internationally. Moosa (2002) explains that the definition subsidiary refers to an enterprise that is legally established in a host country and holds more than 50 percent of the company’s voting rights. This is the case for all enterprises included in the sample. Birkinshaw and Hood (2001) mention that establishing a foreign subsidiary is often done in order to be closer to the customer. As reported in chapter 4.3.2, nine of ten companies included in the sample undertake FDI in Rwanda in order to be closer to their customers.
5.1.2 Macro Level Theories

Sung and Lapan (2001) and Dewenter (1995) argue that some MNEs enter a foreign market in order to prevent losing large amounts of money due to exchange rate volatility and currency fluctuations when engaging in cross-country trade. As further argued, MNEs often establish subsidiaries in order to avoid losses resulting from currency fluctuations by directly producing and/or marketing a firm’s product in a particular country. Since Interviewee number Five mentions that a relatively instable exchange rate is seen as one of the main drivers for FDI in Rwanda because of greater control over the exchange rate by directly marketing the firm’s products from its Rwandan subsidiary, this confirms the theory stated in the literature.

According to Petri (1994) the creation of economic clusters in foreign markets implies that foreign enterprises within the cluster benefit from the interrelation of suppliers, customers and competitors because “such clusters make investment more efficient, strengthen domestic markets, and increase returns via spillovers” (p.4). This does not fully match the interviews’ results because no special economic clusters exist in the country of Rwanda. However, all interviewees state that their enterprises profit from the interrelation of other foreign investors who are operating on the Rwandan market. According to the interviewees, foreign MNEs in Rwanda interact with each other by the means of being customers and/or suppliers – even though they are widespread throughout the country.

MNEs from countries where innovation occurs relatively frequently (Rogers, 2004, Frost, 2001), often invest in countries or areas where innovation is not as developed as in the company’s home country in order to offer technologically advanced products or services because domestic competitors are often too low-tech to be serious rivals. This statement matches the interviews’ results because the interviewees state that local competitors cannot compete due to not offering and/or using the latest technology, when marketing their products and services. Expertise and knowledge resulting from innovation in the MNEs’ home countries are used in order to produce products and to perform services that cannot be offered and performed by domestic enterprises due to their technological lack of knowledge and expertise. This, in turn, is seen by all interviewees as advantageous to compete on the Rwandan market.

FDI literature suggests (Rojid, 2006) that companies headquartered in countries which have strong relationships with a potential country of investment – such as similar cultural
characteristics, strong economic ties, a similar history or geographic closeness – are more likely to invest in that particular country. From the interviews, we have seen that enterprises of countries which have rather good political and economic relationships to the country of Rwanda are largely established in the country. Furthermore, the Intervieweewes One, Six and Nine mention that their enterprises could easily enter the Rwandan market due to their countries being accepted by the Rwandan government. Moreover, Interviewee Five answers that a common language and the large common knowledge about the country of Rwanda – due to Rwanda being a former colony of the MNE’s country – have positively contributed to the firm’s market entry.

According to Busse and Hefeker (2007), political stability, socio-economic conditions, internal and external conflict, corruption, law and order, democratic accountability, and the issues of bureaucracy and corruption are, among other things, responsible for the attraction of foreign entities. Since literature suggests that foreign investors are usually attracted by a relatively stable political environment (Agarwal & Ramaswami, 1990) in which corruption tends to be comparatively low, it can be stated that all interviewees affirm that Rwanda is a safe and politically stable country – especially compared to other nations of Sub-Saharan Africa – in which corruption is hardly existent. According to the majority of the interviewees, Rwanda’s political stability in combination with a non-corrupt environment and the country’s attempt to engage in good governance are important drivers for MNEs’ decision to undertake FDI in the country.

A positive macro-environmental climate – including a relatively stable political environment, tax incentives, infrastructural development, or market monopolies or oligopolies – is seen as (UNCTAD 2008, 2012, Yarbrough & Yarbrough, 2002, Naude & Krugell, 2007 Agarwal, 1986) an important factor for foreign investors to consider a particular investment destination. Political stability is mentioned by all interviewees as an important driver for the decision to enter the Rwandan market. Due to the Intervieweewes One and Two mentioning that the granting of tax holidays for five and 25 years fosters MNEs’ decision to enter the market due to the possibility of achieving higher returns of investment, it can be argued that previous publications match the interviewees’ propositions. Besides that, Interviewee One explains that the person’s enterprise does not pay any import tax on materials, machinery, trucks, cars or any other equipment due to the government being the customer – this is written in the firm’s contract and has been negotiated prior to the contractual agreement. Except Interviewee One, all interviewees mention that their enterprises operate in a niche market with oligopoly
characteristics. Since it is informed by the interviewees that an oligopolistic market environment contributes to the enterprises’ positive decision to enter the market because it is associated with market opportunities, it can be concluded that the literature is conform to the research’s findings.

Due to macro-economic threats such as volatile economies, fluctuating currencies, intervening governments, corruption, war or other political and economic risk factors, FDI may include challenges and constraints for companies operating on international markets (Dugan, Rubins, Wallace & Sabahi, 2008, Schaffer, Agusti, Dhooge & Earle, 2009, Robert, 1997, Nayler, 2006). All interviewees argue that exchange rate fluctuation may include financial risk. However, the interviewees who regularly transfer money to foreign countries inform that financial challenges associated with a heavily fluctuating RWF to the U.S. Dollar and the Euro are not seen as a major concern since the RWF’s fluctuations to the U.S. Dollar and the Euro are relatively predictable. It is additionally informed that the RWF can be easily hedged at a relatively cheap rate compared to other currencies of Sub-Saharan Africa.

Government intervention in a firm’s business activities is neither mentioned as a threatening factor. Nevertheless, all ten corporate interviewees explain that Rwanda’s economy is a highly political environment. In this regards, Interviewee Five informs that the Rwandan government – unofficially – controls foreign investors’ business activities by performing checks on a regular base. The issue of corruption in the country of Rwanda is not stated as concerning due to Rwanda’s non-corruption policy which ensures that corruption tents to be very low in the country’s economic environment. The country of Rwanda is mentioned as relatively stable. Nonetheless, the two Interviewees Six and Eight critically explain that the country’s political environment was believed to be relatively stable prior to 1994’s civil war and genocide. Interviewees Four, Five, Eight and Nine explain that – according to the interviewees’ personal opinion – Rwanda’s fairly stable political situation can change quickly – especially after Kagame’s succession in 2016 because Kagame is believed to deliver security and stability. Furthermore, the interviewees describe the war in the DRC as a potential constraining factor for their business activities in the Republic of Rwanda because fights – sometimes – spill over the border, which is not very far away from the country’s capital city Kigali. Another factor summarized in chapter 4.2 is that rebels groups fight against each other – and against the government – within the country. This is – according to all interviewees – seen as one of the major constraining factors for their operations and matches hence the theoretical foundations of chapter two since war in the neighboring

5.1.3 Micro Level Theories

According to Hymer (1960, 1969) and Kindelberger (1969) investors often face some disadvantages compared to domestic firms when operating on a foreign market – such as the lack of market knowledge or a poor network of important contacts to government officials, customers, suppliers or competitors. According to the interview results, missing market knowledge is seen as challenging. However, as mentioned by Interviewee Five, it is rather easy to get into contact with important key people of business and politics. Contacts to suppliers, potential customers and competitors can also be obtained relatively easy. As mentioned by all interviewees, the international community – including diplomats, suppliers, customers and competitors – works together and helps each other. Therefore, firms entering the Rwandan market can profit from existing contacts and are introduced quickly.

Narula & Dunning (2000) argue that foreign firms can develop a competitive advantage by utilizing regional benefits in combination with the exploitation of company-internal assets – such as access to relatively inexpensive raw materials and to superior technology, the availability of affordable and skilled human resources, the possibility of producing economies of scale, reduced transaction costs or the availability of intangible assets, such as a superior management, brand names or patents. The interviews’ results reveal that regional benefits are available. Specifically, the availability of rather inexpensive human resources – with an average monthly salary of $80 for workers – positively contributes to the firms’ benefits, as mentioned by the interviewees. Besides that, the Interviewees One, Six and Eight mention that their long establishment in Rwanda in combination with the availability of experienced workers and a board of directors that takes the subsidiaries’ issues for important, are seen as significant factors to operate successfully on the market. Nevertheless, the interviews’ results bring to the surface that expensive raw materials and equipment – due to rather high import duties for foreign products – imply a higher financial risk for investors, due to a lower profit margin. Furthermore, the actuality that a large quantity of resources, tools, materials and equipment needs to be imported – due to the local non-availability of such supplies – is mentioned as a potential constraining factor for the interviewees’ enterprises.
because such products are more expensive – due to import duties – and are not instantly available.

To gain a competitive advantage, foreign enterprises – especially small or medium-sized – are often searching for niche markets in foreign countries (Milberg, 1996). Buckley (1997) argues that according to this theory, the best country of investment is selected based on the availability of market opportunities in combination with the abundance of high competition. The research shows that competition from specialized enterprises and global players which already have a large market share is seen as critical. However, the Interviewees Two, Three, Six and Nine state that they have been selecting the country of Rwanda to undertake FDI because of the abundance of high competition. These firms enter the market because a niche can be found. Moreover, all interviewees argue that the Rwandan market is not perfectly competitive yet due to the country’s conflictual past which implies that foreign enterprises only recently started to enter the country’s market on a large scale. Therefore, Rwanda’s imperfect market is been mentioned as an important driver for FDI – which matches previous research’s argument that FDI can only exist if an economy is imperfectly competitive (Ozawa, 1992, Caves, 1974, Kokko, 1996, Dunning, 1977, 1980, 1988).

5.1.4 FDI Development Theories

According to Ozawa (1979) and Kojima (1975) a LDC is targeted by foreign investors since country-specific advantages – such as low labor costs, inexpensive equipment, material, energy and office space and land – are exploited by foreign enterprises of different industries. In this regards, the interviewees state that country specific advantages – except the availability of inexpensive human resources – are hardly available. As mentioned in the results section, Rwanda does not host a lot of natural resources. Furthermore, equipment and materials are rather expensive – compared to the developed world – and the costs of internet and energy are described as rather high. Another argument brought in by Interviewee number Five is that office space in the city of Kigali is rather expensive – due to the scarcity of land; this is seen as a challenging factor by the person since high rental costs decrease the firm’s profits. However, as mentioned by the Interviewees number One, Two and Six, the country of Rwanda offers large business opportunities for firms operating in the construction and infrastructural development sector because of the country’s attempt to get connected to sufficient infrastructure – such as internet, energy, roads or railroads. Interviewee Five states, that the person’s MNE profits from potential competitors’ lack of knowledge because
domestic firms are not able to market their products sufficiently enough, which require a high degree of technical understanding. These statements are conform with the literature since it is assumed (Ozawa 1985, Kojima and Ozawa 1984, Dunning, 1981) that undeveloped countries offer a large market potential for foreign enterprises because business related development activities – such as the construction of infrastructure or the marketing of essential equipment and machinery – cannot be carried out by domestic enterprises due to the lack of technical skills, machinery, equipment and knowledge.

5.1.5 Eclectic Paradigm Theory

Foreign investors often choose a specific entry mode for a foreign target market by considering three major types of determinant factors: ownership advantage, location advantage and internationalization advantage (Dunning, 1977, 1980, 1988). Milberg (1996) states that ownership advantages are referred to as the availability of patents, trade-marks, brands, the accessibility of markets, adequately skilled human resources or modern technology – among other things. This statement is conform with the interviews’ results because all interviewees inform that the availability of company internal assets – such as patented (production-) processes – as stated by Interviewee Two –, the accessibility of markets where competition tends to be relatively low, the availability of inexpensive workers and the accessibility of modern technology via the subsidiary’s mother company are important factors in order to develop opportunities. However, technical equipment cannot be sourced locally and skilled human resources are very expensive and need to be enticed from foreign countries; these issues are mentioned as disadvantageous for the participating enterprises – especially for Interviewee Two. According to Buckley and Casson (1998) enterprises can profit from localization advantages if the firm produces as close to the end customer as possible in order to decrease costs, to profit from cheap inputs and to avoid import tariffs, barriers and quotas. This matches the interviewees’ information because it is argued that nine of ten interviewees enter the Rwandan market in order to be closer to their customers. Advantageous is – according to these nine persons – that their enterprises profit from lower transportation costs due to the closeness to their customers. Furthermore, the interviewees mention that import duties can be avoided by producing domestically. Since Interviewee Nine informs that the person’s firm uses domestic raw materials which are produced relatively cheaply, it can be derived that the company profits from this situation due to its geographical closeness.
5.1.6 Mode of Entry and Types of FDI

According to Bloningen (2005), FDI is a foreign company’s investment into commercial business activities by establishing production, manufacturing or service companies in the form of subsidiaries in a different country than the headquarters’ home country. Eicher & Kang (2005) argue that this procedure is usually done by either purchasing an existing company in the target country, building a JV or by establishing a new company in order to expand operations. Since eight of the companies included in the sample establish their own subsidiaries in Rwanda, one joins the country by building a JV and another enterprise enters the market by taking over an existing company, it can be argued that the participating enterprises undertake FDI according to the arguments provided by the literature.

5.1.7 FDI Determinants Concerning a MNE’s Choice of Location

Besides the availability of important infrastructure (Ayanwale, 2007, Dunning 1977, 1980, 1988) – such as internet, energy, roads or airports – a stable political environment in which corruption tends to be relatively low (Blende-Nabende, 2002), tax incentives (Naude & Krugell, 2007) and a positive investment climate – such as the availability of good governance – the literature mentions (Agarwal, 1986) a reasonable (corporate-) tax rate as important drivers for MNEs to establish a subsidiary in a foreign country. This is – according to all interviewees – not the case for the country of Rwanda since taxes are believed to be very high. The official tax rates are made up of 30 percent corporate tax, 18 percent VAT and a 15 percent withholding tax for invoices paid to companies residing outside of Rwanda’s territory – which cannot be claimed back. Therefore, all interviewees argue that Rwanda’s relatively high taxes – especially compared to other countries of Sub-Saharan Africa – are challenging because competitors that operate in countries which have lower tax rates are often able to offer their products and services at cheaper rates.

According to Yarborough and Yarborough (2002) a MNE’s decision in which country, area or region it should invest in, strongly depends on the factors of the host country that could affect an enterprise’s profits and costs. This is conform to the interviewees’ arguments since they explain that the country of Rwanda is chosen due to the availability of a sufficiently developed target group. It is specifically mentioned that the country’s relatively poor inhabitants are good customers for products of the lower price segment – as it is the case for Interviewee number Five. The Interviewees number One, Five, Six and Seven describe that foreign governments and foreign governmental organizations, supranational
organizations and NGOs are good customers due to their strong purchasing power. In this regards – however – the Interviewees number Five and Six explain that these foreign entities are – at the same time – serious rivals due to the free – or very cheap – supply of basic aid products, such as solar panels, small computers, cell phones or food – which are also sold by MNEs. Another argument for Yarborough & Yarboroughs’ statement is that Rwanda hosts human resources at rather inexpensive salaries – as mentioned earlier. Additionally, it is explained that Rwanda’s comparatively high tax rates are challenging and hence affect MNEs’ costs – which matches Yarborough and Yarboroughs’ arguments.

Yarborough and Yarborough (2002) acknowledge that a country’s market size is one of the main reasons to attract FDI. However, all interviewees mention that the country of Rwanda is a relatively small market. Only Interviewee Two’s enterprise establishes a subsidiary in order to solely serve its products to local customers – as further argued. All other interviewees mention Rwanda’s geographical closeness to the DRC as one of the main drivers for the decision to establish a subsidiary in the Republic of Rwanda since products can be easily transported to the DRC in a relatively short period of time. Another reason to use Rwanda as a hub to the DRC is that the country of the DRC is regarded as relatively unsecure due to the country’s long lasting civil war. Hence, goods for the DRC are marketed via a MNE’s Rwandan subsidiary in order to avoid difficulties resulting from a subsidiary in the DRC.

FitzGerald (2001) argues that MNEs often consider a particular country for FDI due to regulatory incentives – regulatory incentives can be referred to any motivational factor not being fiscal or financial. All five interviewees who join the Rwandan market during the last ten years mention that the Rwandan Development Authority uses marketing campaigns in order to attract FDI in which government support and the ease of registering a company are described as government endowments. However, the Interviewees number Five, Six and Seven explain that the Rwandan Development Authority does not help the MNEs sufficiently enough to establish themselves on the market because support is hardly provided. Interviewee Two explains that the Development Board does not help organizing working permits for foreign employees – as promised by the Development Board before the MNE’s decision to enter the country.

Research has shown (Bagwell & Staiger 1997, 1998, Saggi, 2006) that foreign investors often establish subsidiaries in countries which are MSs of a customs union. As
stated in chapter two, MNEs often choose locating themselves in such countries in order to either produce and deliver goods and services within the customs union or to profit from a country’s free trade agreement(s) by producing in one MS and exporting to another MS without being limited by any import restrictions (Alfaro & Charlton, 2009, Bond et al., 2004, Machila & Tabeke, 2011). The Interviewees number Four, Five, Six, Seven and Nine explain that the country of Rwanda functions – besides the marketing of the enterprises’ goods and services to domestic customers – as a hub to other Sub-Saharan African nations. The same people inform that the establishment of the EAC encourages the firms’ management board to enter the Rwandan market due to goods and services – theoretically – being imported and exported to and from any EAC MS without paying import tariffs or without being restricted by quotas or trade barriers. However, the before mentioned interviewees and Interviewee Four explain that the EAC does not work in practice yet due to the community being relatively young. In this regards, the EAC’s custom clearance procedures are described as relatively chaotic since custom duties sometimes apply and sometimes not. Nevertheless, Interviewee Four explains that the EAC facilitates the custom clearance procedures because less time is needed than before in order to get a container over an EAC border. All interviewees explain that the COMESA trade agreement does not play a major role in influencing a firm to choose the country of Rwanda as a place for FDI due to its COMESA membership because the agreement’s favorable trade terms are believed to be insufficiently working. Nevertheless, one interviewee explains that the COMESA agreement implies – sometimes – an advantage because it sufficiently works with South-African COMESA MS. However, Interviewee Four names the EBA and AGOA agreement as opportunistic for the person’s company and the firm’s international customers that export domestically produced goods, commodities and raw materials to the EU and U.S. The person further states that the EBA and AGOA agreements are advantageous for foreign enterprises that operate a branch in Rwanda and export their goods to the EU and U.S. because no import duties apply.

Yelpaala (2009) argues that foreign investors are often attracted by factors such as security, favorable investment terms or democracy in post-conflict countries. A similar statement is also raised by all interviewees. However, it is underlined by the majority of the interviewees that Rwanda is not a real democracy because the country’s incumbent president is believed to be an authoritarian dictator who rules the country by adopting strict regulations – which are not always conform to international laws and human rights. Nevertheless, the same interviewees say that Kagame’s strict rulings are good for the country’s economic
development since they deliver peace, stability and security for foreign MNEs operating on the market.

International treaties, such as the protection of international property rights, (WTO, 2002) are mentioned as being important for MNEs entering a foreign market due to patents being adhered. Even though anybody of the interviewees does not mention being directly involved in the non-adherence of intellectual property rights, all interviewees – but especially number Four, Eight and Nine – explain that supplies and materials – such as tools, small machines and (production-) equipment – are often cheap – Asian produced – imitations of high quality products. This is regarded as a challenging factor due to safety reasons and the products’ short lifetime.

5.1.8 Difficulties and Risks for MNEs in Sub-Saharan African Markets

Events such as 1994’s genocide in Rwanda (OECD, 2006, Chege et al., 1997, UNCTAD, 2006) can lead to the circumstance that the country’s economy stagnates and are responsible for foreign investors leaving the country (Sindayigaya & Niyibizi, 2013). However, opportunities and advantages for MNEs – such as the availability of cheap resources – often lead to the fact that investors reconsider developing countries and LDCs after a conflict is over (Igbokwe, Turner & Aginam, 2010). The two enterprises of Interviewees Six and Eight have been established before 1994 in Rwanda. As mentioned previously, the interviewees argue that Rwanda has been seen as a politically stable country prior to the genocide and civil war – as it is seen by most of the interviewees today. The two interviewees further inform that the enterprises’ foreign employees were evacuated by UN soldiers during the genocide. After the war was over, their property was partly destroyed. Furthermore, the country’s economy was declining and purchasing power was hardly existent. On top of that, the interviewees mention that most of their international customers left the country. These circumstances led to the fact that the Rwandan enterprise of Interviewee Six almost went bankrupt. Nevertheless, both interviewees mention that the country’s economy started to flourish again due to development processes. During this time – as argued – the employer of Interviewee Six managed to create a large amount of profit.

As informed by the UN (2013) rebel groups are operating in the country of Rwanda and its neighboring countries. According to Castillo (2003) and Batware (2011) MNEs operating in a conflict country’s neighboring country are often constricted in their business activities because of fights that eventually spill over into a country’s territory or due to
possible riots. Concerning this statement, all interviewees appraise the situation in the DRC as problematic due to the possible likelihood that 1994’s conflict could be continued because the rebel groups operating in the DRC – and in some parts of Rwanda – are linked to it.

Collier and Gunning (1995) explain that MNEs investing in a LDC sometimes develop a competitive disadvantage to competitors operating in other LDCs if the LDC in which the firm is operating in manages to increase its GDP because this would imply that foreign MNEs exporting their goods or services to the EU or U.S. could not profit from favorable treatment anymore – such as the importation of domestically produced goods and services without paying import duties, as suggested by the EBA and AGOA agreements. This is – according to the Interviewees Four, Five, Six and Seven – unlikely since the country of Rwanda is a very poor nation with a relatively slow economic development.

Hufbauer, Schott and Elliott (1990) mention that countries which are engaged in the abuse of human rights by the means of actions – such as dictatorships or wars – are losing their rights to export some or all domestically produced products and services to certain industrialized nations due to economic trade sanctions. However, this has not been the case for the country of Rwanda. Nevertheless Interviewees Four and Five acknowledge that some developed countries – such as the Federal Republic of Germany – stopped providing cheap credits and financial aid to the country. This situation – Interviewee Five mentions – is constraining for MNEs operating in the country because Rwanda’s economy is believed to be government driven. A large quantity of companies – including foreign investors – is hence dependent on the government being liquid since it is an important customer – as mentioned by Interviewee One, who solely sells to the Rwandan government. The same person states that due to the Rwandan government receiving less financial aid than before, invoices are paid very late.

5.2 Uganda

Chapter 5.1 includes the analysis of chapter 4.4.2’s interview results, which are examined by using the literature provided in chapter two.

5.2.1 Multinational Enterprises

Moosa (2002) argues that the term MNE refers to any enterprise that extends its business activities by establishing foreign subsidiaries. Since most of the research study’s interviewees in the Republic of Uganda are working for companies that are headquartered in
different countries globally, it can be argued that these enterprises are MNEs. However, the Interviewees Four, Seven and Eight are companies which are solely established in Uganda and do not host any subsidiaries. Since these enterprises are founded by foreign citizens – who moved to Rwanda with the sole purpose of establishing commercial enterprises – these firms perfectly fit in the study’s sample but are not to be called MNEs. These enterprises can be referred to as international organizations since all of them sell a large quantity of domestically produced goods to customers internationally, which matches Dunning’s (1977) definition that the term international enterprise refers to a firm which mainly produces its products domestically and exports its goods to customers internationally. Moosa (2002) explains that the definition subsidiary refers to an enterprise that is legally established in a host country and holds more than 50 percent of the company’s voting rights. This is the case for all enterprises included in the sample. Birkinshaw and Hood (2001) mention that establishing a foreign subsidiary is often conducted in order to be closer to the customer. This is done by the enterprises of Interviewees One, Two, Three, Four, Five, Eight, Nine, Ten and 11.

5.2.2 Macro Level Theories

Literature suggests (Sung & Lapan, 2001, Dewenter, 1995) that a number of MNEs enter a foreign market in order to prevent losing money due to exchange rate volatility and currency fluctuations when engaging in cross-country trade. Foreign enterprises therefore often establish subsidiaries in order to avoid losses resulting from currency fluctuations by directly producing and/or marketing a firm’s products in a particular country – as further argued by the authors. This is confirmed by the research Interviewees Six and Ten. According to the two interviewees, their companies lost large amounts of money due to exchange rate fluctuations prior to their market entry by importing foreign produces. It is further described that the enterprises have more power in deciding when UGX is to be exchanged into U.S. Dollar or Euro. This statement partly matches the literature since the firms of the Interviewees Six and Ten are operating a subsidiary in Uganda in order to avoid exchange rate volatility. However, this is – according to the interviewees – not the only reason why their companies have subsidiaries in the country.

Petri (1994) explains that economic clusters in foreign markets often involve foreign enterprises within a cluster benefiting from the interrelation of suppliers, customers and competitors. Companies included in the sample answer that production clusters are relatively
seldom in Uganda at the moment. Nevertheless, the majority of the interviewees inform that foreign enterprises are often established in the same industrial areas. Moreover, the interrelation of foreign firms operating on Uganda’s market is often crucial since expertise and knowledge is shared, network sharing is conducted, international customers are attracted and suppliers are gained.

McFetridge (1987) and Blomstrom, Globerman and Kokko (1999) argue that innovation – such as technical development – is held responsible for foreign enterprises establishing facilities in a particular country. However, any research interviewee reports about major innovational progress – such as technological advancement – as a reason to establish a subsidiary in the country. This is – according to the Interviewees Two, Three, Four and Eight – quite the contrary since potential drivers for foreign investors in Uganda include the possibility to market innovative products and services that are not available on the country’s market – as it is done by the participating enterprises number two and eight. In turn, innovative progress and technical expertise gained in the country where a MNE is headquartered in are used in order to produce and/or market competitive goods and services in the country. Since Rogers (2004) and Frost (2001) mention that companies from countries where innovational progress occurs frequently often invest in countries where it is not as developed as in the company’s home country, the interviews’ results are conform to the theoretical foundations of this study. The same interviewees argue that competitive rivalry in terms of innovation and technological progress is not to be expected from Ugandan enterprises due to the lack of expertise, knowledge and technology.

Companies incorporated in countries which have strong relationships to a potential country of investment are believed (Rojid, 2006, Busse, Koeniger & Nunnenkamp, 2010, Bloningen, 2005) to invest relatively often in that country due to factors such as similar cultural characteristics, strong economic ties, a similar history or geographic closeness. In this regards, the interviews’ results reveal that only Interviewee Eight enterprise’s owner has a common language with the country of Uganda – which is part of the Common Wealth –, holds a UK passport which is also a Common Wealth nation and shares a common history with the country due to a common colonial past. However, none of the interviewees recognizes cross-country relationships with the country of Uganda and the country where the firm is incorporated in as advantageous for investors. Therefore, it can be said that the literature does not match the interviews’ results concerning this particular issue.
Political stability, positive socio-economic conditions, internal and external conflict, little corruption, law and order, democratic accountability, and the issue of bureaucracy are – according to Busse and Hefeker (2007) – responsible for the attraction of foreign entities. Furthermore, Dunning (1977, 1980, 1988) and Buckley and Casson (1998) discuss that these issues often affect an investor’s competitiveness due to associated opportunities or constraining forces. All interviewees rate Uganda’s relatively stable political environment – in connection with its geographical closeness to important conflict countries’ markets, such as the DRC or the country of South Sudan – as one of the most important drivers for the decision to enter the Ugandan market. However, all interviewees simultaneously mention that president Museveni’s succession in 2017 could possibly result in political friction since the president announced his son as the successor. This is seen as a constraining factor by the interviewees and does not positively contribute to a MNE’s advantage due to uncertainty – as discussed by the literature. Socio-economic conditions – such as a business culture which is conform with – and accepted by – the MNE’s headquarters’ corporate culture or employees’ working mentality – are mentioned as important factors to consider before entering the Ugandan market. As informed by the Interviewees One, Three, Four, Six, Seven, nine and 11, different cultural characteristics of employees influencing workers’ mentality which are resulting in lower levels of productivity and efficiency are not seen as drivers for FDI in Uganda since they can be made responsible for a MNE’s comparative disadvantage to firms operating in other countries globally. Therefore, this statement matches the literature since it states that constraining forces are likely to result due to sociological differences. Conflicts, riots and war within the country of Uganda are seen as relatively unlikely by the interviewees since Museveni is believed to offer security and stability. As discussed in the literature, a relatively stable political environment is often advantageous for investors and can therefore positively affect MNEs’ decision to enter the Ugandan market (Agarwal & Ramaswami, 1990). However, the war in the DRC and the political conflict in the country of South Sudan are believed to be critical because war and conflict could possibly spill over to Ugandan territory. Concerning the issue of corruption, all interviewees agree that Uganda’s relatively high level of corruption is to be associated with some foreign entities’ potential negative decision to not invest in the country. Since corruption is everywhere in business life – and can only be avoided by large and powerful corporations that have direct contacts to high political leaders who step in for MNEs – one the one hand – the issue of corruption is seen as one of the major concerns for MNEs operating on the country’s market – as explained by the interviewees. On the other hand, the Interviewees Four, Six and Seven mention that being
corrupt can be advantageous for MNEs in Uganda since official processes can be facilitated and accelerated. Firms tendering for official projects have greater chances of being awarded the contract – as further informed by the interviewees. Except the number Two and Five, the interviewees say that Uganda’s rules and regulations – especially concerning commercial business activities – have the propensity of being changed often and relatively quickly. Hence, the interviewees Four, Six and Seven explain that laws, rules and regulations need to be carefully watched in order of not being accused for illegal actions. Regarding Uganda’s democratic accountability, the result section states that all interviewees believe that Uganda is – unofficially – not a democracy in which Museveni is believed to function as a powerful dictator. Nevertheless, the country’s accountability concerning foreign investors’ interests are explained as being on a relatively high level. Looking at this statement, it can be derived that the country’s accountability and Museveni’s strict ruling are to be associated with a MNE’s drivers to establish a foreign subsidiary in the country – which confirms the literature. Since bureaucracy is described by all participating parties as a delaying official processes – such as the granting of permits or the extension of working visas for foreign employees – which can only be accelerated by engaging in corrupt practices, the country’s relatively high level of bureaucracy is described as not being responsible for the attraction of foreign entities and represents hence a constraining factor for MNEs operating on the market – as described by the literature (Bowles, 2004, Dugan et al., 2008).

Infrastructural development and the availability of international – trade related – agreements (Agarwal & Ramaswami, 1990, Buckley & Casson, 1998) are argued to be influencing aspects for foreign investors to enter a foreign market because investment related risk factors tend to decrease and (market-) opportunities tend to increase (Dunning, 1998, Lankes & Venables, 1996). Since all interviewees describe Uganda’s infrastructural networks – such as roads, railroads, airports, the sufficient availability of energy and internet circuits – as relatively poor, lacking infrastructure can be seen as market opportunities for MNEs in terms of infrastructural development. This is especially acknowledged by Interviewee Eight due to the firm producing steel girders for the construction industry. Since the enterprise manages to use Uganda’s poor infrastructural system as an opportunity, it can be derived that this factor can influence foreign MNEs’ decision to enter the Ugandan construction industry. The same interviewee – Interviewee Eight – informs that power cuts and instable energy – to be associated with a relatively poor infrastructure – are challenging factors for the corporation’s operations since generators and stabilizers are needed in order to prevent
expensive machines from being destroyed. The interviewees also inform that a slow and relatively expensive internet connection negatively impacts an investor’s business activities due to an internet connection of two MB costing approximately $600 per month. This is to be associated with an investment related risk factor since these issues can result in higher costs for MNEs.

Agarwal (1986) argues that tax incentives are believed to influence a MNE in its decision to invest in a particular country because the chance increases that drivers for FDI exceed barriers. As mentioned by the Interviewees Two, Three, Seven and Ten, tax holidays of up to five years for MNEs investing a larger initial amount of $500,000 are usually granted. Enterprises which invest a relatively small initial amount – as Interviewee One informs – are not granted tax holidays. Interviewee Four explains that the MNE initially invests an amount of below $100,000. However, due to an excellent business plan, the corporation could manage to negotiate tax holidays of up to two years. The interviewees seven and ten negotiated tax incentives of between five and ten years. All interviewees of enterprises that receive tax incentives explain that this actuality presents an opportunity for MNEs because either profits are higher or products and services can be priced lower. Hence, tax holidays are – according to all interviewees – believed to positively influence a MNE in its decision to enter the Ugandan market.

Blende-Nabende (2002) argues that a positive investment climate – to be associated with a stable political environment in which corruption tends to be relatively low and good governance exists – positively contributes to a firm’s decision to enter a particular market because opportunities for investors tend to increase. However, – as mentioned by the interviewees – besides a relatively stable political environment, the Republic of Uganda does not offer a non-corruptive investment climate in which good governance is existent. For this reason, corruption is one of the constraining factors for MNEs operating on the market and does not positively contribute to a MNE’s decision to enter the country.

Robert (1997) and Nayler (2006) explain that exchange rate fluctuations may include financial risk for MNEs performing commercial business activities in a particular country via FDI. However, all interviewees that are engaged in the transferring of revenues to foreign countries explain that currency fluctuations between the UGX and major currencies – such as the U.S. Dollar or the Euro – are not seen as threatening since the U.S. Dollar is not fluctuating heavily against the UGX. Interviewee 11 explains that business activities are
usually done in U.S. Dollar and that the revenues are to be paid onto a Dollar account in Uganda. This – in turn – protects the enterprise from losing large amounts of money due to exchange rate volatility. Looking at the literature, the theory of exchange rate volatility in combination with a MNE’s potential financial constrain is not seen as a major threat for foreign investors operating a subsidiary on the Ugandan market.

### 5.2.3 Micro-Level Theories

Literature suggests (Hymer, 1960, 1969, Kindelberger, 1969, Kimura, 1989, Rugman & Verbege, 2001, Narula & Dunning, 2000) that due to sufficiently developed market knowledge of domestic enterprises or their strong networks to important contacts of government officials, customers, suppliers or competitors, investors often face some disadvantages compared to domestic firms. Since the Interviewees Two, Three, Four, Six, Seven, Nine and 11 acknowledge that domestic competitors are sometimes able to develop a competitive advantage over foreign investors due to their contacts to important key people or their vast market knowledge, the study’s participating enterprises face some disadvantages compared to domestic rivals. Furthermore, Hymer (1960, 1969) and Kindelberger (1969) argue that foreign enterprises directly investing in a country must hold some company-specific advantages – such as access to relatively inexpensive raw materials and to superior technology, the availability of affordable and skilled human resources, the possibility of producing economies of scales, reduced transaction costs or the availability of intangible assets, such as a superior management, brand names or patents. Company specific advantages are – according to all interviewees – existent. Interviewee One tells that the company has experienced personnel and a superior management board. Number two informs that the person’s MNE imports cheap products from China, which enables the firm to make a relatively high profit margin. Interviewee Three has access to superior raw materials from the EU as well as experienced human resources due to in-house training in Europe. Interviewee Four tells that the firm posses over knowledge and expertise from the EU and has access to quality raw materials from overseas. Interviewee Five makes use of cheap specialists from India, while employing experienced local human resources. Nevertheless, it is mentioned that the Indian specialists work more efficient and effective while getting a lower salary than Ugandan specialists. Interviewee Six states that experienced employees and the firm’s management board are crucial for the firm’s success. Interviewee Seven, Eight, Nine, Ten and 11 mention knowledgeable employees, cheap labor, a superior management and technology as important factors to develop a competitive advantage.
According to Blomstroem and Kokko (2002) MNEs are often attracted by markets in which competition is relatively low in combination with the availability of a niche (Milberg, 1996). This is only partly conform with the interviews’ results because the Interviewees number Three, Five, Seven, Nine and 11 inform that they are operating in a highly competitive market environment which is not a niche due to the large availability of similar products and services on the Ugandan market. However, all serious rivals are of foreign origin due to domestic competitors being too low-tech – as simultaneously explained. In this regard, the Interviewees Seven and 11 inform that their firms also compete with enterprises operating in other countries globally since they mainly export their products and do not serve the local market. The Interviewees One, Six and Eight explain that they operate in a market oligopoly in which competition is relatively low. The participating firms of interviewees Two and Four operate in a niche market with almost monopolistic market conditions. Therefore, the enterprises’ management has chosen for the Ugandan market due to this condition. Interviewee Ten states that the person’s employer faces hard competition from international competitors that operate on the market. As underlined, local competitors are serious rivals due to their ability to offer inexpensive merchandise. Additionally, Ozawa (1992), Caves (1974), Kokko (1996) and Dunning (1977, 1980, 1988) argue that FDI can only exist if an economy is imperfectly competitive. Except Interviewee Ten, all interviewees explain that perfect competition does not exist for their business activities in Uganda. Hence, this situation is advantageous for investors due to the availability of market monopolies, oligopolies and niche markets.

Buckley and Casson (1976) argue that internationalization is predestinated for MNEs exploiting raw materials, producing agricultural products and intermediate products or when a MNE is engaged in capital intensive manufacturing processes due to lower costs for resources in foreign countries. This is also observed during the interviews and reported in the result section because Interviewee Eight is engaged in labor and capital intensive manufacturing processes. The employers of the Interviewees number Four and Six are engaged in agricultural production which is also very labor intensive. As reported, all three enterprises see it as an advantage that labor is available for an average expense of $80 per month and person.
5.2.4 FDI Development Theories

Vernon (1966) suggest that firms sometimes relocate the production of a specific product to a foreign country in order to reenter the product’s life-cycle in a new market due to a good’s maturity or decline phase in a particular market. This is confirmed by Interviewee Ten since the conglomerate of consumer goods markets products in Uganda that are developed for other markets after a new product is introduced in the foreign market. This helps – according to the interviewee – to be highly competitive because the product can be priced cheaply.

Ozawa (1979) and Kojima (1975) explain that underdeveloped countries – LDCs – are targeted by foreign investors since country-specific advantages can be exploited by foreign enterprises of different industries. As reported, this is the case for the participating enterprises because the availability of rather inexpensive workers, cheap supplies, the availability of agricultural produces and commodities – such as coffee –, the opportunity to harvest three times a year and the accessibility of land contributes to MNEs’ possibility to exploit Uganda’s country-specific advantages. On top of that, all interviewees explain that domestic enterprises are usual not able to exploit Uganda’s country-specific advantages efficiently enough due to their lack of knowledge, expertise and technology.

Similarly, Dunning’s (1981) IDP theory elucidates that LDCs are often attractive locations for FDI due to infrastructural development. Hence, Interviewee Eight informs that the firm profits from Uganda’s infrastructural development due to producing manufacturing supplies for the construction industry. Besides that, the majority of the interviewees reports that a steadily improving internet connection, energy supply and roads are positively contributing to business activities’ progress due to firms’ possibility to profit from developments because arising problems that are associated with a lacking infrastructure are decreasing.

5.2.5 Eclectic Paradigm Theory

Dunning (1977, 1980, 1988) discusses that ownership advantages, location advantages and internationalization advantages are important factors for MNEs to choose an appropriate entry mode into a foreign country. Milberg (1996) states that company-specific advantages – as discussed earlier – are referred to as ownership advantages. Location and internationalization advantages give reference to the evaluation of market potential and
related investment risk (Agarwal & Ramaswami, 1990, Buckley and Casson, 1998). The authors further discuss that if ownership advantages, location advantages and internationalization advantages are available, MNEs are more likely to develop a competitive advantage. As reported in the result section, all interviewees of MNEs that market their products domestically acknowledge the importance of being as close to the firms’ customers as possible. Hence, FDI in Uganda is undertaken in order to be closer to the customers and also to be able to develop strong customer relationships – as reported by the majority of the interviewees. A large target group and customers’ purchasing power are also described as important. However, as argued by the Interviewees Two and Ten, domestic clients usually do not have sufficient purchasing power due to the country’s relatively poor inhabitants. Nevertheless, Interviewees Five and Nine inform that their clients are international firms operating in Uganda and in countries overseas that possess over sufficient purchasing power. Another argument that can be brought up is that MNEs operating in Uganda have the possibility to profit from the country’s EAC membership and the EBA and AGOA agreements with the EU and U.S. Even though the EAC facilitates trade, all interviewees’ employers which are engaged in trade activities between EAC MS mention that the EAC treaty’s unreliability is seen as challenging since goods have sometimes to be declared when dispatching them to other EAC MS and sometimes not. Disadvantageously mentioned by all interviewees is human resources’ different working mentality and their minimalistic viewpoint concerning product and service quality. Other arguments that are seen as constraining by all interviewees are that energy and internet connections are unreliable and expensive, that infrastructure is not sufficiently developed yet, that the country’s taxes are too high and that nothing can be done without being engaged in corruption. Taking these arguments into consideration, it can be said that location and internationalization advantages are available but constraining forces for MNEs are challenging factors which need to be taken into consideration – as informed by the interviewees and stated in literature.

5.2.6 Mode of Entry and Types of FDI

Eicher & Kang (2005) discuss that foreign subsidiaries are established by either purchasing an existing company in the target country, building a JV or by establishing a new company in order to expand operations. As visualized in table 3.11, five participating enterprises run their independent subsidiaries from which one is wholly owned. The interviewees inform that rather cheap rents for office space are seen as a positive factor because it reduces operating costs. One enterprise has been entering the market by taking over
an existing company – of foreign origin – and four firms are operating in a JV with domestic entities. All four interviewees particularly mention that illegal and corrupt business practices of JV partners, untrustworthiness and different cultural characteristics in terms of doing business are often challenging. This is also suggested by the literature (Blende-Nabende, 2002, Yelpaala, 2009) because a corrupt and rather unstable business environment is believed to contribute to a MNE’s potential constraining forces when operating in a foreign country.

5.2.7 FDI Determinants Concerning a MNE’s Choice of Location

Agarwal (1986) points out that a reasonable (corporate-) tax rate is believed to be an important driver for MNEs to establish a subsidiary in a foreign country. As reported in chapter four, all interviewees inform that the tax rates of 30 percent corporate tax, a tax on employees’ salaries of 18 percent, a social security contribution of ten percent (from which employers need to pay eight percent), a VAT of 18 percent, a withholding tax on invoices to other nations of six percent and a one percent export tax are too high – especially compared to other countries of Sub-Sahara Africa. All ten corporate interviewees further inform that the claiming back procedure of the VAT can be long-lasting and takes – sometimes – up to several months. Both factors are mentioned by all interviewees as constraining forces because revenues are significantly lower due to excessive taxes. However, as shown in chapter four, Interviewee One informs that – besides the relatively high tax rates – the situation that domestic competitors often do not pay taxes due to corruptive agreements with government officials and employees of Uganda’s Revenue Authority resulting in the firm’s comparative disadvantage to local enterprises because prices of domestic firms can therefore be lower. This matches the literature since it is discussed (Agarwal & Ramaswami, 1990) that corrupt practices can result in MNEs’ disadvantages.

Agarwal (1986) discusses that regulatory incentives – incentives being non-fiscal – are believed to contribute to a firm’s drivers and advantages when undertaking FDI in a particular country and area. It can be argued that MNEs in Uganda profit from regulatory incentives by the means of free land handed out by the government to investors that invest an amount of above $500,000 – as experienced by the interviewees’ enterprises Seven and Nine. Besides that, however, it is informed by the majority of the interviewees that the Ugandan Development Board is not very helpful in terms of providing any other regulatory incentives or endowments – such as investors’ support to find employees, office space or the introduction to import key people.
The protection of international property rights, (WTO, 2002) is mentioned as being important for MNEs entering a foreign market due to patents being adhered. This is also an important issue which is mentioned by the interviewees because – first of all – imitations of high quality products – such as machineries, tools or production equipment – can be dangerous to use. Cheap imitations of well known brand names are widely sold in Uganda’s shops. Secondly, the non-adherence of patents contributes to the actuality that imitates of MNEs’ products operating on the Ugandan market can be found in local shops, which may contribute to a firm’s bad image because of significantly lower quality standards of imitated products – as mentioned by Interviewee Ten.

5.2.8 Difficulties and Risks for MNEs in Sub-Saharan African Markets

As described in chapter two, factors such as political instability, conflicts, riots, war or war in neighboring countries, terrorism, dictatorships and warlords (Reno, 1999 Sindayigaya & Niyibizi, 2013) often contribute to MNEs’ restraining forces when operating on African markets and sometimes lead to investors leaving the country. However, all interviewees explain that Uganda is a politically stable and safe country due to Museveni delivering security and stability. Nevertheless, the majority of the interviewees describe the war in the DRC and the politically constrained situation in the neighboring country of South Sudan as potentially threatening because conflicts could spill over to Ugandan territory hindering supplies from being delivered on time and preventing business activities from running frictionless. Another argument provided by the Interviewees One, Four, Six, Seven, Nine and 11 is Museveni’s succession in 2017. It is therefore believed by the interviewees that riots – and even civil war – could occur when Museveni suggests his son to take over the post of the president.

In chapter five, the analysis of the interviews’ results and the discussion with the literature is conducted. In the following chapter – chapter six – the document’s conclusion is composed – which consists of a comparison of the two country’s results and the interpretation of the data. Furthermore, the research questions are answered and a solution to the problem statement is suggested.
6) Conclusion

Chapter six consists of a comparison of the two country’s results and the interpretation of the data. Additionally, the research questions are answered and a solution to the problem statement is suggested. The chapter’s last two segments inform about the research’s limitations and give recommendations for further research.

6.1 Comparison and Interpretation of the Results

Concerning a MNE’s market entry into the Rwandan economy, the interviewees argue that exchange rate volatility contributes to some MNEs establishing foreign subsidiaries in the country of Rwanda in order to avoid losses resulting from currency fluctuations when engaging in cross-country trade. This is also stated by interviewees in the Republic of Uganda. Considering the fact that even relatively small exchange rate fluctuations resulting from the importation of products and services to Rwanda or Uganda can result in significant losses for international enterprises when exchanging relatively large amounts of RWF or UGX into another major currency – such as the U.S. Dollar or the Euro – the decision to enter the country of Rwanda or Uganda may be benefiting for foreign enterprises that are engaged in trade activities due to greater control over the currency because risk can be minimized by only transferring money to the mother company when the exchange rate is favorable.

Interviewees of MNEs established in both countries explain that international customers – companies, supranational and foreign governmental organizations and individuals – are important clients due to their relatively high purchasing power, financial accountability and reliability. Interviewees in both countries argue that domestic customers – including the governments of Rwanda and Uganda – are often seen as unreliable clients due to unpunctual payments resulting from the lack of monetary resources. In consequence, international customers are preferred by MNEs operating in Rwanda and Uganda due to their higher liquidity. International companies in Rwanda and Uganda are positively contributing to a MNE’s investment decision because of the possibility to do business with foreign organizations on the market. Additionally, foreign investors in Rwanda and/or Uganda may contribute to another investor’s drivers for FDI due to the possibility of having adequate suppliers of raw materials and equipment that are conform with MNEs’ high quality standards.
Rwanda and Uganda’s national enterprises being too low-tech due to the lack of knowledge, expertise and the non-availability of adequate technology functions as an important driver for FDI in both countries since MNEs of industrialized nations usually possess over innovational and technologically advanced products and services that are highly competitive. This is especially the fact for the Rwandan and Ugandan markets because the demand for high quality products and services is greater than the supply. In consequence, foreign investors are able to develop a competitive advantage by marketing innovative goods and technological advanced products.

Some interview partners mention that a common language and the two countries’ colonial past in terms of a common history with Belgium and the UK is likely to facilitate a Belgian or British MNE’s market entry because company-internal employees are knowledgeable about one of the two country’s market environments. Furthermore, the Rwandan and Ugandan governments – as observed during the interviews – often treat enterprises of these two countries favorably due to a strong post-colonial foreign trade relationship. During the research stay in Rwanda and Uganda it was especially noticed that companies of countries that formerly colonized the countries of Rwanda and Uganda – Belgium the UK and Germany – are frequently available on the two countries’ markets. This may be due to the countries’ common history and foreign entities’ vast knowledge about the potential investment destinations. However, whether this fact is likely to contribute to a MNE’s potential drivers for FDI is unclear and is to be elucidated in another research project.

All interviewees argue that the level of corruption is very low in the country of Rwanda. In contrary, interviewees in Uganda report that a foreign investor can hardly do business without being engaged in corrupt processes or without possessing good direct contacts to very high government officials and ministers. On the one hand, a very low level of corruption can contribute to a foreign investor’s comparative advantage because less money needs to be spent. Furthermore, a company’s image is not jeopardized due to potential press articles about an enterprise being engaged in corruption. These arguments clearly contribute to drivers for FDI in the country of Rwanda. However, considering the reported fact that Rwanda’s non-corruption policy is a challenging factor for MNEs because government processes are often too slow and officials are afraid of being accused of corruption, it can be assumed that the country’s anti-corruption policy is too tight. Furthermore, MNEs operating in the country of Rwanda cannot easily facilitate official processes nor have the chance to influence them. This may be disadvantageous for MNEs which need a high degree of
flexibility and fast decisions from the government. On the other hand, MNEs operating in the country of Uganda interpret a high level of corruption as constraining for their operations because large amounts of money need to be paid in order to speed up official processes. Since corruption is everywhere in Uganda’s business life, the conclusion that the issue of corruption is to be associated with an investor’s disadvantage due to a lower profit margin and the jeopardy that a firm’s image may suffer – especially when the firm is well known in the industrialized world – can be drawn.

The granting of tax incentives is mentioned as an important driver for FDI in both countries. This is especially positive for MNEs which invest an initial amount of $500,000 and above because enterprises that invest smaller amounts are often not granted tax holidays of up to several years. Additionally, an investor is likely to gain a financial advantage in the country of Uganda because of the government distributing free land to companies that have the intention of building a wholly owned subsidiary. Therefore, costs can be minimized and fewer expenses have to be spent. However, associated problems – such as the issue that the government sometimes grants land to an investor which it does not (fully) own – can be made responsible for a MNE’s potential constraining factor since litigation processes about the land are usually time-consuming and costly.

Rwanda and Uganda’s relatively stable political environments are certainly of avail for MNEs investing in the country because both presidents are believed to deliver security and stability. The actualities that both countries are not fully developed democracies and that Kagame and Museveni are believed to be strict rulers with dictatorial characteristics, are not mentioned to be threatening factors for MNEs operating in either of the two countries. Contrariwise, all interviewees state that the two presidents – and their ministers – are able to uphold peace and stability and are therefore responsible for a relatively good and stable investment climate. However, both leaders are to be succeeded in 2016 – Kagame – and in 2017 – Museveni. This fact may contribute to riots or even civil war in both nations and therefore contributes to political uncertainty. This – in turn – increases the likelihood that an investor faces disadvantages due to political instability and presents hence a constraining factor for MNEs operating on both markets.

The political situation in the DRC is mentioned – on the one hand – as a barrier to FDI in Rwanda and Uganda due to the countries’ closeness to the DRC’s border. The fact that fights sometimes spill over to Rwandan and Ugandan territory and that DRC rebel groups
operate in both countries implies challenges for MNEs since war with rebel groups is possible. On the other hand, Rwanda and Uganda’s closeness to the DRC is mentioned as an important driver for FDI because of the two countries’ status of being a hub to the DRC. In this regards, MNEs can profit from the geographic situation by either producing their products in the country of Rwanda or Uganda – and delivering them to the DRC – or by importing foreign produced goods to one of the two countries and to deliver them to the DRC. Additionally, the DRC’s closeness to both countries is also advantageous for service firms because employees situated in the countries of Rwanda or Uganda – such as consultants or technicians – can easily reach the DRC within a few hours.

The availability of rather inexpensive workers in both countries – with an average monthly salary of less than $100 – can be described as one of the main drivers for FDI – especially for MNEs that are engaged in labor intensive business activities. However, Rwanda’s relatively low unemployment rate can be threatening because human resources often need to be headhunted by using recruitment agencies – which can be costly. The non-availability of adequately skilled personnel, specialists, engineers and managers can contribute to a MNE’s comparative disadvantage because skilled people are very expensive and often not available on the labor market. In consequence, foreign human resources need to be enticed away from overseas – mostly from developing countries and the developed world. This can create – on the one hand – a competitive advantage because skilled and knowledgeable human resources are available. On the other hand, the costs for foreign specialists and workers are significantly higher, which contributes to a MNE’s potential barrier for FDI. The poorly developed education system in both nations – which is to be associated with the likely situation that not enough future specialists are educated – additionally contributes to a MNE’s barriers for FDI in Rwanda and Uganda because access to sufficiently skilled and educated human resources cannot be guaranteed in the future. However, this situation can also be seen as an opportunity for foreign companies operating in the education sector because high quality education and experienced teachers and professors potentially contribute to the country’s improving education system and are most likely to guarantee a higher number of sufficiently skilled and educated applicants in the future.

The opportunity that Rwanda and Uganda’s markets are not as mature as many markets in developed countries guarantees the availability of niche markets. Besides that, some market sectors offer market oligopolies or monopolies in which competition is minimized. These factors are certainly a great advantage for MNEs entering either of the
countries’ markets and are – consequently – seen as drivers for FDI. Nevertheless, the availability of global players and Asian investors – especially from China and India – is likely to add to a MNE’s constraining factors since global players – especially in the segment of everyday consumer goods – are contributing to the markets’ maturity by distributing inexpensively priced products. As reported and analyzed in the chapters four and five, Asian enterprises can also be severe competitors because of their ability to offer cheaply priced products – which are mainly produced in China.

Important machinery and equipment – such as production machinery, tools, construction material or other equipment – are either not frequently available on Uganda and Rwanda’s markets or are relatively expensive due to local producers’ shortage and relatively high import duties for foreign manufactures. This can be both seen as advantageous and threatening for MNEs operating on either of the countries’ markets. It can be seen as advantageous because foreign entities producing important supplies – such as tools, cement or high quality drilling and milling machines – can profit from this situation by domestically producing and/or supplying these products. Nevertheless, it is also to be associated with a MNE’s potential barrier for FDI because important supplies are either not available or very expensive. If a certain product should not be available, the self-importation of this product is needed which is both costly and time-consuming.

The availability of country-specific advantages in the Republic of Uganda can be an important driver for FDI. Especially, the large availability of commodities – such as tea and coffee – are to be described as potential opportunities for specialized MNEs that want to invest in the country. However, high competition from other foreign investors in the commodity sector makes it relatively difficult for smaller – less powerful – corporate entities to enter the market. Due to Rwanda’s barely existing natural resources and commodities, foreign investors operating in these two industries hardly experience any major drivers to invest in the country because of the fact that the existing raw materials and commodities are already exploited by long-established and relatively powerful MNEs – such as global players.

The lack of an adequately developed infrastructural system in the country of Uganda – such as a sufficiently developed road network or steady energy and internet connections – are likely to positively contribute to a MNE’s drivers for FDI – especially for enterprises specialized in infrastructural development activities. Likewise, the country of Rwanda offers
large investment opportunities for foreign enterprises – such as the development of roads and railroads.

Rwanda and Uganda’s high costs for energy and internet in combination with the networks’ unreliability can be critically reviewed. Specifically, the relatively expensive internet costs of up to $2,500 per months in Rwanda and $600 in Uganda for a two MB connection can be seen as a constraining factor for foreign enterprises operating on either of the two markets because the costs are tremendously high. Furthermore, the connection’s poor speed can be challenging for foreign investors because internet telephony cannot be conducted stably.

Being close to the end-customer is described as one of the main drivers for FDI in Rwanda – especially when it is to be considered that the country of Rwanda does not host a large quantity of country-specific advantages, such as natural resources, commodities, the country’s closeness to the DRC or Kagame’s vision to make Rwanda the number one place for IT-related investments in Sub-Saharan Africa. Some MNEs operating on the market are not established in the country in order to serve local customer but due to the availability of raw materials and commodities. Hence, important drivers for FDI in Uganda are to be associated with both – the availability of a local target group and the accessibility of raw materials and commodities for customers globally.

The countries of Rwanda and Uganda’s memberships in the EAC are described to be important to all enterprises situated in both countries which are engaged in cross-country trade activities with other EAC MS due to trade facilitation. However, it can also be argued that the lack of clarity about EAC rules and the fact that commonly accepted regulations are sometimes converted into action and sometimes not – such as the adherence and non-adherence of the free movements of goods, services, capital and labor acts – contributes to a MNE’s constraining forces and is hence to be associated with a potential barrier for FDI in the two markets.

Rwanda and Uganda’s status of being one of the world’s 49 LDCs is – on the one hand – to be connected with a MNE’s drivers for FDI because domestically produced products and services can be exported to the EU and the U.S. without the payment of import tariffs – as suggested by the EBA and AGOA agreements. On the other hand, an increasing economy, a developing GDP and a country’s increasing exports are factors which potentially contribute to a LDC losing its status. If either of the two countries should lose its status as a
LDC, MNEs which establish subsidiaries in the countries in order to profit from Rwanda or Uganda’s favorable trade related terms would then lose this country-specific advantage.

Excessive taxes – especially compared to other countries of Sub-Sahara Africa – are not argued to be responsible for a MNE’s positive decision to enter either of the two countries’ markets. Specifically, the tax rates of 30 percent corporate tax, 18 percent VAT and 15 percent withholding tax for invoices paid to companies residing outside of Rwanda are mentioned to be a potential barrier to establish a foreign subsidiary in the country. For the country of Uganda, tax rates of 30 percent corporate tax, a VAT of 18 percent, a withholding tax on invoices to other nations of six percent and a one percent export tax can be threatening for a MNE which searches for an inexpensive investment destination. Another argument which can be seen as a constraining factor – especially for SMEs – is that the claiming back procedure of the VAT in both countries is described as long-lasting. This may lead to the fact that large amounts of money are outstanding. In turn, companies which do not have sufficient monetary resources may face a disadvantage because operations money cannot be accessed.

The violation of copy rights is to be associated with an investor’s potential constraining factor due to the mostly bad quality of imitated products. This is especially threatening for companies that need to rely on supplies and tools that are locally available. Furthermore, the violation of copy rights in both countries leads to the actuality that imitated goods are lower priced than a MNE’s original equivalent. In consequence, the MNE makes less profit and the corporation’s image is likely to suffer due to consumers potentially associating the low product quality with the brand and/or the company’s image.

Companies having the Rwandan government as customer argue that foreign governments’ refusal to further distribute financial aid and cheap loans to the government – due to the non-adherence of human rights – is a potential constraining factor to their business activities because the government does sometimes not have enough money to pay the MNEs on time. As a consequence, large amounts of money are outstanding. Another factor to be associated with the government being illiquid is that Rwanda’s government-driven economy cannot be maintained due to the government’s illiquidity. If the government cannot pay its invoices (on time), the domestic economy also suffers because employees of the government’s customers often do not receive any salary. This, in turn, contributes to Rwandan inhabitants’ decreasing purchasing power because they do not posses sufficient monetary resources in order to buy products and services of foreign and domestic enterprises.
6.2 Answers to the Research Questions and the Problem Statement

In the following, chapter one’s research questions are answered and a response to the study’s problem statement is suggested.

6.2.1 Research Questions

The research question “To what extend are foreign companies investing in Rwanda or Uganda” reveals that foreign entities only moderately invest in the country of Rwanda. This can be seen when looking at the figure of $106 million of foreign capital inflows resulting from FDI in 2011 (World Bank, 2012). This is especially to be associated with the country’s smallness, its landlocked geographical situation and the lack of country-specific advantages. Moreover, fairly low levels of GDP (a GDP of U.S. $7.103 billion in 2012) and GNI (a GNI of $560 per capita in 2012) may contribute to foreign MNEs decision not to enter the market since potential national customers’ purchasing power is likely to be relatively low. However, in Rwanda, foreign private capital inflows increased from nine per cent in 2009 to 13.4 per cent in 2010 and 19.5 per cent in 2011 (UNCTAD, 2010, 2011, 2012). MNEs that frequently invest in the Republic of Rwanda consist of global players which offer everyday (consumer) goods – for instance food products or solar panels –, exploit natural resources – such as gas –, produce energy, build infrastructure – for example roads – or are engaged in the delivering of management and engineering consulting. An important factor for most companies entering the Rwandan economy is the availability of a sufficiently developed target group which is largely available – for instance the country’s poorest inhabitants. For the Republic of Uganda, it can be concluded that MNEs are often invest in the country in order to profit from the republic’s large availability of country-specific advantages – such as natural, resources, commodities, the country’s status of being a LDC or Uganda’s geographical situation, including its closeness to the DRC and the country of South Sudan. Considering the amount of foreign capital inflows into the Ugandan economy of $797 million in 2011 and the fact that foreign private capital inflows increased from 3.2 per cent in 2010 to 4.7 per cent in 2011, it can be assumed that MNEs frequently invest in the country (World Bank, 2012). In consequence, the country’s relatively high level of FDI can be specifically noticed due to the high availability of foreign small, medium-sized and large enterprises and the large number of foreign citizens from developing countries that live in Uganda.

The second research question “What are the source countries for foreign direct investment in Rwanda or Uganda, respectively” elucidates that the eleven foreign MNEs
operating in the country of Rwanda – which are included in the analysis – have their direct mother companies in the countries of Germany, the U.S., the Netherlands, Switzerland, Australia and Belgium. Besides that, these enterprises serve international corporate customers established in the country of Rwanda from countries – such as – China, France, Italy, Austria, Sweden, Russia, India, Brazil, South Africa, Namibia, Uganda or Canada. Noticeable is that UNCTAD (2012, 2011, 2010, 2009, 2008, 2007) found that foreign investors in the countries of Rwanda and Uganda are mainly coming from countries such as China, India, Europe and North-America. However, reliable statistics including exact percentages of MNEs’ source countries are not publicly available yet. The participating enterprises in the country of Uganda have their direct mother companies in the Netherlands, Australia, Belgium, the United Kingdom, and Switzerland. These enterprises serve international corporate customers from countries – such as – India, South Africa, other Northern Africa, the U.S., France, Ireland, Brazil or China.

The research question “Which mode of foreign direct investment is preferred by foreign investors in Rwanda or Uganda” reveals that the enterprises included in the sample are mainly entering the market by establishing their own subsidiaries. One firm operates a JV with a local partner and another foreign corporate entity has been taking over a foreign competitor. Furthermore, the interviews reveal that JVs with local partners are not a preferred mode of entry for MNEs due to Rwandan partners’ lack of financial liquidity and accountability, their lack of openness and due to a different working attitude and different cultural characteristics. The preferred modes of entry for the participating enterprises in the country of Uganda are the establishment of own subsidiaries and the engagement into majority JVs. Besides three MNEs that rent office space in the country, two firms establish their own subsidiaries via green-field operations. Furthermore, one firm takes over an existing foreign enterprise in order to join the market and five companies operate in a JV. The JVs are mostly established due to Uganda’s former law that foreign MNEs are not allowed to fully own a subsidiary or foreign representation in the country. After the law was dissolved by the Ugandan government in the 1990s, most enterprises started to operate a fully owned subsidiary in the country. Important to mention is that JVs in Uganda are almost always operated as majority JVs in which the foreign entity holds more than 50 percent of the shares. Additionally, all interviewees inform that Ugandan JV partners are sometimes not very trustworthy (due to the stealing of operations money), that their lack of monetary resources often contributes to the situation that they cannot contribute to the payment of invoices and
that a different business culture contributes to difficulties and differences of opinion. In fact different attitudes, norms and values are usually resulting in a different working mentality – with different (cultural) characteristics – and are hence often responsible for frictions.

For the answer to the research question “Which industrial sectors are predominantly chosen by foreign companies investing in the countries of Rwanda and Uganda” please refer to the tables 3.10 and 3.11.

The question “Is the infrastructural system – such as roads, internet or energy – in the countries of Rwanda and Uganda sufficient enough to carry out commercial business activities” brings to the surface that the Republic of Rwanda hosts a fairly developed road network. The further interviews reveal that Rwanda’s energy supply has developed. However, the energy is unsteady and power cuts occur daily. Therefore, generators and stabilizers are needed. The internet network in Rwanda is described as rather insufficient due to its high price and its unreliable bandwidth. The supply of clean drinking water is usually available for corporate entities – also in the rural areas. The Republic of Uganda hosts a railroad network. This is, unfortunately, in a relatively bad condition due to the railroad network being old and barely maintained. The research interviewees explain that Uganda’s roads are rather basic and that the poor development of the main road that leads to the Ugandan-Kenyan border is deficient. However, Uganda possesses over rather good airplane connections to foreign countries globally. It is mentioned that the country’s energy supply is rather unstable and that generators and stabilizers are needed because of an unsteady connection. Uganda’s internet connection is described as more or less reliable. However telephone conferencing is rather difficult because of the variable bandwidth. Furthermore, a business internet connection is described as expensive by the interviewees even though it is one fourth of the price for a comparable business internet connection in Rwanda.

The research question “Are there enough resources – such as sufficiently educated human resources, service enterprises, technology, machinery and equipment – to be found on the local markets” clarifies that the availability of sufficiently educated human resources cannot be guaranteed in both countries due to the lack of apprenticeships, adequate schools and universities. It is further observed that service enterprises – mostly of foreign origin – are available in both countries. Supplies – such as basic machinery and equipment – is delivered by importers – which are also mostly of foreign origin. However, the availability of technologically advanced products, specific materials and spare parts is not guaranteed. In
fact, special machinery, spare parts and equipment must be self-imported and high import tariffs apply – which is costly and time-consuming due to a slow custom clearance process.

The seventh research question “Which country offers the most inevitable investment terms for foreign entities” enlightens that the country of Uganda is believed to offer the most inevitable investment terms for foreign MNEs because official tax holidays of up to five years are granted with an additional option to extend the period by another five years. On top of that, foreign entities that invest a significant amount of money – usually above one million U.S. Dollar – are granted a piece of land for free in order to undertake a green-field project. The country of Rwanda offers tax holidays of up to five years for firms that are investing an initial amount of more than $500,000. However, exceptions can be negotiated.

The research question “Which international trade agreements are existent and to what extend are they functioning sufficiently in terms of the exportation of products and services to other African nations and to countries overseas” elucidates that MNEs operating in both countries are profiting from the countries EAC membership which theoretically ensures that goods, services, capital and labor can be moved from one MS to another MS without any additional charges. Practically, however, the EAC does not work sufficiently yet. Nevertheless, the interviewees of both countries report that the EAC facilitates trade between the MS. Furthermore, the countries’ COMESA membership does not play a major role due to the COMESA agreement’s lack of action. The interviewees also acknowledge Rwanda and Uganda’s status as LDCs which enables the importation of domestically produced goods without the payment of any additional import taxes to the EU and U.S. – due to the EBA and AGOA agreements.

The answers to the last research question “What are the main drivers and the most important restraining factors for foreign investors to invest in Rwanda or Uganda” reveal that foreign entities mainly invest in the country of Rwanda due to the availability of a target group and the issue that MNEs want to be closer to their – mostly international – business clients. Besides that, Rwanda’s country specific advantages of the country’s status of being a LDC, its EAC membership, its geographical closeness to the DRC and the factors of political stability, good governance, the country’s non-corruption policy and the availability of rather inexpensive human resources are declared to be Rwanda’s main drivers for FDI. The country’s major restraining factors for FDI are named to be its highly political environment, the non-availability of skilled and experienced specialists, engineers and executives,
Rwanda’s smallness, Kagame’s succession in 2016, the conflict in the DRC, rebel groups that operate within the country, the government’s non-corruption policy, the country’s relatively high tax rates, people’s different (business-) cultural characteristics and human resources’ minimalistic working attitude concerning the adherence of quality standards. MNEs mainly invest in the country of Uganda due to the country’s function as a hub to the DRC and the country of South Sudan, its fairly stable political environment, Uganda’s favorable investment terms for MNEs, the availability of natural resources and commodities, the accessibility of a rather large population, the large availability of other MNEs as potential customers and due to Uganda’s status as a LDC and its EAC membership. MNEs’ major restraining factors in the Republic of Uganda are the republic’s relatively bad relationship to the country of South Sudan, the conflict in the DRC, Museveni’s succession in 2017, the non-availability of sufficiently skilled and educated specialists, managers and executives, the lack of qualitative schools and universities, the country’s relatively high tax rates, Uganda’s high level of corruption and the issues of cultural differences concerning the relationship to local suppliers, JV partners and employees.

6.2.2 Summary

Generally spoken, the country of Rwanda is an adequate place for FDI because the major restraining forces of the country’s highly political business environment, the country’s non-corruption policy, its high level of bureaucracy, political uncertainty that is associated with the president’s succession and the non-availability of skilled professionals are exceeded by its main drivers for FDI which are the country’s non-corruption policy, the availability of rather inexpensive human resources and the country’s geographical closeness to the DRC as well as its membership in the EAC and the status as a LDC. In this regards, foreign market entrants should especially be aware of Rwanda’s highly political market environment when establishing a subsidiary in the country. Furthermore, it is highly recommended that foreign entrants are aware of Rwandans’ different working and business culture. MNEs being engaged in labor intensive projects which manufacture quality products are not recommended to enter the country because employees are most likely to not have the right mentality to produce high quality products. Furthermore, the lack of adequately skilled human resources may require enticing future employees from other countries globally. Therefore, it is recommended that laws regulating the employment of foreign specialists and workers are carefully studied. MNEs which train domestic employees should be aware of the likelihood that human resources potentially either raise their salary expectations or apply for another –
better paid – position after they have been educated. Since Rwanda hosts a large quantity of poor inhabitants, the recommendation to target these people as potential customers is given, by – for example – selling low priced products. Please be aware that the market of Rwanda is relatively small and that purchasing power is not as high as in other African markets. It is therefore recommended that only smaller or medium-sized investors enter the country – due to their higher flexibility. The country is also recommendable for firms which want to export their goods to the EU and U.S. due to the EBA and AGOA agreements. The country of Rwanda is very recommendable for MNEs which want to export their products or services to the neighboring country – the DRC. Rwanda’s secure environment and the country’s closeness to the DRC make it hence possible that MNEs’ products and employees can reach the country within a short period of time by reducing the likelihood of directly facing risks resulting from political instability in the DRC.

Uganda’s restraining forces of the country’s high level of corruption and bureaucracy, political uncertainty to be associated with the president’s succession, different cultural characteristics of employees and business partners and the non-availability of sufficiently skilled and educated specialists are exceeded by the country’s main drivers for FDI which are that workers are available at rather inexpensive rates, that the country is politically stable, that Uganda can function as a hub to the countries of South Sudan and the DRC as well as Uganda’s membership in the EAC and its status as a LDC. Since the country of Uganda offers a relatively large market environment, foreign investors are recommended to enter the country due to the possibility to reach many potential customers. Companies that are engaged in trade activities with the DRC or the country of South Sudan are recommended to undertake FDI in Uganda in order to use the country as a hub. However, MNEs that are not willing to engage in any form of corruption are advised to not consider the Republic of Uganda as an investment destination since business activities can hardly be conducted without engaging in inducement and facilitation processes. Investors who intend to produce products in order to export them to the EU and U.S. are recommended to enter the country because domestically manufactured goods can be exported to the EU and U.S. without paying any import tariffs, due to the EBA and AGOA agreements. MNEs of the coffee sector are recommended to enter the country because of a favorable climate. However, due to the commodity market being highly competitive, only powerful corporations are advised to enter the country because of to the likelihood that unforeseeable events – such as the payment of bribes or increasing export taxes for commodities – may cause profits to stagnate.
6.3 Limitations of the Research Study

Since the qualitative research study is limited to the analysis of possible impacts of external and attitudinal factors on FDI in the countries of Rwanda and Uganda, the research is restricted by its nature and approach. Furthermore, the study’s results are limited to foreign entities employees’ answers who possibly provide inaccurate information or wrong and/or untruthful answers. Additionally, the research is limited to a total number of 24 interviews in both countries – from which three are professors and governmental organizations. This number does not represent the total quantity of foreign investors in Rwanda and Uganda and is therefore a limitation to the study. Another limitation is that some potential – for the study very interesting – foreign investors in the countries of Rwanda and Uganda were not willing to conduct an interview. The relatively short availability of time to conduct the research and to write the document is a limitation because the research’s problems cannot be as thoroughly. The fact that qualitative research is time consuming can also be described as a limitation because more insights could potentially have been brought up if the transcribing processes of the data would not have been as long lasting. The study’s replicability can be described as rather complex because the exact same conditions are difficult to be rebuilt.

6.4 Recommendations for Further Research

Due to the study’s qualitative approach, only a number of 24 interviewees – including four interviewees of educational and governmental organizations – could be reached. Since this does not reflect the whole population of foreign investors in Rwanda and Uganda it is suggested to continue the study by conducting quantitative research in order to reach a higher number of interviewees. Recommendable is also to elaborate on trade relationships of MNEs established in the country of Rwanda and/or Uganda with domestic and foreign enterprises established in the conflict nations of the DRC and the country of South Sudan. Due to the study touching the subject of FDI in post-conflict countries, conflict nations and LDCs it is recommended to conduct further research in the field by highlighting FDI in conflict countries – such as the DRC – , the role of FDI concerning LDCs’ economic development, and the contribution of FDI to a post-conflict country’s political progress and economic expansion. Another suggestion for further research is to examine motivational factors of foreign investors investing in the whole African continent. This could be done by dividing the entire area of Sub-Sahara Africa into five geographic sectors in order to compare the results of all countries and sectors. This is planned to be the next research project in form of a dissertation.
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8) Appendices

In the following pages, the interview questions for companies, institutions and specialists are presented. Furthermore, an example interview is provided and the answers to the interview questions are shown by question and country.

8.1 Interview Questions

First of all, the interview questions are shown. Secondly, the questions for Institutions and Specialists are provided.

8.1.1 Interview Questions for Foreign Companies in Rwanda and Uganda

1. What sector is your company operating in?
2. What kind of service do you offer/what do you produce?
3. What are you exactly doing?
4. How many local employees do you have?
5. How many foreign employees are working at your company?
6. Does your enterprise have subsidiaries in other (African) countries?
7. How big is your enterprise (square meter)?
8. Are you exporting your goods/services or do you serve the local market solely?
9. Are your customers national or international?
10. How do you supply your goods/services?
11. From which sectors/industries are your customers coming from?
12. How much turnover and profit is your enterprise making per year?
13. How did you establish your firm (e.g. M&A, JV, own subsidiary)?
14. How did you finance your company in Rwanda/Uganda?
15. Would you recommend other foreign investors to invest in the country? Why/why not?
16. Why did your company choose to invest in Rwanda/Uganda?
17. What kind of infrastructure do you need?
18. Is the national infrastructure system – such as roads, energy, and internet – sufficient for your firm?
19. Are there enough resources to be found on the local market?
20. Do you import the resources you need to run your company, or do you buy them locally?
21. Are there enough service enterprises you could use – such as logistic companies or consultants?
22 Do you have access to sufficiently educated labor – or is it a problem to find educated personnel at an adequate salary?
23 How would you rate the education system in Rwanda/Uganda – is this sufficient for your purposes?
24 How important is political stability for your company?
25 How would you describe the political situation?
26 Did you receive any government incentives or other enticements?
27 Did/does the local government help you to establish your firm?
28 Did you receive any help from foreign organizations?
29 Did your government/your government’s local embassy help you in any way to establish your firm/subsidiary?
30 Do you profit from any international trade agreements?
31 Is corruption a problem for you?
32 Do you face hard competition from local or other foreign firms?
33 How many taxes do you pay?
34 How do you transfer the money you make to your enterprise’s mother company?
35 How much money did you invest as initial investment?
36 Do you need to pay taxes twice when you transfer your profits to the mother enterprise or is there a double tax treaty with Uganda/Rwanda and your country?
37 What are the biggest (local) constraints for your company?
38 What are the biggest (local) opportunities for your company?
### 8.1.2 Interview Questions for Foreign Governmental Institutions in Rwanda

1. How many investors of your country are currently operating on the local market?
2. In which industries are these enterprises operating in?
3. Do you know whether these enterprises face problems associated with the lack of infrastructure?
4. Do you know these firms have problems with corruption on the local market?
5. Does organization help national firms establishing subsidiaries in Rwanda?
6. Does your organization help national firms solving problems associated with corruption in the country?
7. How does your organization support national firms?
8. To what extend does your organization cooperate with the host country in order to support national firms?
9. What kind of international relations exist between your country and the host country in order to help supporting trade activities of national enterprises?
10. How would you describe the investment climate for foreign companies in the country?
11. What do you think are the biggest problems foreign investors are facing with when running a subsidiary in the host country?
12. What are the biggest concerns/threats foreign investors usually have in the host country?
13. Do you know how investors preferably enter the market (e.g. JV, M&A, own location)?
14. What kind of infrastructure is usually needed by foreign firms?
15. Is the national infrastructure system – such as roads, energy, and internet – sufficient for foreign entities operating in the country?
16. Do you know whether foreign entities are – generally – satisfied with the national education system in terms of getting sufficiently skilled human resources?
17. Do you know the average salary of local workers who are employed by foreign investors?
18. Do you know the average salary of expatriate managers working in Rwanda?
8.1.3 Interview Questions for Specialists in Uganda

1. How many foreign investors are currently operating on the local market?
2. What was the total investment from foreign direct investors in 2012?
3. Which five foreign investors are most important for Uganda?
4. In which industries are these enterprises operating in?
5. Do you know whether these enterprises face problems associated with the lack of infrastructure?
6. Do you know these firms have problems with corruption on the local market?
7. Are there special programs to prevent corruption?
8. Who helps foreign firms establishing subsidiaries in Uganda (anyone)?
9. How would you describe the infrastructural situation for enterprises (service firms and manufacturing enterprises) in the country?
10. Is infrastructural development important to attract foreign investors – to what extend?
11. Which trade agreements are important for foreign investors in Rwanda/Uganda?
12. What kind of (tax)-incentives (and other enticements) does the local government offer in order to attract foreign enterprises?
13. How does the government attract foreign companies?
14. Is the government able to guarantee a good/an adequate investment climate for the next years (what is done in order to guarantee it)?
15. How would you describe the future (ten years) of FDI in Uganda concerning the attraction of foreign enterprises?
8.2 Example Interview with a Foreign Investor

Wednesday, September 11: Interview at XXXX Ltd Uganda

Company Facts

- XXXX based firm operating in the coffee sector (which is owned by XXX – a XXXX based corporation)
- Found in the early 90s in Uganda
- Mother company is XXXX based in XXXX

Market (& Market Segment)

- Coffee processing and export
- Procurement, processing, export

Customer (& Customer Segment)

- International distributors, wholesalers and traders

Question One:

What sector is your company operating in?

- Coffee processing and export

Question Two:

How Many Subsidiaries Does Your Enterprise’s Mother Company have?

- Across the globe

Question Three:

What Kind of Service Do You Offer/What Do you Produce?

- Procurement processes and exporting
- Agricultural issues
- Manufacturing of coffee (consulting)
Question Four:

What Are You Exactly Doing?

- Procurement processes and exporting
- Agricultural issues
- Manufacturing of coffee (consulting)
- 60% Robusta and 40% Arabica coffee (XXXX Uganda has a competitive advantage in the Arabica segment)
- Washing and processing of Coffee beans
- Export of processed coffee and raw materials (the original coffee beans)

Question Five:

How Many Local Employees do You Have?

- 100 full time (average salary is way above the minimum level → in order to attract high quality people and to maintain them)
- Several 100 daily laborers (depending on the time of the year → a lot during coffee harvest and processing periods)

Question Six:

How Many Foreign Employees are Working at Your Company?

- Full time: 3 (British, Columbian)
- Part time (1 (Columbian)
Question Seven:

Does Your Enterprise have Subsidiaries in other (African) Countries?

- Across the globe
- Many coffee producing countries for processing and import houses in the Western world (e.g. in Australia, GER. U.S.)
- Kenya
- Tanzania
- Ethiopia
- Rwanda
- CH
- UK

Question Eight:

How Big is Your Enterprise (Square Meter)?

- 5 acres
- A new one is being build (will be one of the best coffee processing plants in Sub-Saharan Africa)

Question Nine:

Are you Exporting your Goods/Services or do You Serve the Local Market Solely?

- Export (99%)

Question Ten:

Are Your Customers National or International?

- International (export)
- Very big mix (because of the mix of coffee)
- Mainly to the EU (65-70%)
Question Eleven:

How do You Supply your Goods/Services?

- Containers from Mombasa (trucks to Kenya)
- 99% via Mombasa

Question Twelve:

From Which Sectors/Industries are Your Customers Coming From?

- Traders, wholesaler, distributors specialized in Coffee

Question Thirteen:

How Much Turnover and Profit is Your Enterprise Making per Year?

- $XXXX million/year

Question Fourteen:

How did you Establish Your Firm (e.g. M&A, JV, Own Subsidiary)?

- JV → in the beginning there was a need to have a local partner (this was dissolved at the end of the 90s)
- Now, almost wholly owned (99,9%)

Question Fifteen:

How Large was the Initial Investment?

- $XXXX million

Question Sixteen:

How Did you Finance Your Company in Rwanda/Uganda?

- Exclusively externally
Question Seventeen:

Would You Recommend other Investors to Invest in the Country? Why/Why Not?

- Not asked – see the last two questions for drivers and constraining forces

Question Eighteen:

Why Did You Choose to Invest in Rwanda/Uganda?

- Large country (a lot of coffee fields)
- Good climate and soil for coffee
- Other agricultural reasons
- By the early 90s (when the country was entered) Museveni liberalized the market in terms of the entrance of FDI

Question Nineteen:

How Would You Describe the Investment Climate for Foreign (Western) Companies?

- Generally, it is very good
- Free market approach
- Free market
- Assistance from the investment authority (free land)
- Disadvantage are the high taxes

Question Twenty:

What Kind of Infrastructure do You Need?

- Energy
- Roads (export)
- International airport
- Internet
- (international) telecommunication
- Oil
Question Twenty-One:

Is the National Infrastructure System – Such as Roads, Energy, and Internet – Sufficient for Your Firm?

- High speed internet connection is missing
- More road infrastructure to free up the traffic
- Better telecommunication
- New railway network is needed (railway network is very old (and baldly maintained) since it was built by British colonial power more than 100 years ago
- Oil should be moved in by pipelines (not by truck!)
- Infrastructure needs to be more efficient
- However, a container can be at the port of Mombasa within 5 days (it has been as bad as 30 days)
- Power cuts were a problem (now, it is a better supply → Chinese are investing in electricity (dam, etc..)) → this changes the investment climate a lot

Question Twenty-Two:

Are There Enough Resources to be Found on the Local Market?

- Yes (in large)

Question Twenty-Three:

Do you Import the Resources You Need to Run Your Company, or Do you Buy them Locally?

- If you want to have a good quality, you may chose to import yourself
Question Twenty-Four:

Are there Enough Service Enterprises You Could Use – Such as Logistic Companies or Consultants – in Rwanda/Uganda

- Yes (mostly of foreign origin)
- Local consultants, etc., are very expensive
- Foreign firms are on the market
- Construction (foreign and domestic)
- Earnest and you, etc., is there
- International banking site is there
- The construction company that builds the new plant is a domestic registered (independent) company (but of British origin)

Question Twenty-Five:

Do You Have Access to Sufficiently Educated Labor – or is it a Problem to Find Educated Personnel at an Adequate Salary?

- This is a very difficult issue
- The quality of HRs you require is so much more expensive than in Kenya/India → skilled Hrs are not there (a lot of gaps)
- Good HRs go/went overseas
- Pretty well qualified employees either have very high expectations or can easily apply for a working visa to get into developed and industrialized countries
- NGOs (World Bank, UN, etc..) pay pretty good salaries and increase the price of (good skilled) HRs

Question Twenty-Six:

How Would You Rate the Education System in Rwanda/Uganda – is this Sufficient for Your Purposes?

- Pretty low
Question Twenty-Seven:

How Important is Political Stability for Your Company?
- Important part
- Without stability, it is very difficult to run business activities smoothly
- However, large corporations can easily arranged with political regimes in times of political turmoil (but at a much higher cost)

Question Twenty-Eight:

How Would You Describe the Political Situation?
- Stable
- Museveni has done an incredible job since he came into power
- The succession of Museveni is a big threat

Question Twenty-Nine:

Did you Receive Any Government Incentives or Other Enticements?
- The company was established before the investment incentive program was there

Question Thirty:

Did/Does the Local Government Help You to Establish Your Firm?
- Investment authority is very welcoming for foreign investors (e.g. in terms of work permits)
- Harmonized situation
- Free land to establish the new processing plant

Question Thirty-One:

Did You Receive Any Help from Foreign Organizations?
- No
Question Thirty-Two:

Did Your Government/Your Government’s Local Embassy Help You in Any Way to Establish your Firm/Subsidiary?

- Diplomatic community can be quite useful (UK, CH, GER, EU, etc..) but not officially
- Agribusiness investment trust (for sustainability coffee projects)

Question Thirty-Three:

Do you Profit From Any International Trade Agreements?

- COMESA (export to South Sudan)
- EBA (no taxes to the EU) but on the service (processed coffee))
- AGOA (no taxes to the U.S. for raw materials coffee but on the service (processed coffee))
- Tax incentives for Ugandan coffee going to China (but very complex)

Question Thirty-Four:

Is Corruption a Problem for You?

- It is an issue but not for the company XXXX because it is a large – powerful – corporation with direct contacts
- Everything is done via contacts – diplomats, ministers – the relation to them is very important
- Corruption is often a result of somebody else doing things incorrectly (if you do clean business, it should not be a big issue)
- The company XXXX has to lose an image, has a global reputation and strict non-corruption and CSR policies

Question Thirty-Five:

Do You Face Hard Competition From Local or Other Foreign Firms?

- Less locally (only a hand full)
- Mostly (very competitive) global players
Question Thirty-Six:

How Many Taxes Do You Pay?

- 35% corporate
- PAYE (pay as you earn, tax on worker’s salary)
- VAT (charging it back can be a long-lasting procedure)

Question Thirty-Seven:

How Do You Transfer the Money You Make to Your Enterprise’s Mother Company?

- Via bank transfer (hedging is done dollarized business)

Question Thirty-Eight:

Do You Need to Pay Taxes Twice When You Transfer Your Profits to the Mother Enterprise or is There a Double Tax Treaty With Uganda/Rwanda and Your Country?

- DBA is there

Question Thirty-Nine:

What are the Biggest (Local) Constraints for Your Company?

- Museveni controls the environment/market/country
- Land (without being granted free land) is expensive
- Granted land often needs further investment (e.g. because it is swampy)
- Extremely volatile world coffee (commodity) market (NY, London)
- Hedging required
- HRs (expensive skilled workers, a lot of unskilled (inexperienced) workers)
- Continent lost market share of coffee
- Government controls the market quite heavily
- Disadvantage are the high taxes in Uganda
- New railway network is needed (railway network is very old (and baldly maintained) since it was built by British colonial power more than a 100 years ago
- Oil is supplied by truck and not by pipeline
- The quality of HRs you require is so much more expensive than in Kenya/India skilled Hrs are not there (a lot of gaps)
- Good HRs went to countries overseas
- Pretty well qualified employees either have very high expectations or can easily apply for a working visa to get into developed and industrialized countries
- NGOs (World Bank, UN, etc..) pay pretty good salaries and raise the price of (good skilled) HRs
- The succession of Museveni is a big threat
- VAT (charging it back can be a long-lasting procedure)
- If the coffee production stops for some reason (e.g. turmoil, war, chaos, disease, climate change, collapse in global coffee prices, etc..) and that the supply chain can be stopped by these things → the coffee production goes into decline
- Expensive HR training (also from foreign organizations (against money))
- Salary is way above the minimum level → in order to attract high quality people and to maintain them (you cannot expect somebody to deliver a proper service for a very low salary)
- EAC does not function as it (theoretically) should be (→ but it facilitates trade)
- Good investment climate (FDI is welcome)
- After-care by the Ugandan Investment Authority is not as good as it could be but it is available (and way better than in Rwanda)

**Question Forty:**

**What are the Biggest (Local) Opportunities for Your Company?**

- Museveni liberalized (foreign) trade when he came into office
- World is evolving in the coffee trade (developing countries & LDCs are becoming customers)
- Ugandan investment authority granted land for a new processing plant
- Tax incentives ( years)
- The company XXXX Uganda has a competitive advantage in the Arabica segment due to knowledge and expertise
- COMESA, EBA, AGOA
- Dollarized business
- Effective FX market (however, this is a dynamics of the coffee business)
- UGX can be easily hedged
- High quality of coffee beans
- Good climate and soil for the planting of coffee
- Uganda as a hub due to the EAC (in the future!)
- Large corporations can easily arrange with political regimes in times of political turmoil (but at a much higher cost)
- Good contacts to high officials and diplomats in order to prevent corruption
- Closeness to the DRC and South Sudan
- Corruption is an issue in Uganda but not for the company XXXX because it is a large – powerful – corporation → everything is done via contacts – diplomats, ministers – the relation to them is very important
- Optimizing manufacturing processes
- Internal consumption of coffee in Uganda (if this kicks in/grows, it would be a very good market – basically → the development of the domestic coffee market is an excellent (market) opportunity)
- Very competitive (global) coffee sector