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BUSINESS ENVIRONMENT AND THE GROWTH OF FOREIGN DIRECT INVESTMENTS IN THE INFORMATION AND COMMUNICATION TECHNOLOGY SECTOR IN RWANDA IN 2012 – 2013

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ABSTRACT: *This research work was carried out to examine the extent to which improved business environment contributed to the growth of Foreign Direct Investments in the Information and Communication Technology sector in Rwanda in 2012-2013. Rwanda continues to undertake reforms towards making the country a favorable place for investment. On the 2014 World Bank "Doing Business" report, the country was ranked as the 2nd most improved in the world and the second easiest place to do business in Africa. In 2012, Foreign Private Capital inflows to Rwanda increased by 14.8 percent to $ 409.3 million compared to $356.6 million recorded in 2011. The capital inflows were dominated by Foreign Direct Investments, amounting to $ 255.0 million, and accounting for 62.3 percent of total inflows. The Information and Communication Technology sector attracted the highest flows (41.2%). The study established that, the improved business environment moderately influenced (Pearson correlation coefficient of 0.537and significance -2 tailed- of 0.35), the attraction of Foreign Direct Investments to the Information and Communication Technology sector in Rwanda in 2012-2013. Regulations which improved the ease of establishing business operations, security, growth and sustainability of investments had the highest influence on foreign investors in choosing Rwanda as their investment destination. These covered the areas of good governance, good macro-environmental factors, investor protection, ease of getting credit, ease of starting a business and enforcement of contracts ranked among the top six influencers, in that order, by over 91% of the foreign investors. Insolvency resolution was found to be of great importance particularly to the large foreign investors (above Rwf 75 million in equity investments and turnover above Rwf 50 million as per the World Bank 2014 report) who required a clear exit plan. 50% of these investors ranked the indicator in the upper quartile of the most influential variables. Untapped business opportunities attracted three large multi-nationals to the Information and Communication Technology sector and contributed to the impressive growth of Foreign Direct Investments registered in the Information and Communication technology sector. Publicity by the World Bank Doing Business report, of the impressive transformation and commitment to lower the cost of doing business that was demonstrated by Rwanda, was found to have created considerable interest among 40% of the foreign investors selected. The study adopted a cross-sectional survey and descriptive research design and both secondary data and primary data were utilized. Questionnaires were administered accompanied by interviews to obtain accurate information from the selected sample. Statistical Package for Social Sciences (SPSS) was used for correlation analysis while Microsoft Excel was used for the listing, ranking and analysis of variables. The tools of summarization of data were statistical tables, histograms, line charts and bar charts. For the qualitative data, simple listing of suggestions, factors and other itemized variables was adopted. Pearson correlation was used to study the relationship between the business environment and the level of Foreign Direct Investments registered.*

KEY WORDS: FDI, Business Environment, ICT, Rwanda

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INTRODUCTION

The world has experienced massive transformation in terms of geopolitics, economics and in organization and distribution of production. For several reasons, emerging economies of Brazil, Russia, India and China (BRIC) have acquired important role in the world economy as producers of goods and services. BRICS countries prominently attract larger capital because of their larger potential consumer market having the common characteristic of large population. Brazil, Russia, India and China have emerged as major destination for Foreign Direct Investment (FDI) inflows. Global competition for FDI had given the bargaining power to Multi-National Corporations (MNCs) and their allies. Competition forced the countries to lower their entry regulations, taxes, environmental clearances, and stipulations on working conditions for attracting FDIs, Narayanamurthy et al. (2010). A private sector-led economy is one of the six pillars of Rwanda's Vision 2020. With the objective of complementing internal resources, Rwanda has actively attracted FDI by creating and sustaining a high conducive investment climate through important reforms, RDB (2014). The package for investment promotion includes among others: regulatory framework, registration facilities and requirements, change of registered businesses, closing businesses, disclosure requirements, and other facilities such as working permit, government's protection of investments, settlement of disputes, transfer of funds, special economic zone facilitations and public private partnership (PPP) where RDB is chief negotiator between public and private sectors. On the 2014 World Bank *"Doing Business"* report, Rwanda was ranked as the 2nd most improved country in the world and the second easiest place to do business in Africa. It was ranked 32nd overall on the 2014 report up from position 139 on the 2009 report. The World Bank's *"Doing Business"* reports provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic businesses through their life cycle. The reports measure and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers. As per Central Bank of Rwanda *"Foreign Private Investments in Rwanda 2012"* report, Foreign Private Investments in Rwanda have been increasing overtime. In 2012, Foreign Private Capital (FPC) inflows to Rwanda increased by 14.8 percent to $ 409.3 million compared to $356.6 million recorded in 2011. They were dominated by Foreign Direct Investments (FDI), amounting to $ 255.0 million, and accounting for 62.3 percent of total inflows. The Information and Communication Technology (ICT) sector attracted the highest flows (41.4%). This research work sought to establish the extent to which the improved business environment led to the attraction of FDIs to the ICT sector in Rwanda during the period 2012 - 2013.

Statement of the Research problem

Mobilizing investments and ensuring that they contribute to sustainable development is a priority for all countries. A new generation of investment policies is emerging, as governments pursue a broader and more intricate development policy agenda, while building or maintaining a generally favorable investment climate. "New generation" investment policies place inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment. This leads to specific investment policy challenges at the national and international levels. At the national level, these include integrating investment policy into development strategy, incorporating sustainable development objectives in investment policy and ensuring

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investment policy relevance and effectiveness, UNCTAD (2012). According to Lim (2007), governments play an important role in attracting investments to countries, by promoting open policies, and implementing strategies that invite foreign companies to get started with business since the conditions created by governments are favorable. As cited by Paulo et al (2012), Asiedu reported that analyzing FDI flows to Africa is important for several reasons: First, on the subject of FDI, Africa remains under researched without any study that exclusively focuses on Africa; The second reason is that, taking into account that FDI contributes to growth, it is important to know the factors that affect FDI flows to the slowest growth region, Africa; Third, FDI to Sub-Saharan Africa is driven by different factors. Why does Africa not attract much FDI? The answer to this question is important in economics, business, politics, and academia in the Continent and hence calls for further analysis of the forces driving FDI, Anyanwu (2011). Lack of proper information on the determinants of FDI leaves the macro-economic policies vulnerable to sub-optimality. This study sought to examine the extent to which improved business environment contributed to the growth of foreign direct investments in the Information and Communication Technology sector in Rwanda in 2012 - 2013.

Research objectives

General objective

This study examined the extent to which improved business environment contributed to the growth of foreign direct investments in the Information and Communication Technology sector in Rwanda in 2012 - 2013.

Specific objectives

In order to adequately address the general objective, this study was guided by the following specific objectives:

1) To establish the key business environment indicators whose improvement contributed to the growth of FDI in the ICT sector in Rwanda in 2012 - 2013, attributed to their improvement;
2) To rank the indicators according to their importance in contribution to the growth of FDI in the ICT sector due to improved business environment;
3) To determine the relationship between improved business environment and the level of FDI attracted to the ICT Sector in Rwanda in 2012 - 2013;

METHODOLOGY

Research design

This study adopted a cross-sectional survey and descriptive research design. The study collected and utilized both qualitative and quantitative data. Primary data was obtained using questionnaires administered on a sample drawn from foreign investors who registered their businesses in the ICT sector in Rwanda during the period 2012 – 2013, while secondary data was gathered from documents review.

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Target population and geographical study area

This research targeted 163 new foreign investors registered in the ICT sector in Rwanda in 2012 - 2013.

Sampling design

This study adopted a multistage sampling design. The first stage involved selecting the ICT sector purposively among all the investment sectors in Rwanda. The second stage of the sampling was the identification of the foreign investors who registered their businesses in the ICT sector in Rwanda in 2012 - 2013, which was also purposive. The sample was achieved in the third stage which involved selecting a random sample, by simple random sampling method, from the foreign owned investments identified in stage two above.

Sample and sample size determination

A sample of 115 respondents was selected from the target population indicated above. The sample size was determined using the Cochran (1963) technique.

DATA COLLECTION

Data collection instruments

Primary data

Questionnaires were utilized, accompanied by interviews to obtain accurate information from the selected sample. To ensure construct and internal validities of primary data collected, the questionnaire was constructed against the background of specific research objectives. It was pretested on ten respondents for content validity and reliability. Cronbach's α was used to measure reliability.

Secondary data

This refers to written material that was used as a source of information related subjects to this research topic. This involved secondary analysis of documents which have been prepared approved and filed for future reference. Here the researcher used journals, research papers, textbooks and website.

Data analysis

The data collected was processed and analyzed. This involved data coding, editing and tabulation. Statistical Package for Social Sciences (SPSS) was used for correlation analysis while Microsoft Excel was used for the listing and ranking of variables. Tools of classification of data were statistical tables, histograms, line charts and bar charts. For the qualitative data, simple listing of suggestions, factors and other itemized variables was adopted. After exploration and organization of the data, descriptive statistics were used. These included measures of central tendency and dispersion - Arithmetic mean and mode. For description, the data was analyzed using the point by Person coefficient of correlation.

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RESEARCH FINDINGS AND DISCUSSIONS

Response rate

The Researcher used 115 questionnaires and realized 98 responses, which is a response rate of 85%.

The findings below are presented based on the separate research objectives:

(i) To establish the key business environment indicators whose improvement contributed to the growth of FDI in the ICT sector in Rwanda in 2012 – 2013;

This section enumerates the business environment indicators whose improvement contributed to the growth of FDI in the ICT sector in Rwanda in 2012 – 2013. The indicators are grouped into two - the *key indicators* and *other indicators* based on results of the study.

Table 1: The Key business environment indicators and responses

No.	KEY INDICATORS	RANKING BY RESPONDENTS												
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
a.	Good governance	98												
b.	Good macro-environmental factors		98											
c.	Ease of starting a business			93	3								2	
d.	Ease of getting credit			5	80	2			1	4	5	1		
e.	Investor protection				2	89	4	1				2		
f.	Enforcement of contracts						91	1				6		
g.	Ease of paying taxes					2		95				1		
h.	Ease of getting electricity				1				94			3		
i.	Insolvency resolution				12					75	5	6		
j.	Ease of employing workers									9	85	2	2	
k.	Ease of registering property					5	3	1	3	7	3	72		4
l.	Cross border trading											4	94	
m.	Ease of dealing with construction permits									3		1		94
	Total respondents	**98**	**98**	**98**	**98**	**98**	**98**	**98**	**98**	**98**	**98**	**98**	**98**	**98**

Table 1 above shows the various key indicators and the responses received. The listed indicators were found to have contributed, albeit in varying degrees, in choosing of Rwanda as an investment destination. The responses indicated the perceived order of contribution by the foreign investors.

Other indicators which influenced a section of the respondents included:

a) Access to market,

b) Government policy on ICT;

c) Untapped investment opportunities in the ICT sector and

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a. Publicity through the World Bank "Doing Business" reports of Rwanda's impressive transformation and commitment to lower the cost of doing business.

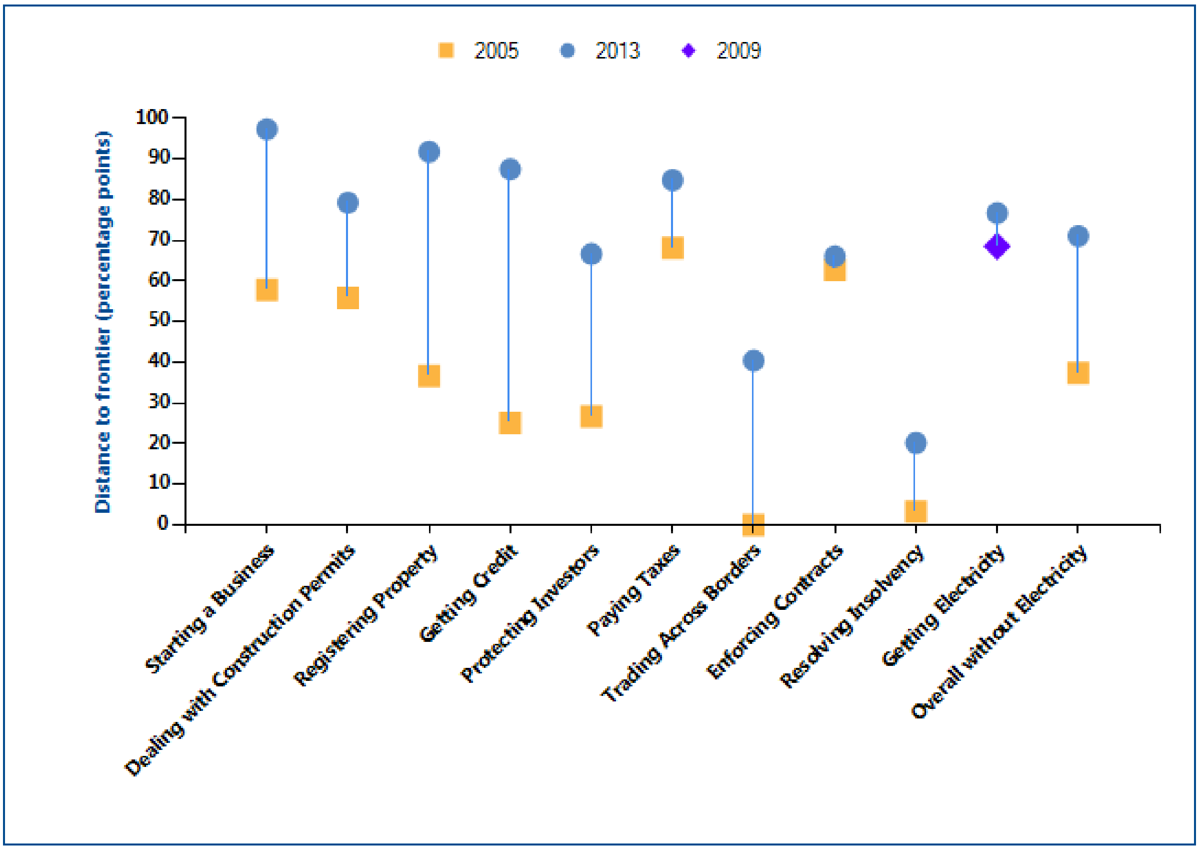
(ii) To rank the indicators according to their importance in contribution to the growth of FDI in the ICT sector in Rwanda in 2012 – 2013, attributed to the improved business environment;

Findings under this objective are discussed under three sub-sections – improvement of "*Doing Business"* indicators, improvement in macro-environment and ranking of the key indicators. The first sub-section covers the improvements registered by the various indicators from 2005 to 2013, the second sub-section looks at the improvements in the macro-environment while the last sub-section ranks the indicators in accordance to their contribution.

Improvement of *"Doing Business"* indicators:

The World Bank's *"Doing Business"* reports provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic businesses through their life cycle. The reports measure and tracks changes in regulations affecting 11 specific areas (indicators) in the life cycle of a business.

Figure 1: How far has Rwanda come in the areas (indicators) measured by "*Doing Business"*?



Source: World Bank Doing Business database.

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each Doing Business indicator since 2005, except for the getting electricity indicators, which were introduced in 2009. The measure is

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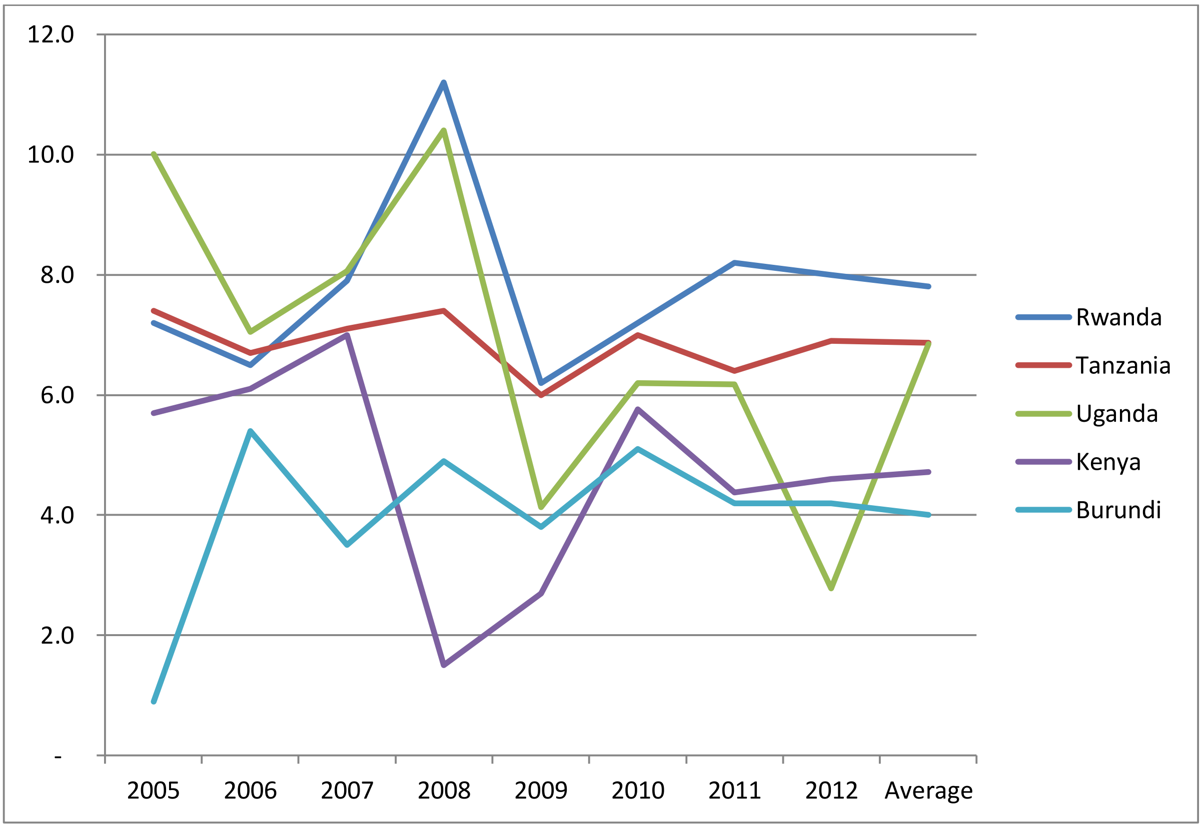
normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The overall distance to frontier is the average of the distance to frontier in the first 9 indicator sets shown in the figure and does not include getting electricity.

The indicators, on their own or in comparison with the indicators of a good practice economy or those of comparator economies in the region, reveal bottlenecks reflected in large numbers of procedures, long delays or high costs. They also reveal unexpected strengths in an area of business regulation - such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. Comparison of the economy's indicators in 2014 with those in the previous years indicated where substantial bottlenecks persist - and where they diminished.

Rwanda was ranked as the 2nd most improved country in the world and the second easiest place to do business in Africa on the 2014 World Bank *Doing Business* report and 32nd overall, up from position 143 on the 2009 report. Figure 1 above revealed the remarkable improvement Rwanda made on the various indicators.

Improvement in macro-environment

Figure 2: Real GDP growth rates in % (8 years to 2012)



Rwanda enjoyed a superior year-on-year GDP growth rate of 7.8% from 2005 to 2012, moderate single digit inflation and a stable exchange rate regime. This was among the highest within the East African region as revealed on Figure 2 above and Africa at large. This prospects of sustained superior growth diverted FDIs from other economies into Rwanda.

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Ranking of the key business indicators

Note: Table 2 shows the % of respondents who classified the environment indicators in the "overall rank" indicated. For instance, all respondents (100%) ranked governance and good macro-environment as number 1 and 2 respectively.

Table 2 revealed unanimity among respondents that, good governance and good macro-environmental factors were key factors in the attraction of FDI to the ICT sector in Rwanda in

Table 2: Ranking of the key business environment drivers

Business Environment drivers	Overall Rank	% of respondents
Good governance	1	100%
Good macro-environmental factors	2	100%
Investor protection	3	95%
Ease of getting credit	4	82%
Ease of starting a business	5	91%
Enforcement of contracts	6	93%
Ease of paying taxes	7	97%
Ease of getting electricity	8	96%
Insolvency resolution	9	77%
Ease of employing workers	10	87%
Ease of registering property	11	73%
Cross border trading	12	96%
Ease of dealing with construction permits	13	96%

2012 - 2013. Rwanda is highly considered secure, politically stable with well-functioning institutions, rule of law and zero tolerance for corruption, low inflation rates and a clear vision for growth through private investment support and development.

Investor protection, ease of getting credit, ease of starting business, and enforcement of contracts completed the factors on the first half of the ranking. These comprise the factors that the respondents considered of great significance in the determination of their investment destination. Protecting investors matters for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. If the laws do not protect minority shareholders, investors may be reluctant to provide funding to companies through the purchase of shares unless they become the controlling shareholders. Sound collateral laws enable businesses to use their assets, especially movable property, as security to generate capital, while strong creditors' rights have been associated with higher ratios of private sector credit to GDP. Where governments make registration easy, more entrepreneurs start businesses. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. Courts are essential for entrepreneurs because they interpret the rules of the market and protect economic rights. Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay.

The ease of registering property, cross boarder trading and ease of dealing with construction permits were ranked on the lower quartile. These were considered less significant as the ICT sector least required them.

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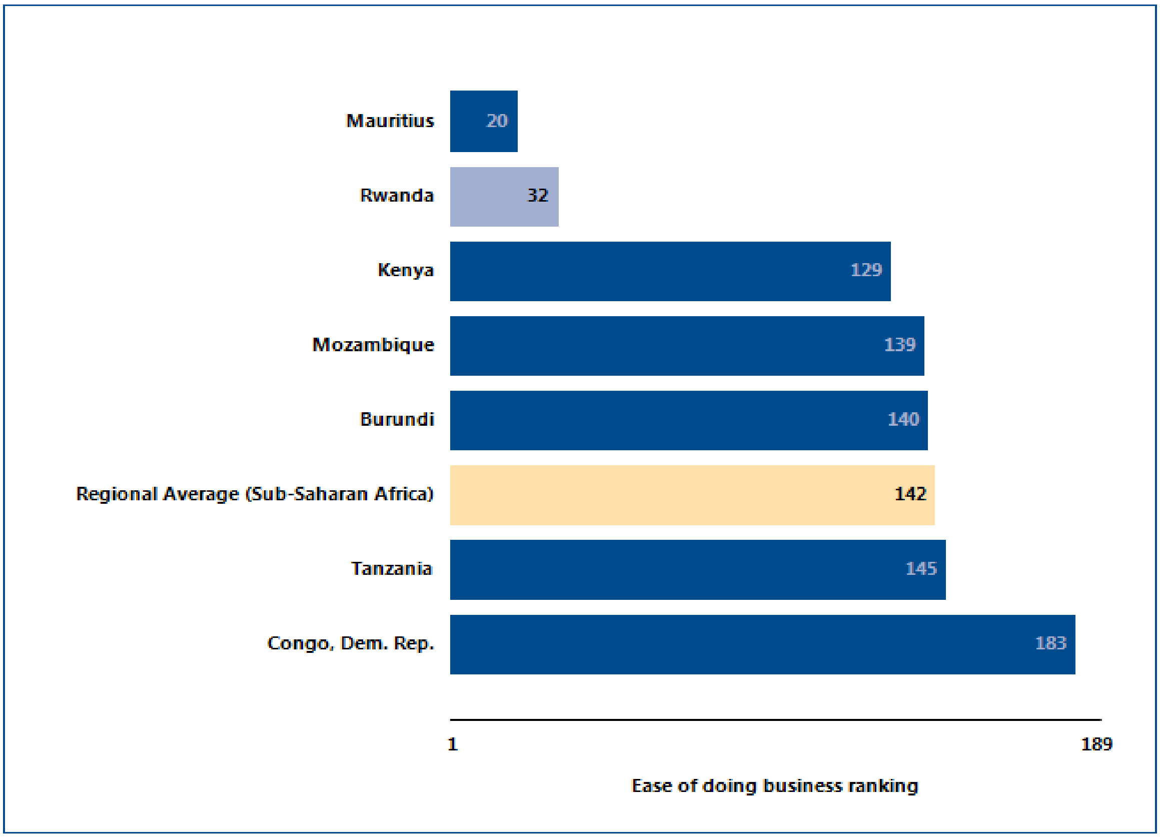
(i) To determine the relationship between improved business environment and the level of FDI attracted to the ICT Sector in Rwanda in 2012 - 2013;

Under this objective, Rwanda is ranked against the comparator economies. The section also enumerates the improvement in the country's business environment since the 2009 World Bank *Doing Business* report. The improvements are then enumerated against the FDI levels with a view to establishing the correlation between the improvement in business environment and the FDI levels.

Figure 3: How Rwanda and comparator economies rank on the ease of doing business



Source: Doing Business report 2014

According to the 2014 Doing Business report, Rwanda as ranked number 32 overall, up from number 143 in 2009 and ahead of the regional average for the Sub-Saharan Africa which was number 142 as indicated on Figure 3 above.

Table 3: Business Environment and FDI

Doing Business Year	Distance from the Frontier (Overall)	FDI USD Million
2010	58	66.9
2011	60	103.3
2012	60	250.5
2013	65	119.1
2014	69	255.0

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Note: Distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on Doing Business indicators.

Table 3 above revealed that, the status of business environment (measured by distance from the frontier) was reported at the lowest of 58% in 2010, while it achieved the best status of 69% in the 2014 *Doing Business* report The best performance achieved by any economy on the doing business indicators is 100%. FDI was also at the lowest in 2010 at USD 66.9 million and at USD 255 million in 2014, which was the highest reported between 2010 and 2014.

The correlation test for relationship between business environment and the level of FDI

An analysis of relationship between the variables was analyzed using the statistical package SPSS based on Pearson's correlation.

Table 4: Pearson Correlation between business environment and the level of FDI

		FDI
DISTANCE FROM THE FRONTIER	Pearson Correlation	0.537
	Sig. (2-tailed)	0.350
	Covariance	212.295
	N	5.000

Note: Distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on Doing Business indicators.

Table 4 above revealed statistically moderately significant and positive relationship between the improvement in business environment and the level of FDI attracted, with Pearson Correlation coefficient of 0.537, covariance of 212.295 and significance level (2-tailed) of 0.350. Therefore, the improvement in business environment and FDI moves in the same direction, and their relationship is moderately strong.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

Business environment indicators whose improvement contributed to the growth of FDI in the ICT sector in Rwanda in 2012 – 2013;

The Study established that those investors who set up operations in Rwanda in 2012 - 2013 had considered the following factors, listed in their order of contribution to the attraction of foreign investors to the ICT sector; good governance (zero tolerance to corruption, security, clear vision & political stability), good macro-environmental factors (superior growth in GDP, interest rates, inflation), investor protection, ease of getting credit, ease of starting a business, enforcement of contracts, ease of paying taxes, ease of getting electricity, insolvency resolution, ease of employing workers, ease of registering property, cross border trading and ease of dealing with construction permits. Other factors that can also contributed to the growth of the FDI registered during the period included: access to market; government policy on ICT; untapped investment opportunities in the ICT sector; and publicity through the World Bank

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Doing Business reports of the impressive transformation and commitment to lower the cost of doing business and attract investments.

The business environment indicators and their contribution to the growth of FDI in the ICT sector in Rwanda in 2012 – 2013;

The indicators which dealt with the establishment, security, growth and sustainability of an investment had the highest influence on foreign investors when choosing their investment destination(s). These included good governance, good macro-environmental factors, investor protection, ease of getting credit, ease of starting a business and enforcement of contracts. Insolvency resolution was found to be of great importance particularly to the large investors who required a clear exit plan. The large investors not only desired business environments that guarantee them success in their ventures but were also endeared to the need for an exit plan from an investment and to guarantee recovery of their initial investment, when the circumstances dictate. The business environment indicators that were not relevant to the life-cycle of the business at the point of study were found to be of little significance to the investors. Cross border trading and the ease of dealing with construction permits were found to be of little significance to the ICT sector in 2012-2013 as the businesses focus was on serving the local market through the existing ICT infrastructure. New MNCs that registered in Rwanda during the period under study were found to have contributed to the impressive growth of FDI registered in the ICT sector. The three MNCs were a high speed broad band internet (4LTE) service provider, a mobile phone operator and a fixed line network operator who took advantage of untapped business opportunities in the sector.

The relationship between improved business environment and the level of FDI attracted to the ICT Sector in Rwanda in 2012 - 2013

The study established a moderately significant (Significance level -2 tailed- of 0.350) and positive relationship (Pearson coefficient of correlation of 0.537 and a covariance of 212.295) between improvement in business environment and attraction of FDI. As the business environment registered improvements, the FDIs attracted to the ICT sector in Rwanda in 2012-2013 also went up.

CONCLUSION

The study established that, improved business environment moderately contributed to the growth of FDI registered by the ICT sector in Rwanda in 2012-2013.

RECOMMENDATIONS

To attract FDI, countries should improve their business environment, particularly the regulatory framework in a bid to reduce the cost of doing business. A country which demonstrates impressive transformation and commitment to lower the cost of doing business can attract foreign investments. The business environment indicators which contribute to the lowering of the cost of doing business include among others: good governance (zero tolerance to corruption, clear vision & political stability), good macro-environmental factors (superior growth in GDP), investor protection, ease of getting credit, ease of starting a business,

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enforcement of contracts, ease of paying taxes, ease of getting electricity, insolvency resolution, ease of employing workers, ease of registering property, cross border trading and ease of dealing with construction permits; access to market; government policies; creation of investment opportunities in the various economic sectors; and publicity, through reputable institutions and channels, of the impressive transformation achieved and commitment to lower the cost of doing business. Great focus should be on environmental indicators which facilitate the establishment, security, growth and sustainability of investments as these were found to have had the highest influence on foreign investors when choosing their investment destination(s). Large investors also strongly considered destinations which guarantee them clear exit plans as well as provided the much needed manpower with ease. Countries should also seek to create investment opportunities as these directly attract large foreign investors and accelerate the growth of FDI.

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