International Journal of Business and Economic Development
Vol. 2, No. 4; December, 2021. pp 6-17
ISSN 2692-5591 (print), 2692-5583 (online)

Published by International Center for Promoting Knowledge

Rwanda Ambitious Agenda for Improving its Institution Fitness: Taking Risks for Social and Sustainable Development

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Abstract

Following the 1994 Genocide against Tutsis that originated from bad governance, Rwanda embarked on an extensive continuous reconstruction, ambitious social development agenda with the ultimate objective to rebuild and strengthen the foundations of macroeconomic stability, sustainable development, and commitment to improve its business and investment climate. Building on social capital, Rwanda launched the Economic Development and Poverty Reduction Strategy (EDPRS) in 2007. In 2016, World Bank ranked Rwanda as the 2nd easiest place to do business in Africa, Safest place to walk and night in Africa, and 5th globally, as the world's fastest development country.

***Keywords**:* Institution Fitness, Sustainable Development, Foreign Direct Investment, Economic Growth, Rwanda

Introduction

The primary subject matter of this case is to address and analyze institution fitness and environmental factors that affect investment and economic growth activities. We examine the overall impact of institution fitness to explain FDI determinants in Rwanda and we shed light on the government's commitment to economic, financial, political reforms, improvement of environmental and investment risks factors such as: government stability, socioeconomic conditions, investment profile, internal conflict, corruption, law and order, bureaucracy quality, external conflict, religion in politics and ethnic tensions. Our case follows the theoretical framework of Institutional FDI fitness concept model developed by Saskia Wilhelms (1998). Whilhelms states that FDI fitness is determined by four institutions: the government, markets, education, and socio-culture. Specifically, we believe that the capacity of Rwanda to attract FDI and experience economic growth during the last eighteen years was a result of institutional (government, economic, and financial) fitness reforms. Foreign Direct Investment (FDI) plays an important role in the development of emerging economies and it has been considered a force for the integration of countries, particularly developing ones, into the global economies (Musonera, E. 2005). After the 1994 genocide, the Government of Rwanda embarked on a continuous, aggressive, and ambitious agenda of political, financial and economic reforms to establish a conducive environment for both domestic and foreign investments. As a result, Rwanda is one of the fastest growing economies in Central Africa and has average a GDP Growth Rate of 8.23 Percent from 2000.

Our discussion will include a detailed analysis of country risk relates to the possibility of changes in the business environment, and to the possibility that these changes can adversely affect operating profits as well as the value of assets of investors. Furthermore, the analysis will include a thorough examination of the Strategic Investments Plan that aims to boost Rwanda's export growth through selected investments, Vision 2020, Home Grown Solutions and Risky Projects that could have brought down the government.

The list of assigned questions will lead students through a thorough analysis of environmental factors that affect foreign direct and business investments, such as political, economic and financial factors and will prepare students to conduct a country analysis and make strategy recommendations. We suggest that you always direct students to search and learn more about Foreign Direct Investment, Institution or Government Fitness, Social and Sustainable Development before discussion. Students who research and learn more about country risk factors that affect foreign direct investment, economic growth activities and sustainability in general, and Rwanda ambitious agenda of social development in particular, will be well-prepared to make meaningful contribution to the class discussion.

Academic Level

This case is appropriate for an oral presentation, a debate, or written assignment for international business and marketing courses, policy makers and foreign investors. It can be used for graduate or post graduate business, international marketing, business and management students. Most students will be very familiar with environmental factors that affect foreign direct investment and institution fitness. Discussion of the case is generally quite lively. The discussion could begin by asking the class if anyone has ever heard about the country of Rwanda and to describe what happened in 1994.

Teaching Objectives

To help students recognize how developing countries seek to attract multinational companies through foreign direct investment (FDI) to get access to knowledge and modern technologies, and how FDI can be a powerful force for the integration developing countries, including Sub-Sahara African countries, into the global economy and can be a source of sustainability. To give students the opportunity to develop and assess country risk factors and to help students understand how Rwanda has worked on improving environmental factors to attract FDI and undertook risky projects for sustainable development.

Teaching Suggestions

This case can be taught in a variety of ways: (a) Taught in the traditional manner where the questions are assigned for discussion in class. (b) It can be assigned to a team of students for a written report and presentation to the class. (c) Alternatively, students can be put in teams in class, meet to do the assignment for a half hour, and then present their country analysis and recommendations to the class. The instructor can then draw conclusions about the country analysis after the presentations.

Institution/Government Fitness

All business transactions involve some degree of risk such as: political, economic, and financial risks. Country risk relates to the possibility of changes in the business environment, and to the possibility that these changes can adversely affect operating profits as well as the value of assets of investors. The risks arise from country environmental factors such as legal and regulatory changes, government transitions, environmental and human rights issues, currency crises, and terrorism, just to mention a few. For multinational companies, these instabilities can lead to political risk losses that threaten corporate financial positions, and the costs of doing businesses in an unpredictable, volatile, politically unstable country are much greater. Most country risk measurements use a mix of political, financial, and socio-economic indicators. In many risk systems, analysts reduce risks to some type of index or relative measure (Coplin and O'Leary (1994). Political, economic, and financial factors are very relevant to private investors, banks, companies, and individuals. Country risk ratings are reported to have a high correlation to actual future equity returns (Harvey et al., 1996; Hall and Jones, 1999).The analogy is that countries that have transparent political institutions, and which promote and improve their economic and financial institutions and structures, attract more FDI in particular and investment in general, and that foreign investors are less likely to invest in risky countries.

Political Environment

The political environment of the host country can be an important factor in FDI decisions, mainly because FDI involves the transfer of control and resources, and its determinants can be affected by factors that are beyond the firm's home country boundaries (Bende-Nabende et al. 2000). Scholl hammer and Nigh (1984), and Schneider and Frey (1985) have argued that the presence of a political system hospitable to foreign capital in terms of property rights and civil liberties plays a favorable role in attracting FDI. Our assessment of political risk is composed of 12 separate dimensions whose effect we compute independently and sum to a composite score (although we realize that these components can have interactive effects). These dimensions include government stability(GS), socioeconomic conditions (SC), investment profile (IP), internal conflict (IC), corruption in government (C), military in politics (MP), law and order (LO), ethnic tensions (ET), democratic accountability (DA), quality of the bureaucracy (BQ), external conflict (EC), and religion in politics (RT). Higher risk points mean that a country has a transparent, reliable, independent, fair, and equitable judiciary system. Higher risk points are also expected to increase FDI by decreasing instability, and thus investment risk. We now discuss each of these 12 dimensions in greater detail.

Government Stability: Government stability is the ability of the government to stay in office and carry out its program. Government stability is about unity, legislative strength, and popular support. The literature shows that stability of the host country can be one of the most important considerations in the FDI decision (Schollhammer, 1974, Richter 1994). Kobrin's work (1978) has underscored this, as he found a negative relationship between political instability and FDI. On the other hand, other studies have shown that stability can bring greater economic growth, and can lead to greater private savings, greater capital imports, and hence, more FDI (Bennett and Green 1997).

Socioeconomic Conditions: Investors use country risks to anticipate changes in regulations, economic growth, unemployment, inflation, and other political and social events that may have a direct impact on economic growth. Because socioeconomic pressures can trigger social dissatisfaction against governments, investors assess the degree to which social conditions may affect market opportunities.

Investment Profile: This includes an assessment of the factors that affect the risk of FDI inflows beyond political, economic, or financial risks. Examples include contract viability and risks associated with expropriation, profit repatriation, and payment delays.

Internal/External Conflict: Conflict risk can come from a variety of sources, both internal and external. Guerilla warfare, armed attacks, assassinations, riots and strikes, coups d'etats, and nationalization and expropriation of assets are among the greatest fears of firms in foreign environments. Conflicts such as terrorism and civil disorder can adversely affect both foreign and domestic business. The impact of these activities on business operations and FDI has been shown to be negative (Kobrin 1979).

Corruption in Government: Corruption deters FDI because it distorts the economic and financial environment, and reduces government and business efficiency (Shleifer and Vishny 1993). Firms prefer to operate in lesser corrupt environments (Davidson, 1980). While some work has not found a significant negative relationship between FDI and corruption in the host country (Wheeler and Mody 1992; Hines 1995), other work has found that the presence of corruption affects FDI inflows negatively (Wei 2000, Tanzi 1997). Other studies indicate that investment and trade can have a positive impact on the reduction of corruption (Selowsky and Martin, 1997).

Military and Religion in Politics: When the military is involved in politics, it can exert political power within the government, control significant private-sector assets, and diminish democratic accountability. Generally, the threat of a military takeover will deter foreign direct investment. With regard to religion, dominant groups seek to replace civil law by religious laws and try to exclude other groups from the political process. This can result in civil disobedience and can lead to civil war.

Law and Order: Law and order traditions reflect the degree to which the citizens of a country are willing to accept the established institutions to make and implement laws and adjudicate disputes. Agreements on international investment provide the framework for transparent conditions of capital movement, and create an environment that is conducive to FDI. On the other hand, the absence of contractual rights or their looser interpretation will have a negative effect on investment (North, 1990). Firms prefer to invest in environments where the government is committed to the rule of law

Ethnic Tensions: Ethnic tensions happen due to racial, ethnic, and nationality differences or language divisions. Typically, if tensions are minimal, a higher score is attributed.

Democratic Accountability: In democratic environments, citizens are involved in decision making, and the government is responsible and accountable to its own people. Most democratic governments change peacefully while there may be violence in non-democratic environments. In our work, higher scores are associated with stable governments.

Quality of the Bureaucracy: The quality of the bureaucracy in a country measures the mechanisms for recruiting and training, autonomy from political pressure, and strength and expertise to govern without drastic changes in policy when the government changes. Sound political institutions and strong rule of law are conducive to economic growth, and therefore to more investments. In the low risk countries, bureaucracy is autonomous from political pressures, while in countries that lack a strong bureaucracy, a change in government may cause dramatic changes in terms of day-to-day administrative functions. As bureaucratic inefficiency impedes economic activities and imposes additional costs on business, foreign investors prefer to operate in stable bureaucratic environments (OECD, 1997b). In our work, this variable, which measures the general efficiency of government service, is directly related to FDI inflows (the higher the quality of the bureaucracy, the higher the FDI.

In sum, political environment indicators are of great importance in FDI decisions because they measure the institutional aspects of the political environment of a country that are directly pertinent to business operations. High political risks can endanger foreign business operations.

Rwanda is one the success stories of a post-conflict state in Africa. After the 1994 genocide, the Rwandan government has restored peace, stability and security. Elections are held at presidential, parliamentary and grassroots level in a democratic way and leaders are accountable to the electorate via a system in which they sign performance contracts with the masses and report back on progress every year.

Financial Factors

A country's financial condition plays an important role in attracting foreign capital (Feder and Just 1977, Cline 1984, Callier 1985).The financial risk rating provides a means of assessing a country's ability to pay its financial and commercial obligations; the larger the proportion of debt, the greater the financial risk, for example. Studies have found that financial risk for the host country can be foretellers of FDI inflows (Callier, 1985). The five financial risk components that are typically used in assessing foreign environments are: foreign debt as a percentage of GDP, foreign debt service as a percentage of the export of goods and services (XGS), current account as a percentage of the export of goods and services (XGS), net liquidity as months of import coverage, and exchange rate stability.

Foreign Debts and Foreign Debt Service: Foreign debt as a percentage of GDP and foreign debt service as a percentage of exports of goods and services are measures of a country's ability to meet its debt obligations, and the country's current capacity to handle its international debt obligations, respectively. Foreign debt shows the magnitude of all foreign debt relative to the size of the economy, and the ability of the country's public and private institutions to repay debt service obligations. Foreign investors and financial institutions use foreign debt risk ratings to test the vulnerability of debtor countries to debt servicing difficulties. These measures can signal, in advance, an imminent or a likely payment difficulty (Avramovic 1964).

Liquidity: Liquidity means the speed with which one can convert one's investment into money before the end of one's investment period, without taking a loss. Net international liquidity is the estimated total official reserves and holdings of gold and other precious holdings. We expect that higher liquidity risk points are associated with higher FDI inflows.

Exchange Rate Stability: The literature suggests that FDI inflows are affected by exchange rates. Several studies have documented a negative relationship between foreign exchange volatility and FDI inflows (Kogut and Chang, 1996; Barrel and Pain, 1997). Thus, we expect that countries with stable exchange rates should attract more FDI. Other studies examining the macroeconomic effects of exchange rates on FDI focused on the positive effects of an exchange rate depreciation of the host country on FDI inflows, because this can lower the cost of production and investment in the host country, raising the profitability from FDI (Razin and Sadka 2004).

Investors prefer to operate in an environment where exchange rates are stable, and therefore, countries that experience stable exchange rates are likely to receive greater levels of FDI. A country that is experiencing currency instability poses more uncertainty, and is less attractive to investors.

The financial factor system measures a country's ability to finance its official, commercial, and trade debt obligations, and provides a means of assessing a country's ability to pay its financial obligations; the larger the proportion of debt, the greater the financial risk. Feder and Just (1997), Cline (1984), and Callier (1985) argued that a country's financial state plays an important factor in attracting foreign capital, and in economic development. Therefore, we assume that countries that have low financial risk attract more of FDI inflows. In terms of financing, the Rwandan government foresees a reduction in aid dependency.

The Government of Rwanda has projected a significant increase in tax revenues and a medium term reduction in external grants as percentage of the budget which will significantly increase the share of the budget that is domestically financed as opposed to externally financed.

Coordination is one of the many challenges involved in the process of fiscal decentralization and enabling economic transformation to the grassroots in Rwanda. One of government's key priorities is to strengthen the linkages between Central Government and Local Government, particularly improving the interaction and communication between line ministries and districts. These interactions vary in quality and this is partly dependent on the clarity with which line ministries and districts agree on measuring progress, on funds receipt, actions and implementation. Government is currently working towards strengthening these linkages through consultative meetings and active planning with central and local governments. Good progress has been made in mainstreaming cross cutting issues at the sector level. Sector working groups do recognize the importance of cross cutting issues and are increasing their effort to collect, for example, gender, age, or disability disaggregated data .One of the issues which should be addressed in order to improve high-level policy dialogue is the quality of monitoring and evaluation systems, which still need improvement (*Joint Budget Sector Review report, 2010*).

Economic Factors

Economic factors are associated with the overall health of the economy of the country in which the investment is made. It deals with factors associated with traditional measures of fiscal policy, such as inflation, per capita GDP and GDP growth, and budget and current account balances. An economic risk rating provides a means of assessing a country's economic strengths and weaknesses, and focuses attention on the institutional factors that may affect wealth creation.

Inflation Rate: Economists use inflation rates as proxies for the financial soundness of the host economy. An economy that is experiencing high inflation rates does not attract foreign (or domestic) investment. Investors study inflation rates historically when planning for future FDI actions.

GDP per Capita and Real GDP Growth: GDP per capita gives an indication of the relative wealth of a country and the purchasing power of its citizens. Often, GDP is used as a proxy for the size of a market and as a measure of how well the economy is performing (Mankiw, 2000). As the size of a market expands, increased specialization can occur, enabling a country to host diverse transnational firms, and if the market keeps growing, economies of scale can be exploited and large-scale production can begin (Beer and Cory, 1996). Real GDP growth is an indicator of economic growth, and is a powerful indicator of the economic state of development. The growth rate of GDP can also be used to proxy the potential development of the economy as well as the potential market size. Investors are likely to prefer a market that has a greater potential to develop and expand. Investment causes GDP growth, which in turn, can attract domestic and foreign investment. Therefore, higher GDP growth may increase market opportunities and may attract more FDI.

Budget Balance as a percent of GDP: Economists say that the budget is in balance when government spending equals tax receipts. The balance of payments provides a systematic record of the value of a country's transactions in goods, services, income and transfers with the rest of the world, and the changes in a country's financial claims on assets and liabilities to the rest of the world. The budget balance as % of GDP is an important economic key indicator that is used by foreign investors to formulate and evaluate the economic investment environment and to plan and make business decisions.

Current Account as a percent of GDP: Current Account Balance is the sum of net exports of goods and services, net income, and net current transfers recorded in the balance of payments. When the country's balance of payments is managed efficiently, it can transform economic stability into faster growth in the economy while attracting foreign private investment. Current account is a common measure of international payments, and includes net interest payments on foreign borrowing and lending and miscellaneous transfers between countries. Current account measures a country's international financing requirements, and can be used to keep track of changes in the economy's financial position in comparison with the rest of the world.

Rwanda Taking Risks

"To take risk and fail is not a failure. Real failure is to fear taking any risk" **Mohammed bin Rashid Al Maktoum**. After the genocide against the Tutsis in 1994, Rwanda embarked on a continuous, aggressive, and ambitious agenda of political, financial and economic reforms to establish an attractive environment for both domestic and foreign investments. Rwanda has continuously improved its policy and institutional reforms towards poverty reduction. As a result, Rwanda is one of the fastest growing economies in Central Africa and has average a GDP Growth Rate of 8.23 Percent from 2000. The government of Rwanda is committed to achieving sustainable economic growth, and its overall economy is growing at a significant rate: Its GDP percapita has increased from less than $200 in 1994 to $540 in 2010. It is evident that Rwanda is an example of success stories in post-conflict reconstruction (Bigsten and Isaksson, 2008). Rwanda has made progress in fighting corruption and promoting gender equality, as well as creating a soft business environment. It is one of the most improved countries in the world in the annual Doing Business Index, thus attracting both private and foreign direct investments.

According to the Country Policy and Institutional Assessment (CPIA, 2011), Rwanda scored 3.8 out of six points similar to the previous year despite the global economic country's crisis and external shocks. "The CPIA is a valuable tool for governments, the private sector, civil society, researchers, and the media to monitor their country's progress and benchmark it against progress in other countries," said PunamChuhan Pole, World Bank Lead Economist. The strong performance was driven by continued reforms in areas of public policy, social inclusion and equity. The poverty figure declined to 44.9 per cent in 2010/11 from 56.7 percent in 2005/06 with one million people jumping the poverty line. Rwanda has also maintained improvements in debt policy and management, and has strength its financial and economic sectors. Rwanda's current CPIA score is above the average for allInternational Development Association (IDA) countries and among the top 25 per cent of IDA countries in Sub-Saharan Africa. Rwanda is 0.1 point above Tanzania, 0.7 point above Burundi and at the same level as Kenya and Uganda. Note that countries are rated on a scale of 1 to 6 for each of the 16 indicators while an overall CPIA score reflects an average for the 16 indicators covering four areas. Indicators considered include, economic management, structural policies, policies for social inclusion and equity and public sector management and institutions.

Vision 2020

In 1998-1999, the President's office of the Republic of Rwanda launched national reflection sessions on the future of Rwanda. Rwandans started thinking about what kind of Nation they wanted in the future. After extensive consultation, the government drafted a document called VISION 2020 in which a long-term development path for Rwanda is outlined and ambitious goals to be reached by the year 2020 are formulated. Some of the goals are: reconstruction of the nation and its social capital anchored on good governance; transformation of agriculture into a productive, high value, market oriented sector; development of an efficient private sector spearheaded by competitiveness and entrepreneurship; comprehensive human resources development, encompassing education, health, and Information Communication and Technology (ICT) skills aimed at public sector, private sector and civil society; promotion of regional economic integration and cooperation; gender equality. In terms of human resources, Rwanda will become a knowledge-based economy. The government will actively encourage science and technology education and will also help to address the fact that Rwanda is landlocked country. The Vision expresses the aim of attaining per capita income of a middle-income country in an equitable way, and the aspiration to become a modern, strong and united nation, without discrimination among its citizens.

Education: At the core of the development process will be what constitutes Rwanda's principal asset: its human capital. Dunning (1981) states that human capital development has a favorable impact on FDI inflow in terms of providing capable, trained, and skilled labor. A well-educated labor force in the private and public sectors facilitates FDI, and a country's workforce is internationally competitive in terms of education and productivity (Schneider and Frey, 1985). Education aims at laying the foundations for lifelong learning and human development, by offering more subject- or skill-oriented instruction using more specialized teachers. Gundlach (1994) argues that a true human capital measurement ought to indicate a population's attainment of skills and knowledge. Human resources will be improved, so that Rwanda can become a knowledge-based economy. In particular, Rwanda encourages science and technology education and ICT skills, which will also help in addressing the fact that Rwanda is landlocked.

Another strategy is around capacity building and knowledge transfer through the use of expats and the development of technical skills program to satisfy the employment demand for skilled Rwandans.

Policy reforms and environment for economic transformation:

As part of the efforts to improve the policy environment for the economic transformation of the industrial and the private sector, the Rwandan government has launched a number of reforms, industrial policy documents and strategies, with actions to promote investment and exports and cut the bureaucratic procedures required to start a business. The focus of reforms is on increasing the value of existing exports, diversifying into new exports, facilitating trade through EAC integration, increasing investment, and improving the business environment(MINICOM, 2009).These include an Industrial Policy Review, the formulation of an Industrial Master Plan, as well as reformulation of the MINICOM Strategic Plan. This comes at the same time as the Rwanda Development Board (RDB) has been established as a one stop center with one important goal being private sector development through investment and export promotion.

As a result of Rwanda being one the high performing countries in terms policy end economic management for economic transformation, the IMF has approved a Policy Support Instrument (PSI), whose components are include maintaining fiscal stability, particularly through raising additional revenues; maintaining price stability and continuing the structural reforms to deepen the financial sector; diversify the export base and improve the business environment.

The government of Rwanda is currently implementing a Strategic Investments Plan (SIP or PSI). This plan aims at boosting Rwanda's export growth through selected investments including the electricity roll-out program, the restructuring of Rwandair, the Isaka-Kigali railway and Bugesera airport, the construction of the Kigali Convention Complex and the ICT infrastructure network. The Strategic Investment Plan represents the longer term plan for diversifying into highvalue added exports and transforming Rwanda into a service based economy. This Strategic Investments Plan aims at boosting Rwanda's export growth through selected investments above and is going to be partly financed through non-concessional borrowing, which will have an impact on debt sustainability. This strategic plan when fully implemented will increase Rwanda's economic growth and exports, and will generate jobs and incomes for a large number of the population. This Strategic Investment Plan represents also the longer term plan for diversifying into high value added exports and transform Rwanda into a service base economy.

Business Environment in Rwanda

As far as reforms are concerned, Rwanda has recently seen a great success in the World Bank Doing Business 2010 report. For the first time since Doing Business started tracking reforms, Rwanda, led the world reforms. Overall, major reforms that have been implemented to assist the business community include easing the process of starting a business, register property, protect investors, trade across borders, access credit and paying taxes. These reforms made Rwanda to rise from 143rd to 67thplace on the ease of doing business rankings 2010.

Getting credit was made easier with a new secured transactions act and insolvency act to make secured lending more flexible, allowing a wider range of assets to be used as collateral and a general description of debts and obligations. In addition, out-of-court enforcement of collateral has become available to secured creditors, who also now have top priority within bankruptcy. A new company law has strengthened investor protections by requiring greater corporate disclosure, director liability, and shareholder access to information.

Property registration was simplified by decreasing the number of days required to transfer a property. Business start-up was eased by eliminating a notarization requirement; introducing standardized memorandums of association; enabling online publication; consolidating name checking, registration fee payment, tax registration, and company registration procedures; and shortening the time required to process completed applications.

By implementing administrative changes-such as increased operating hours and enhanced cooperation at the border, along with the removal of some documentation requirements for importers and exporters Rwanda has improved trading times. Lastly, paying taxes was made easier by introducing online applications and tax clearance certificates and decentralized tax information and payer services. The implementation of these various policies and reforms contributed to the Rwanda's improved ranking in the World Bank's 2010 doing business report.

Rwanda's Rankings on different aspects of the Business environment in terms of economic freedom Rwanda is ranked 10th out of 46 economies in the sub-Saharan region by the Heritage Foundation (2010) and was fourth most improved economy on the 2010 index.7. In terms of ease of doing business, Rwanda moved from 143rd to 67th in 2009 and 58th in 2010 (The International Bank for Reconstruction and Development/the World Bank 2009). Rwanda scores are much better, compared with the other East African countries in terms of doing business, economic freedom and corruption, and scores comparatively well on the Global Competitiveness Index (*World Bank 2010; Heritage Foundation 2010; Transparency International; Freedom House 2009).*

Rwanda among top global reformers

During President Kagame's leadership, the country has experienced a significant economic transformation which translated into economic growth. The real GDP growth increased from 2.2% in 2003 to 7.2% in 2010 with a peak growth of 11.5% in 2008. Overall, the average growth rate has been 7%. This was achieved through the long-term economic development plan, Vision 2020, and its medium-term strategy, the Economic Development Poverty Reduction Strategy (EDPRS) which gives a clear direction on how to move from poverty to a middle income country. From Vision 2020, a blend of programs and policies have been formulated and implemented in several key sectors- agriculture, investment, tourism and ICT.

A series of reforms have been implemented to create a conducive environment for business. Rwanda was ranked one of the top ten global reformers in the World Bank Doing Business Survey 2010, and second global reformer out of 183 countries. Rwanda is also the 9th easiest place to start a business in the world and the 6th most competitive economy in Sub-Saharan Africa according to the 2010 World Economic Forum global Competitiveness Report. These reforms have been made possible by Government of Rwanda's commitment to a politically stable country with well functioning institutions, rule of law and zero tolerance for corruption.

Tourism on the rise**:** Rwanda has become widely recognized as one of the safest countries in the world. The city of Kigali is the first city in Africa to be bestowed the prestigious Habitat Scroll of Honor Award in recognition of its cleanliness, peacefulness and security. With its rich biodiversity, stunning natural beauty and excellent climate, Rwanda is becoming an increasingly popular tourist destination. Gorilla tracking in the Virungas is the country's premier attraction, supplemented by the mesmerizing savannah and plains wildlife of Akagera National Park, the incredible biodiversity of the extensive Nyungwe rainforest and a range of hills and lakeshore beaches around the expansively beautiful Lake Kivu. In 2010, Rwanda hosted 666,000 visitors who generated US$ 200M- a 14% increase from 2009.

ICT for all**:** In line with the Government of Rwanda's commitment to increase nationwide access to ICT, the rollout of fiber optic cable has been completed. The use of technology was also extended to the agricultural sector with the establishment of E-Soko- an Agricultural Market Information System that has been deployed to provide farmers with reliable, up-to-date market price information. With this infrastructure, service delivery in public and private sectors will be dramatically improved and access to information will no longer be a luxury as high–speed internet connectivity becomes affordable and accessible.

Private sector: Rwanda's commitment to private sector development has facilitated growth in exports, domestic investment and foreign direct investment inflows, as well as the implementation of effective fiscal policies supported by structural and institutional reforms. According to Vision 2020, Rwanda has developed a strong institutional pipeline for designing and implementing business regulation reforms. Since 2004 Rwanda has improved access to credit, streamlined procedures for starting a business, reduced the time to register property, simplified cross-border trade and made courts more accessible for resolving commercial disputes. Rwanda is among more than 35 economies where the executive branch has made private sector development a priority by establishing institutions whose main purpose is to design and implement business regulation reforms.

Summary& Conclusion

The role of the State in national development continues to be important. Rwanda has achieved impressive development progress since the 1994 genocide and civil war. It is now consolidating gains in social development and accelerating growth while ensuring that they are broadly shared to mitigate risks to eroding the country's hard-won political and social stability. Rwanda's long-term development goals are embedded in its Vision 2020which seeks to transform Rwanda from a low-income agriculture-based economy to a knowledge-based, service-oriented economy by 2020.In order to achieve the long-term development goals, the government of Rwanda has formulated a medium-term strategy. The Economic Development and Poverty Reduction Strategy (EDPRS 2)'s highest priority is growth acceleration and poverty reduction through its four thematic areas: economic transformation, rural development, productivity and youth employment, as well as accountable governance. The EDPRS 2 aims to achieve the following goals by 2018: (i) increasing GDP per capita to $1,000, (ii) reducing the poverty rate to below 30% and (iii) the reducing extreme poverty rate to below 9%. An underlying macroeconomic assumption is to accelerate annual GDP growth to 10% over the period 2013-2018.These goals build on remarkable development success over the last decade including high growth, rapid poverty reduction and, since 2005, reduced inequality. Between 2001 and 2012, real GDP growth averaged 8.1% per annum. The poverty rate dropped from 59% in 2001 to 45% in 2011. Starting in mid-2012, Rwanda experienced a sudden and sharp decline in aid. Through appropriate fiscal and monetary policies, high growth and stability prevailed throughout 2012. The economy grew by 8% and inflation was contained below 6%.

Some reforms have been implemented successfully to improve the business environment and reduce the cost of doing business. As a result, the country was named top performer in the Rwanda Doing Business 2013 report, among the ten most improved economies in 2013 and Rwanda is now ranked as the third easiest place to do business in Sub-Saharan Africa. In addition, reducing the country dependency on foreign aid (40% of the current budget) through a mobilization of domestic resources is critical. The government has successfully increased the domestic revenues to GDP ratio in the past several years.

As Gilpin (1975) states, it is the host country's environmental factors and implementation of policies that predetermine the inflows of FDI. This study proves that country risk factors are the most significant determinants of FDI, and show that investors prefer to invest in a stable, secure environment that reduces economic, financial, political, and other business and investment risks. Country characteristics such as improved communication and infrastructure development, openness of the host country, urbanization, and a better economic, financial, and political environment will facilitate and foster FDI. The study shows that government institutions play a key role in the making and implementing of policies that affect environmental factors. Therefore, the level of investments that a country receives is determined by the government's institutions, specifically, market, social, financial, economic, and political institutions. Therefore a country must decide on what environmental factors to work on to attract more investments.

Rwanda's ambitious reforms may offer lessons for other countries seeking to reform their environmental factors, thus improving institution fitness to attract domestic and foreign investments. The government has worked hard to meet the needs of investors by streamlining regulatory processes. Rwanda has recognized the importance of a diverse knowledge base and has also imported technical expertise from other countries. Because of its institutional reforms, Rwanda has improved its environmental factors, and has experienced sustained economic growth, robust governance and investor friendly climate.

Rwanda is the fastest reforming countries in the World Bank's Doing Business rankings. Business regulations are now easier in Rwanda than the average economy in Eastern Europe, Asia, Middle East, Latin America and Africa. The 2013 World Bank Doing Business Report ranked Rwanda as the 52nd out of the 185 countries. The 2nd most reformed country in the world, over six years, after Georgia (2005-2011), 3rd is Sub-Saharan Africa and the 1st in EAC. With regards, to starting a business, Rwanda has maintained the 8th position in the world to register business due to shortened required procedures and free online registration. Nowadays, registering or company in Rwanda takes a maximum 6 working hours. Getting credit is easier than ever: Rwanda is the 23rd in the world after an operational private Credit Reference Bureau. In terms of paying taxes, Rwanda is the 25th easiest place to pay taxes world-wide from 29th last year (www.RDB.rw).

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