TAX POLICY AND FOREIGN DIRECT INVESTMENT IN RWANDA BETWEEN 2008-2012: A CASE OF KIGALI CITY.

BY

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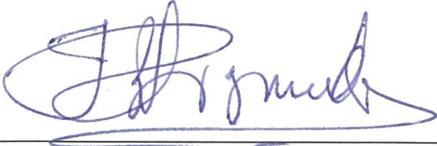
DECLARATION

This research report is my original work and has not been presented for any other academic award in any institution of learning. I have acknowledged all the secondary sources used in this research.



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APPROVAL

I confirm that this research report was done by the candidate under my supervision and submitted with my approval as a university supervisor.

Nakawungu F. ________________________________

Signature of the Supervisor

NAKAWUNGU FARIDAH

Date: 28/02/2024

DEDICATION

I dedicate this work to my wife Uwinana Dative for her financial and moral support.

ACKNOWLEDGEMENT

I would like to convey my gratitude to the Almighty God. It is through his protection and guidance that this research was successfully done.

I would very much like to appreciate the different assistance of the following persons in the course of her research.

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LIST OF ABBREVIATIONS AND ACRONYMS

CTL	Commercial Transaction Levy
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HMT	Chinese Economies of Hong Kong, Macao, and Taiwan
M&As	Mergers and Acquisitions
MAT	Minimum Alternate Tax
MNEs	Multinational Enterprises
OECD	Organization for Economic Co-operation and Development
PAYE	Pay As You Earn
PIT	Personal Income Tax
RIA	Rwanda Investment Authority
RRA	Rwanda Revenue Agency
SMES	Small and Medium Enterprises
SPSS	Special Package for Social Scientists
U.K	United Kingdom
U.S.	United States
VAT	Value Added Tax

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ABSTRACT

This study determined the relationship between tax policy and foreign direct investment in Kigali City, Rwanda. In order to achieve the purpose of the study, three research objectives were formulated and these included: To determine effectiveness of tax policy in Rwanda; to determine the level of foreign direct investment in Kigali; and to establish whether there was a significant relationship between tax policy and foreign direct investment in Kigali city, Rwanda.

The research design used in this study was the descriptive correlation design. The research population was 180 from which 125 respondents were determined using Slovene's formula. The method of sampling used was purposive sampling and questionnaires were used as the main data collection tool. To ensure validity and reliability of the research instruments, content validity index was done together with pretesting. The data collected was analyzed both qualitatively (mean, correlation and regression coefficient) and quantitatively and this was done with the help SPSS.

The research findings showed that the tax policy in Rwanda was generally effective (overall average mean of 2.58); the level of foreign direct investment in the country was also highly rated (overall mean average of 2.67); and it was also found out that tax policy is positively correlated with the foreign direct investment at (R. =0.692, and significant value of 0.000).

It was then concluded that the tax policy in Rwanda is generally high; the level of foreign direct investment in the country is also high; and that there is a significant relationship between tax policy and foreign direct investment in Kigali city, Rwanda.

Since the two study variables (tax policy and foreign direct investment) were found to be significantly related, it was recommended that the ministry of finance and economic planning should revise different areas of tax policy and amend areas that discourage foreign direct investment in the country.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Throughout the world, both the developed and developing countries employ some form of foreign direct investment (Foster et al., 2008). Countries such as America and China among heavily employ some form of foreign direct investment. Recognizing technology as a driver of economic growth, governments in developing countries spend significant resources to attract foreign direct investment (FDI). FDI is considered a vehicle for superior technology in the form of advanced human resource management practices, production methods, and other tacit and codified knowledge that are linked to greater firm efficiencies.

To show that FDI is also employed by developed countries, Schiffbauer, Siedschlag, and Ruane (2009) noted that domestic firms in the U.K. are acquired by U.S. investors and those firms experience the largest increase in productivity compared to those acquired by investors from the EU or other countries. More recently, Chen (2011) finds that domestic U.S. targets acquired by firms from industrialized compared to developing countries experience increases in labor productivity, sales, and employment.

Chan and Chow (2007) show that since 1993, China has been the largest recipient of FDI inflows in the developing world. According to the scholars, foreign direct investment in China can be broadly classified as originating from the ethnically Chinese economies of Hong Kong, Macao, and Taiwan and all other but primarily OECD countries. On average, OECD countries accounted for 60% of all non-HMT FDI, with the United States and Japan the source of more than half of these inflows.

Foreign direct investment (FDI) is prized by developing countries for the bundle of assets that multinational enterprises (MNEs) deploy with their investments (Hoffmann, 2009). Most of these assets are intangible in nature and are particularly scarce in developing countries.

They include technology, management skills, channels for marketing products internationally, product design, quality characteristics, brand names, etc. Many developing economies have endeavored to encourage Foreign Direct Investment (FDI) in a bid to facilitate economic growth.

Rwanda has remained ahead of several other African economies in offering incentives and creating a favorable environment for foreign investors. In spite of the discouragement caused by the Genocide in 1994, foreign investors still find Rwanda favorable place for investment (Fjeldstad and Moore. 2009). This has been enhanced by the government's efforts to attract investors through many favorable investment policies.

However, there is a lot of concern on in the recent years that a range of factors need to be taken into consideration to attract and sustain FDI on the Rwandan economy (Wade, 2010). Besides the quality of labor, standard of living, skills, human resource retaining capacity of the local market, one of the biggest issues has been that of tax policy since many of the donors have withdrawn their support to the country and the country has started tussling the biggest percentage of its budget through revenue generated from local tax and fund raising (Wade, 2010). It was therefore through this fact that this study investigated the relationship between tax policy and FDI in Rwanda in special reference Kigali City.

1.2 Problem Statement

Much as effective FDI played a significant role in Rwanda's economy in the last few years, there has been noted that the level of FDI in the country has stagnated due to various factors among which is the tax policy in the country (Wade, 2010). The tax policy of Rwanda has changed in the last few years as some of the major donor countries that used to finance a great percentage of the country's budget withdrew their support as a result of tight political space (National Institute of Statistics of Rwanda, 2012). The withdrawal therefore made the country to revise its tax policy and as of recent, some new taxes have been introduced. Some of the new taxes that have been revised and reenacted include the value added tax (VAT) with a flat VAT rate of 17%; the Income Tax Act has also been introduced to consolidate the existing income tax law, which had undergone several amendments, and to simplify the law (National Institute of Statistics of

Rwanda, 2012). Some of the changes that have also been introduced in tax policy include the Tax Appeals Tribunal under the Tax Appeals Tribunal Act. The impact of these changes in Tax policy has not been subjected to collar scrutiny. It was therefore because of these amendments that this study established the relationship between tax policy in Rwanda and FDI in Kigali City.

1.3 Purpose of the Study

The purpose of this study was to correlate between tax policy and foreign direct investment in Kigali City.

1.4 Specific Objectives

This study was guided by the following specific objectives.

(i) To determine the effectiveness of tax policy in Rwanda.

(ii) To find out the level of Foreign Direct Investment in Kigali City.

(iii) To establish whether there is a significant relationship between tax policy and foreign direct investment in Kigali City.

1.5 Research Questions

This study sought to answer the following research questions:

(i) What is the extent of effectiveness of tax policy in Rwanda?

(ii) What is the extent of Foreign Direct Investment in Kigali City?

(iii) Is there any significant relationship between tax policy and foreign direct investment in Kigali City?

1.6 Research Scope

1.6.1 Geographical Scope

This study was carried out in Kigali City. This place was chosen for this study because it has many foreign investors carrying out different forms of businesses. Thus, finding relevant and appropriate respondents was much easier.

1.6.2 Content Scope

This study focused on extent of effectiveness of tax policy in Rwanda; then extent of foreign direct investment; and finally, relationship between tax policy and foreign direct investment was established.

1.6.3 Time Scope

This study was based on information from the period of 2008 and 2012 for this study. These years were considered because it was within these period of time that donor started withdrawing their financial support to Rwanda.

1.7 Significance of the Study

This study will benefit the following people in the following ways:

(i) The research findings on the implementation of tax policy and foreign direct investment will be significant to the government of the Republic of Rwanda more particularly Rwanda Revenue Authority as it intends to provide practical ways through which it can attract FDI through tax policy while maintaining its economic interests and benefits.

(ii) The study findings in this study will also be significant to the local government most especially the Kigali City Authority that runs the central division besides other divisions. City administrators will also find out some of the core and relevant incentive measures to attract FDI as a way of creating employment opportunities for the youth in the division as well as expanding its source of income or revenue.

(iii) This study will also be significant to other future researchers interested in the area of Foreign Direct Investment as it seeks to generate something new in tax policy in relation to FDI in case of Kigali City, thus, contributing to the existing literature.

(iv) The study will also be significant to the researcher as it will give him a way to develop skills and knowledge in carrying out research. These skills and knowledge can be useful to him in future especially in carrying out similar studies.

1.8 Operational Definition of Key Words

Tax policy is an administrative apparatus that is built to levy and collect tax, through applying different tariff and basis taxation, in order to apply policy that has built.

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter explains the concepts, ideas and opinions of different authors, scholars and researchers have said about tax policy and foreign direct investment. It first states theoretical perspective and then various concepts related to tax policy; this is followed by the foreign direct investment; lastly, related literature.

2.2 Theoretical perspective

Capital market theory by Greta Garbo that was formulated in 1960's is the appropriate theory for this study. The theory explains the dynamic macroeconomic FDI theory. It emphasizes that the timing of the investment depends on the changes in the macroeconomic environment. As taxation is an issue connected to macroeconomics, this theory becomes relevant to this study as its variables include tax policy and foreign direct investment.

2.3 Tax Policy

Tax policy is concerned with the reasoning behind how much revenue the government is collecting, what the revenue is being used for, and whether the government is collecting revenue in the most appropriate way. Tax policy analysis follows a two-step process: the first step identifies the purposes of specific tax instruments, and the second step evaluates how well those instruments achieve their purposes (Plumley, 2006).

According to Oberholzer (2008), tax policy analysis necessarily examines the nature and role of the state, for most of the purposes of tax instruments are identical to the function of government itself. In a sense, taxes are a necessary evil in private property regimes; we have taxes in order to give government entities access to cash and productive resources. From this derives the old maxim that "taxation is one of the few things that one can be certain about."

2.3.1 Purposes of Taxation

Moesen and Persoon (2002) showed that the imposition and collection of taxes is simply one of the fundamental policy instruments used to achieve governmental social and economic goals. The objectives of tax policy are similar to those of public policy in developing countries, and overlap with the purposes of the tax system or the purpose of most governments. There are five purposes for collecting revenue through taxes: to give government power to allocate resources; to enable government to provide/support social development; to stabilize the economy; to constitute and define the market place; and to encourage optimal economic growth. These are explained below:

Economic Growth

Bahemuka (2006) showed that the most developing countries are extremely focused on economic growth in both the private and public sectors. According to the author, even in primarily market-based economies, governments need to acquire assets for public sector capital formation and development-related expenditures. There appears to be no limit to the tax gadgetry used in different countries to stimulate economic growth. Most developing countries encourage foreign direct investment to stimulate economic growth through the use of tax incentives, and many developing countries impose higher taxes on retained profits than on distributed profits in order to encourage distribution. However, the effectiveness of some policies -- especially of incentives -- remains uncertain because there is still insufficient data to link such policies with growth performance.

Stabilization

Bahemuka (2006) also shows that the use of tax instruments to enhance economic stability is important in developing countries because this enables them to ensure elasticity with respect to changes in the value of money and income levels. If tax yields rise when national income rises, governments have less need to rely on deficit financing to maintain and expand the level of public-sector activity in a growing economy.

Distribution of Income

According to Boyatzis (2008), the distributional role of taxes in developing countries is another important purpose of the tax system. The author explains that the disparities in income can block development and increase demands for government social spending. The main explicitly redistributive tax in most tax systems is the personal income tax (PIT). In practice, the personal income tax in developing countries is far from being progressive due to large disparities in incomes. These disparities are compounded by the influence of the rich, who may end up paying fewer taxes due to numerous exemptions or favors from the government.

Equity

In explaining equity in tax, Boyatzis (2008) showed that there are three main types of tax equity: horizontal, vertical, and, in the international context, inter-nation. Horizontal equity expresses the principal that similarly situated taxpayers should pay the same amounts of taxes because they have the same ability to pay. Vertical equity expresses the principal that those who are "better off" should bear a larger proportion of the tax burden while those who are "worse off" should bear less. Inter-nation equity centers on whether a tax system promotes a fair sharing of the international tax base, particularly among developing countries.

Neutrality

The neutrality criterion requires that tax rules are drafted to minimize the excess burden of taxation whenever feasible (Ayoki, 2007). According to Ayiko, tax neutrality looks to whether tax laws cause taxpayers to engage in fundamentally different activities just to avoid paying taxes. A tax measure is considered to be neutral when it does not distort individual choices. Thus, if taxes are not neutral, they encourage tax avoidance. In an international context, it is important to consider whether tax systems promote capital export neutrality or capital import neutrality. Capital export neutrality is realized if a taxpayer's choice between investing at home or in a foreign country is not influenced by taxes, while capital import neutrality is realized if a company operating abroad is in the same tax position as a local competitor.

2.3.2 Challenges Faced by Developing Countries in Tax System

Developing countries face formidable challenges in trying to establish effective and efficient tax systems. As summarized by Bakibinga (2006), the leading authority on these issues, all developing countries have to address four basic problems: (1) the structure of the economy, which makes it difficult to impose and collect taxes; (2) the limited capacity for tax administration; (3) the poor quality of basic data and; (4) in many developing countries, the fact that the political setup is less amenable to rational tax policy than it is in advanced countries. Each of these basic challenges is discussed further below.

Structure of Developing Economies

According to Anupam (2000) developing countries have well-known economic characteristics: large shares of total economic output and employment are based in agriculture; they have relatively large informal sectors; entrepreneurial units are small and numerous; wages form a relatively small share of total national income; and a relatively small share of total consumer spending takes place in large modern establishments. The size of the informal sector plays a significant role. Not only does it reduce the possibility of relying on certain modern taxes, such as personal income taxes at the individual level, or value-added taxes at the wholesale, retail, and consumer levels, but it also makes it much more difficult to reach those with the economic ability to pay taxes.

The bulk of literature on tax policy in developing countries tends to focus on large taxpaying units, countering tax avoidance and evasion, and the formal economy (Anupam 2000). While those policy analysts who discuss the particular problems caused by relatively large informal sectors of the economy differ in their views as to exactly what should be done about this gap in developing countries' tax bases, they do agree that the informal sectors need to be brought into the documentary process, and that some form of presumptive taxation may be the best way to begin collecting revenues from the best-documented sectors.

Bakibinga (2006) argues that the tax potential of the informal sector activities is at least partially exploited through direct and indirect taxation. Despite their large contribution to production, informal activities are characterized by small profits, they are usually geographically dispersed, and they may not keep accurate accounts or file returns. Hence the administrative costs of direct taxation in such circumstances are prohibitive. Ayoki (2007) further criticized

simplified tax regimes established to cater for small taxpayers. These regimes require less revenue from the taxpayers in comparison to their revenue potential and do not mobilize as much revenue.

Bakibinga (2006) suggests implementation of a unified business tax on the informal sector as a strategy for collecting taxes from the informal sector. In this system, the scale of tax is determined according to objective indicators. These can be the nature of the activity, its geographical situation, or the equipment used. In the case of a restaurant, the number of tables and chairs could be used as tax indicators. The anticipated result would be reduction in the financial and administrative burden of ensuring taxpayer compliance as the need for bookkeeping and filing returns would be eliminated.

Despite these apparent advantages, Bird et al. (2004) has criticized the single business tax for increasing vertical and horizontal inequity and encouraging the unwillingness of small taxpayers to graduate from the single tax to the conventional tax system. The authors recommend a Minimum Alternate Tax (MAT) based on both gross assets and turnover, which yields higher tax revenue. The tax rate of MAT should be set to equivalence with the lower marginal income tax rate under the assumption of a reasonable rate of return on capital. VAT thresholds could be set below which small taxpayers would be allowed to opt into the conventional VAT system.

Another characteristic of developing economies that is an obstacle to tax policy is the low registration rate of taxpayers. According to Bird (2002), taxpayers register in low numbers either because they do not understand their obligations or because they are deliberately evading tax. The scholar recommends that one of the main objectives of tax administration should be to identify and bring tax evading entities into the system. He further explains that each taxpayer should be assigned a unique number and contact details should be noted and validated. Other government agencies like the police, land registrars, and licensing departments should also be involved in finding tax evaders. The writer does not elaborate exactly how the registration should be achieved, but at least they provide a starting point. Private companies such as mobile companies that cater to a wide range of the population could be enlisted in the search for tax evaders. It might be expensive, but there is a dire need for the government to identify all absentee taxpayers.

Tax Administration and Data

Cuccia (2004) noted that one of the challenges facing tax policy in developing countries is the lack of efficient tax administration. In his explanation, the author showed that administrations face major problems: a large proportion of the economy is at a subsistence level; many taxpayers do not keep records, and even where records are kept, they are not necessarily reliable. Taxpayer cooperation is also low because of chronic shortages of trained officials, traditions of corruption, and lack of visible improvements in government services. As a consequence, countries often develop tax systems that exploit whatever obvious revenue-generating options they have rather than develop modern and efficient tax systems that create wide tax bases from which to draw revenue. Hence many developing countries often end up with too many small tax sources, too heavy a reliance on foreign trade taxes, and a relatively small use of personal income taxes.

Recent Tax Policy Trends in Rwanda

Taxes can broadly be divided into two categories: direct and indirect taxes. The major direct taxes for 2005/2006 in Rwanda were: Pay As You Earn (PAYE), corporate taxes, and withholding taxes (Murgatroy et al., (2007). Indirect taxes include the Value Added Tax (VAT), which is a consumption tax, as well as import duties and excise taxes imposed on international trade and locally manufactured goods. The authors state that these taxes were introduced to meet Rwanda's broad tax policy objectives that include: establishment of a semi-autonomous revenue authority, enacting new laws, and rationalizing the overall tax structure. These reforms are briefly discussed here.

Establishment of a Semi-Autonomous Revenue Agency

In 1991, the Rwanda Revenue Agency (RRA) was formed as a semi-autonomous authority responsible for collecting tax revenue to take over from the Ministry of Finance. It was hoped that an independent revenue authority would limit political interference in the tax assessment and collection process (Mikesell, 2007). It was also expected that the RRA's semi-

autonomy would allow it to offer better remuneration to its employees, enabling it to attract competent staff and reduce the corruption that has been associated with RRA officials.

Introduction of New Taxes

To ensure increased efficiency of the new revenue agency, new tax laws were enacted. In 1996, the value added tax (VAT) was introduced to replace the commercial transaction levy (CTL) and sales tax (Furley, 2006). A flat VAT rate of 17% was applied to both imports and local products. The VAT was considered necessary for broadening the tax base. The sales tax had been discriminatory because it applied only to the manufacturing sector; thus the introduction of the VAT was intended to increase fairness in both the export and import sectors. Furley also noted that the Income Tax Act was introduced in 1997 to consolidate the existing income tax law, which had undergone several amendments, and to simplify the law. For a long time, the tax system lacked a mechanism for redress in the event of tax disputes, but in 1997, the Government established the Tax Appeals Tribunal under the Tax Appeals Tribunal Act. This tribunal was intended to address the dissatisfaction of aggrieved taxpayers, complementing the substantive reforms.

2.4 Foreign Direct Investment

Feenstra and Hanson (2005) showed that foreign direct investment (FDI) has been one of the principal beneficiaries of the liberalization of capital flows over recent decades, and now constitutes the major form of capital inflow for many developing countries, including low-income ones like Chad, Mauritania, Sudan and Zambia. But while there are reasons to celebrate this success, the current financial turmoil does not bode well for the sustainability these flows in 2009.

It is often argued that countries are less vulnerable to external financing difficulties when current account deficits are financed largely by FDI inflows, rather than debt-creating capital flows (Dean et al., (2011). The scholars assert that FDI inflows generally provide a more stable source of external financing than private debt and portfolio equity flows. And there is no gainsaying the importance of FDI inflows for its contribution to sustaining current account

imbalances in countries such as Pakistan, South Africa and Turkey, where the value of FDI inflows is estimated to have covered their entire current account deficit in 2007. But this is only part of the story.

According to Chan and Chow (2007) approximately 30-35 per cent of current flows are accounted for by mergers and acquisitions (M&As), and much of this activity is likely to dry up, as corporations have increasing difficulty in getting access to credit (though there may be isolated examples of "opportunistic" FDI, as multinationals with stronger cash balances take advantage of low "fire sale" prices to buy up assets). Some M&As in developing countries are already being cancelled. For example, the recent proposed takeover of a South African mining conglomerate by Xstrata was abandoned due to financing difficulties.

Hoffmann (2009) noted that if profit remittances are taken as a proxy for its "price", FDI can be an extremely "expensive" form of financing, especially for low-income countries. In 2005, profit remittances actually surpassed new inflows of FDI for low-income countries. The scale of the remittances can be enormous. In Chile, for instance, remittances in 2007 amounted to $21.7 billion, or about 13.3 per cent of the GDP. Such outflows need to be financed and add to pressure on the exchange rate.

Ehtisham and Vito (2003) shows that the ease with which multinational enterprises can shift financial resources from one country to another may add to the current instability. In giving an example, the authors pointed out that FDI investors often use derivative products such as currency forwards and options, which may put the local currency under pressure and increase instability. Similarly, some components of FDI are more pro-cyclical than others. In particular, reinvested earnings and intra-company loans are likely to be curtailed sharply during the current crisis, as companies repatriate financial resources towards the parent companies. This was very much the case during previous crisis, such as the Thai crisis (1997) and the Argentinian crisis (2001).

Romer (2009) further believes that FDI itself is pro-cyclical (though perhaps not to the same extent as other private capital flows). In recent years, outflows of FDI from OECD countries – still the major source of investment flows – have been quite clearly correlated with economic. This was particularly evident during the downturn in 2000-01, when global FDI outflows fell by almost 50 per cent. The implications are clear: as the credit crunch starts to bite

and capital becomes scarcer and more expensive, so multinational corporations will scale back their investment plans. FDI inflows are also highly contingent on local growth as a “pull factor” which entices foreign investors. In so far as the prospects for growth in the developing countries deteriorate, so too will FDI inflows. This is particularly important to the extent that much FDI in the developing world is directed towards local markets.

Wade (2010) noted that FDI might actually be one of the forms of cross-border flows that will be privileged (as it has been in the aftermath to previous crises). Indeed, in a deleveraged world, FDI may become one of the few ways in which low and middle-income countries can access capital for development. But in the meanwhile policy makers in developing countries need to monitor trends carefully and adapt policy accordingly. FDI is in itself no panacea, and can sometimes compound problems during times of financial crisis. It is certainly no substitute for enlarging tax bases and promoting better mobilization of domestic resources.

FDI in Rwanda

Rwanda has joined the rest of the world in seeking FDI as evidenced by the proactive role played by the Rwanda Investment Authority (RIA) in attracting FDI in the country as a major component (Fjeldstad and Moore. 2009). The empirical results like other previous studies confirmed that FDI impacts positively on Rwanda’s economic growth. Therefore, taking a peek at Rwanda through the lens of FDI we can see that this country is making bigger economic strides step by step and year by year. From the results, it was recommended that in order to encourage and finance economic growth, the government should continue striving to achieve a sound degree of infrastructural development, together with a good domestic labor force (National Institute of Statistics of Rwanda, 2012).

The Foreign direct investment; net inflows (% of GDP) in Rwanda was last reported at 4.74 in 2011, according to a World Bank report published in 2012. Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments (Gatt, 2011b). This series shows net inflows (new investment

inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.

2.5 Related Studies

According to the studies carried out by Chen (2011) in Rwanda, it was noted that after the 1980s economic crisis, Rwanda, like other Sub-Saharan countries, recognized the need to rationalize and harmonize the tax rates. The objectives were to attract and promote investment in Rwanda, increase revenue yields, and simplify tax administration. This study shows that the corporate income tax was lowered from 60% to 30% in 1997, and the maximum individual tax rate was reduced from 60% in 1987/88 to 30% in 1993/94. The many wide-ranging exemptions that have been granted to special sectors over the years -- including a number of Minister's powers to exempt -- have been abolished. They include provisions granting tax holidays under the Investment Code of 1991, which were repealed in 1997, and a provision in the Customs Management Act empowering the Minister to grant specific waiver of taxes and duties on imports, which was repealed in 2001.

Another study also confirms that harmonizing tax system can significantly lead to incensement in FDI. In giving an example, a study by Lund (2007) in case of Rwanda shows that since the introduction of a scheme of capital deductions and allowances in 1997 through the Income Tax Act of 1997 to replace the abolished tax holidays, the country witnessed in flush in FDI. Some other tax systems that helped to attract FDI in the country involve other allowances including deductions or exemptions for ordinary business expenses, meals, refreshments, and entertainment expenditures, interest payments, and business obligations. Lund (2007) also pointed out that carry-forward losses were also introduced so that an assessed loss arising out of company operations, including losses legally resulting from investment incentives, are allowed as deductions in determining the taxpayer's chargeable income in subsequent tax years.

Another study in case of Ghana also showed that tax exemptions on industrial inputs and specialized inputs that were enacted helped to boost FDI in the country by 15 % (Gatt, 2011b). The study noted that the government extended tax exemptions to imports of industrial inputs such as raw materials, industrial machinery, computers, printers and accessories, machinery used for processing agriculture or dairy products, dental, medical, and veterinary equipment.

Studies carried out in Kenya also cited that the country now offers a tax-free export policy to promote production for export and this has significantly attracted FDI (Feenstra and Hanson, 2005). The findings show that all exports are tax free and zero-rated, while at the same time, a duty drawback system is in place under which a producer or exporter can claim back the taxes paid on certain inputs during the production of the goods declared for being exported.

2.6 Gaps in the Literature

As it can be seen in the literature, most of the studies were carried out other foreign countries. And those that have been carried out in Rwanda were carried out in the country some time back. Thus, there was need to establish the trend of FDI resulting from tax policy in the country as many changes have occurred.

It can also be seen that most of the studies have failed provide the percentage improvement in the rate of FDI that can result from favorable tax policy. It was therefore the role of this study to establish the percentage rate at which FDI will improve if tax policies are favorable.

CHAPTER THREE: RESEARCH METHODOLODY

3.1 Introduction

This chapter focused on how the study was conducted especially relating to data collection, processing and analysis. This included the study design, area of the study, the target population, sample size and sampling techniques, data collection instruments, validity and reliability of instruments, research procedure, data analysis, ethical considerations and anticipated limitations.

3.2 Research Design

Descriptive Correlation Survey Design was used to collect the data. Through this research design, collection of data from a large number of people with the aim of describing or explaining the characteristics involving opinions, views and perceptions of population was ensured. The design employed both qualitative and quantitative approaches. The research design was also used to establish a relationship that exists between implementation of tax system and foreign direct policy.

3.3 Area of the Study

The study was carried out in Kigali City in Rwanda. This division was proposed for this study because it is a center of attraction for many investors. Thus, some of the key areas this study focused on included Rwanda Revenue Authority offices and district local government offices in Kigali City and some of the foreign investors in the Division.

3.4 Target Population

The target population for this study included the RRA officials situated in Kigali City, district officials in city; and some of the prominent foreign investors in the division. Approximately, the total research population was 180 people in these fore-mentioned categories.

From this research population, appropriate representation of sample size was determined so as to get all the necessary information for the study.

3.5 Sample Size

Since the estimated research population is 180, the sample size was determined by the use of Slovene's formula as indicated below:

$$n = \frac{N}{1 + N(e^2)}$$

Where; n = the sample size; N = the population size; and e = the level of significance, which is = 0.05. This can further be illustrated as below:

$$n = \frac{180}{1 + 180(0.05^2)} \qquad n= 125$$

Thus, using the above formula, the sample size in this study was 125 and this was divided as below.

Table 3.1: Population Size and Sample Size

Categories	**Population**	**Sample Size**	**Sampling Techniques**
RRA officials	118	78	Purposive
District officials	42	30	Purposive
Foreign investors	20	17	Purposive
Total	**180**	**125**	

3.6 Sampling Technique

Purposive sampling technique was used to select respondent for this study. This technique was considered because there was need to select relevant people who could give out appropriate information regarding tax policy and how it relates to foreign direct investment. For RRA

officials, cases of experience, knowledge about tax policy in Rwanda and level of FDI in Kigali City was considered. Thus, not all the departments in these fore-mentioned areas were considered for this study. As for foreign investors, their levels of experience in investment in Kigali City together with the nature of their business were considered. In this regard, only those with experience of more than 2 years and are involved in manufacturing were considered for this study.

3.7 Data Collection Techniques

Since the study was both qualitative and quantitative in nature, data collection approaches involving questioning and interviews were used.

3.7.1 Questionnaire Survey

The study employed closed-ended questionnaires as instruments to collect data. The questionnaire consisted of 4 Likert scale of rating involving: strongly agree (4); agree (3); disagree (2); strongly disagree (1). Questionnaires were self-administered to all respondents. The questionnaires had four sections. Section A was about respondents' profile; Section B was about tax policy in Rwanda; and Section C was about level of FDI in Kigali City. Objective three could not have any questionnaire because it was answered by establishing a correlation (the relationship) between dependent variable and independent variable using Pearson Correlation.

3.7.2 Interview Guide

This method was used mainly with top officials from RRA, district officials and foreign investors. The interviews were face to face and this helped the researcher in getting detailed and evidenced based information on the tax policy and foreign direct investment in the area of the study. The information obtained through interview method helped to compliment the one that were obtained through questionnaire.

Since questions in interview could be repeated and clarity on some questions sought so as to have richness in the information collected. The researcher then compared and contrasted the interview guide findings with that of questionnaire to so as to draw reliable conclusions regarding the research variables.

3.8 Validity and Reliability of Research Instruments

The research instruments were examined for validity and reliability by using Cronbach's Alpha value. The details on each are explained below;

3.8.1 Reliability

In determining the reliability of the instruments, the instruments for data collection were first pretested and analyzed using Cronbach's coefficient Alpha to establish clarity and dependability of the instruments. The principle of reliability in as far as research instruments are concerned, is clearly put forward by Amin (2005) who pointed out that an instrument is reliable if it produces the same results wherever it is repeatedly used to measure a trait or a concept from the same population and under similar circumstances. For reliability coefficients in all variables to be adequate, the alpha coefficients should be 0.70 and above (Nunnally, 1978). Thus, an alpha of 0.70 and above shows that reliability coefficient is adequate.

3.8.2 Validity

Validity seeks to establish whether the researcher has developed an instrument which tests the right issues. In words of Amin, (2005), validity tested whether an instrument used in research is accurate, correct and meaningful. Therefore, validity of research instrument was established using content validity tests. Validity was determined by calculating the extent to which content in instruments correlates with concepts it was set out to measure. This is also in line with Siegle (2004) whose study established that the closer the content in an instrument to contents of theoretical concepts the more an instrument generates valid results. To determine CVI in this study, expert judgment was used and from which a content validity index was ascertained.

3.9 Research Procedure

The research procedure involved obtaining an introductory letter from Kampala International University to carry out this study. After this, permission from the Kigali City Authorities and RRA was acquired. After acquiring the permission, the researcher went on with sampling and eventually administer questionnaire to all the respondents. The researcher

distributed the questionnaires to respondents in their respective areas of business location where they (the questionnaires) were filled in and collected back after ten days (10). In the process of collecting the questionnaire, the researcher checked to see if respondents answered all the questions such that consistency in coding could be ensured. The researcher employed SPSS and determined respondents profile by frequencies and percentages. Mean values were used to determine the effectiveness in tax policy and FDI. To establish relationship between implementation of tax policy and FDI, correlation was used. The results were presented in tables for proper understanding and these helped in drawing conclusions.

3.10 Data Analysis

A descriptive statistical method was used to analyze and interpret the findings of the study that were presented in tables from which frequencies, percentages, and mean ranges were used to determine the theorem. Data collected was analyzed by the use of SPSS and the process included data entry, tabulation and presentation. Collected data from the respondents was edited and coded in a clear picture on the ground. The data collected was also arranged in order to obtain accurate, clear and uniform data. In editing, the researcher ensured that errors and omissions were detected and eliminated.

3.11 Ethical Consideration

The following strategies were adapted to ensure the moral justification of the investigation.

Authorization: This involved getting clearance from the ethical body/ethics committee and consent of the respondent.

Informed consent: The researcher sought for authorization from potential respondents. The *researcher* ensured free consent from participants.

Anonymity and Confidentiality: The names or identifications of the respondents were anonymous and information collected from them was treated with utmost confidentiality.

Integrity: There was a need to act honestly, fairly and respectful of all other stakeholders that were involved in this study.

Ascriptions of authorships: The researcher accurately attributed the sources of information in an effort to celebrate the works of past scholar or researchers. This was done to ensure that no plagiarism occurs.

3.12 Anticipated Limitations of the Study

Intervening or confounding variables might have been beyond the researchers control such as honesty of the respondents and personal biases. To minimize such conditions, the researcher requested respondents to be as honest as possible and to be impartial/ unbiased when answering the questionnaires.

The research environments were classified as uncontrolled settings where *extraneous variables might have* influenced on the data gathered such as comments from other respondents, anxiety, stress, motivation on the part of the respondents while on the process of answering the questionnaires. The researcher created rapport with respondents such that these conditions could be minimized.

Testing is likely to be one of the limitations in this study. The use of research assistants could have rendered inconsistencies such as differences in conditions and time when the data was obtained from respondents. This was minimized by orienting and briefing the research assistants on the data gathering procedures.

CHAPTER FOUR: PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.1 Introduction

This chapter presents the research findings; analyzes the findings and gives the relevant interpretations. It begins with respondents profile; this is then followed by the effectiveness of tax policy; then, the level of FDI in Kigali; and lastly, the correlation between the research variables is established.

4.2 Respondents' Profile

The profile of respondents determined in this study included gender, age, education level, experience and category of respondents. These are presented in Table 2.

Table 2: Frequency and Percentage Distribution of Respondents

Gender	**Frequency (N=125)**	**Percent (100 %)**
Male	78	62.4
Female	47	37.6
Age		
20-29	23	18.4
30-39	22	17.6
40-49	49	39.2
50-59	18	14.4
60 and above	13	10.4
Education		
Secondary	16	12.9
Diploma	23	18.5
Bachelor Degree	61	49.2
Masters and above	24	19.4
Experience		
1-3 Years	31	24.8
4-6 Years	65	52.0
7 Years and above	29	23.2
Category		
Managerial	20	16.0
Operational	87	69.6
Technical	18	14.4

Source: Primary Data

Table 2 indicates that majority (62.4 %) of the respondents were females while 37.6 % of them were females. However, information given by both males and females complimented each other.

Concerning the age group of respondents, table 2 shows that majority (39.2 %) of the respondents who participated in this study were in their middle adulthood (40-49 years); these were followed by those who were still in their youthful age (36 %) and the least participants (10 %) were those who were in their late adulthood (60 and above).

Regarding the education level of respondent, Table 2 indicates that 49.2 % of the respondents who participated in this study had bachelor degree; 19.4 % of them had master degree or Phd; 18.5 % of the respondents had diploma; and 12.9 of them stopped at secondary school level. Since majority of respondents had higher education level, they were able to give relevant information regarding tax policy and foreign direct investment in Rwanda.

On the experience of respondents at their work places, Table 2 indicates that 52 % of the respondents had 4-6 years of experience at their work places, 24.8 % of the respondents had 7 years and above experience and 23.2 5 of the respondents had 1-3 years of experience. Since majority of the respondents had more than 4 years of experience, they gave rich and fair information about tax policy and foreign direct investment as based on their experiences.

Considering the category of respondents, this study found out that 69.9 % of the respondents were working at operational level; 16 % of the respondents worked at managerial level; and the 14.4 % of the respondents worked at technical level. This also means that the information obtained for this study was got from people of different category and this was important for data analysis.

4.1 Effectiveness of Tax Policy in Rwanda

The first research objective determined the effectiveness of tax policy in Rwanda. In order to achieve this objective, some statements were set and respondents were asked to either strongly agree with them by indicating 4; or agree with them by indicating 3; or disagree with them by indicating 2; or strongly disagree with them by indicating 1. Basing on their responses, mean

values were used to determine the effectiveness of tax policy in Rwanda. The measurement scale for the mean ranges were as follow: mean ranges from 3.26-4.00 indicted that the majority of the respondents strongly agreed with the statements thus the tax policy in the country was very effective; mean ranges 2.51-3.25 showed that majority of the respondents agreed with the statements thus tax policy in the country was effective; mean ranges from 1.76-2.50 indicated majority of the respondents disagreed with the statements thus, tax policy in Rwanda was ineffective; and lastly, the mean ranges from 1.00-1.75 indicated that majority of the respondents strongly disagreed with the statements thus, tax policy in Rwanda was very ineffective. The findings regarding this are presented in Table 3.

Table 3: Mean and Rank of Items to Determine Effectiveness of Tax Policy

	Mean	Rank	Interpretation
Tax holidays are also given to investors	3.02	14	Effective
There is transparency and visibility in issues surrounding tax in Rwanda	2.97	1	Effective
Tax reductions are also offered to investors	2.89	2	Effective
The corporate tax favors development of investment	2.70	3	Effective
There is a body that addresses complains regarding tax in Rwanda	2.66	4	Effective
The corporate tax in Rwanda is convenient	2.64	5	Effective
Preferential tariffs in the country are also effective in the country	2.60	6	Effective
Rwanda's economic zones also help to reduce tax burdens	2.59	7	Effective
The tax system of Rwanda does not impede or reduce the productive capacity of the economy.	2.40	8	Ineffective
Individual income tax rates are convenient to entrepreneurs	2.37	9	Ineffective
The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction is kept at minimum	2.36	10	Ineffective
Tax policy in Rwanda embraces equity and fairness	2.34	11	Ineffective
Rwanda's tax policy ensures convenience in tax payment systems	2.30	12	Ineffective
Rwanda's tax policy allows investment financial subsidies	2.29	13	Ineffective
Overall Mean Average	**2.58**		**Effective**

Source: Primary Data

Considering the mean ranges and their ranks, it can be observed that some item were effectively rated under tax policy in Rwanda while others were ineffectively rated. Thus, respondents agreed that tax holidays are given to investors (rated at the mean of 3.02); they also agreed that there is transparency and visibility in issues surrounding tax in Rwanda (rated at the mean of 2.97); they also agreed that tax reductions are also offered to investors (rated at the mean of 2.89); that the corporate tax favors development of investment (rated at the mean of 2.70); that there is a body that addresses complains regarding tax in Rwanda (rated at the men of 2.66); they also agreed that the corporate tax in Rwanda is convenient (rated at the mean of 2.64); they further agreed that preferential tariffs in the country are also effective in the country (rated at the mean of 2.60); and finally, respondents agreed that Rwanda's economic zones also help to reduce tax burdens (rated at the mean of 2.59).

However, respondents lowly rated some items under tax policy. They disagreed that the tax system of Rwanda does not impede or reduce the productive capacity of the economy (rated at the mean of 2.40); they also disagreed that individual income tax rates are convenient to entrepreneurs (rated at the mean of 2.37); they further disagreed that the effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction is kept at minimum (rated at the mean of 2.36); they also disagreed that tax policy in Rwanda embraces equity and fairness (rated at the mean of 2.34); they also agreed that Rwanda's tax policy ensures convenience in tax payment systems (rated at the mean of 2.30); and finally, respondents disagreed that Rwanda's tax policy allows investment financial subsidies (rated at the mean of 2.29).

Considering the overall mean value of 2.58 that falls under effective in the rating scale, it can be ascertained that the much as there are still some areas in the tax policy of Rwanda that need to be revised, the tax policy of the country is generally effective.

Similar findings were also got from key informants who were interviewed. According to the key informant, Rwanda has made a number of adjustments in its tax policy in the last six years. These have helped to boost the economy of the country as whole and reduced tax malpractices that have been happening in the last few years. Some of the key areas mentioned by the respondents interviewed included harmonizing the tax rates most especially the corporate income tax and the maximum individual tax rate. Key informants also revealed that many wide-

ranging exemptions that have been granted to special sectors over the years. These findings therefore show that the tax policy in Rwanda is generally effective.

4.3 Foreign Direct Investment in Rwanda

The second research objective determined the level of foreign direct investment in Kigali City in Rwanda. In achieving this objective, some statements on the foreign direct investment were also set and respondents were asked to either strongly agree or agree or disagree or strongly disagree with them. The measurement scales used to determine the first research objective was also used and the findings are established in Table 4 in the next page.

Table 4: Mean and Rank of Items to Determine Level of FDI

	Mean	Ranks	Interpretation
Employment opportunities have been created through Foreign Direct Investment	2.94	1	High
The country's economy has also been boosted by FDI	2.90	2	High
Improvement of technology in the country has been as a result of FDI	2.86	3	High
The FDI net inflows (% of GDP) in Rwanda has been high	2.80	4	High
Different parties have been involved in enticing Foreign Direct Investment in Rwanda	2.79	5	High
Capital importation process for foreign investors has also been easily done	2.70	6	High
Through FDI, there has been improvement in skilled human resource	2.68	7	High
Foreign Investors have been able to cover both social and economic sectors	2.64	8	High
Through FDI, Rwanda has been able to exploit its national resources	2.63	9	High
The sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital derived from FDI has also been encouraging	2.38	10	Low
Foreign investors have been able to access industrial land easily	2.36	11	Low
There has been minimum capital requirement for foreign investors	2.30	12	Low
Overall Mean Average	**2.67**		**High**

Source: Primary Data

Table 4 also indicates that respondents agreed with most of the items under foreign direct investment. Respondents agreed that employment opportunities have been created through

Foreign Direct Investment (rated at the mean 2.94); they also agreed that the country's economy has also been boosted by FDI (rated at the mean of 2.90); they further agreed that improvement of technology in the country has been as a result of FDI (rated at the mean of 2.86); they continued to agree that the FDI net inflows (% of GDP) in Rwanda has been high (rated at the mean of 2.80); they also agreed that different parties have been involved in enticing Foreign Direct Investment in Rwanda (rated at the mean of 2.79); they also agreed that capital importation process for foreign investors has also been easily done (rated at the mean of 2.70); rated at the mean of (2.68); they continued to agree that foreign investors have been able to cover both social and economic sectors (rated at the mean of 2.64); and finally, respondents agreed that through FDI, Rwanda has been able to exploit its national resources (rated at the mean of 2.63).

Respondents however disagreed that the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital derived from FDI has also been encouraging (rated at the mean of 2.38); they also agreed that foreign investors have been able to access industrial land easily (rated at the mean of 2.36); and respondents disagreed that there has been minimum capital requirement for foreign investors (rated at the mean of 2.30).

Basing on the overall mean average which is 2.67, it can also be said that the level of foreign direct investment in Kigali is generally high.

Considering to the information obtained from key informants through interview, it was also found out that the country has greatly benefited from foreign direct investment in the last few years. According to the information obtained from the Rwanda Revenue Authority, the foreign direct investment; net inflows (% of GDP) in Rwanda was last reported at 4.74 in 2011. Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

4.5 Relationship between tax policy and foreign direct investment

The last research objective determined the whether there was significant relationship between tax policy and foreign direct investment in Rwanda. In order to establish this relationship, the

correlation of the overall average mean of the study variables was done using Pearson's Linear Correlation Coefficient and the findings are presented in Table 5.

Table 5: Relationship between tax policy and foreign direct investment

		Tax Policy	Foreign Direct Investment
Tax Policy	Pearson Correlation	1	.692**
	Sig. (2-tailed)		.000
	N	125	125
Foreign Direct Investment	Pearson Correlation	.692**	1
	Sig. (2-tailed)	.000	
	N	125	125
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary Data

The findings in Table 5 demonstrate that tax policy is positively and significantly related to foreign direct investment. This relationship is found in the r. value of 0.692 and the significant value of 0.000 at the standardized significant figure of 0.05. This relationship means that improvement in the effectiveness in tax policy will boost foreign investors to come in to the country. Majority of the respondents interviewed also supported that effective tax policy can significantly boost foreign direct investment.

CHAPTER FIVE: DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the major research findings; draws conclusions and finally presents recommendations to improve on tax policy and attract foreign direct investment.

5.1 Discussion of Key Research Findings

5.1.1 Tax Policy

This study found out that the tax policy of Rwanda was generally effective. This was affirmed by the overall average mean of 2.58 that falls under high in the rating scale.

Comparing this research finding with those of other authors, it can be said that this research findings is in agreement with that by Bahemuka (2006) who showed that the most developing countries are extremely focused on economic growth in both the private and public sectors and many of them have restructured their tax policies. The study by Boyatzis (2008) is also in agreement with the one in Rwanda as the author noted that the distributional role of taxes in developing countries is another important purpose of the tax system. These study findings could have been in agreement with the one in Rwanda because many countries might have seen it necessary to develop their tax systems so as to develop economic power of their countries.

However, the study findings are not in agreement with the one by Bakibinga (2006) as he noted that developing countries face formidable challenges in trying to establish effective and efficient tax systems. This study finding could have been I disagreement with the one in Rwanda because it was based on the generalization and this study was based on Rwanda specifically.

5.1.2 Foreign Direct Investment

Regarding the level of foreign direct investment, this study found out that the level of foreign direct investment in Kigali was generally high. This finding is supported by the overall average mean of 2.67 that falls under high in the rating scale.

The study findings on FDI in case of Kigali City is in agreement with the ones by Feenstra and Hanson (2005) who showed that foreign direct investment (FDI) has been highly appreciated by many countries as many of them see it as one of the principal beneficiaries of the liberalization of capital flows over recent decades, and now constitutes the major form of capital inflow. Studies by Dean et al., (2011) are also in agreement with the one in Kigali as they noted that many countries have stepped up their efforts to boost FDI because they have found out that they are less vulnerable to external financing difficulties when current account deficits are financed largely by FDI inflows, rather than debt-creating capital flows.

These studies could be in agreement with the one in Kigali because FDI has actually been seen as one of the techniques employed by developing countries as one of the important tools that can boost socio-economic development.

5.1.3 Relationship between tax policy and FDI

Lastly, this study found out that tax policy is positively and significantly related to foreign direct investment. This relationship is found in the r. value of 0.692 and the significant value of 0.000 at the standardized significant figure of 0.05.

The study finding on the relationship between tax policy and FDI in case of Kigali is in agreement with the one by Chen (2011) who noted that Rwanda like other Sub-Saharan countries have recognized the need to rationalize and harmonize the tax rates as a way to attract and promote investment in Rwanda, increase revenue yields, and simplify tax administration. Study findings by Lund (2007) in case of Rwanda are also in agreement with the one in Kigali as they author noted that since the introduction of a scheme of capital deductions and allowances in 1997 through the Income Tax Act of 1997 to replace the abolished tax holidays, the country witnessed in flush in FDI. Gatt (2011b) also showed that tax exemptions on industrial inputs and

specialized inputs in Ghana helped to boost FDI in the country by 15 %. These studies could be in agreement with the one Kigali city because effective tax incentives and policies can attract foreign investors.

5.2 Conclusions

The research findings on tax policy and foreign direct investment in case of Rwanda have led to the following conclusions;

(i) This study concludes that the tax policy of Rwanda is generally effective. This is because tax holidays are given to investors; there is transparency and visibility in issues surrounding tax in Rwanda; tax reductions are also offered to investors; the corporate tax in the country favors development of investment; there is a body that addresses complains regarding tax in Rwanda; the corporate tax in Rwanda is convenient; the preferential tariffs in the country are also effective; and finally, Rwanda's economic zones also help to reduce tax burdens.

(ii) On foreign direct investment, this study concludes that the level of foreign direct investment in Kigali is generally high. The level of foreign direct investment in Kigali city has been generally high because employment opportunities have been created through Foreign Direct Investment; the country's economy has also been boosted by FDI; improvement of technology in the country has been as a result of FDI; the FDI net inflows (% of GDP) in Rwanda has been high; different parties have been involved in enticing Foreign Direct Investment in Rwanda; capital importation process for foreign investors has also been easily done; foreign investors have been able to cover both social and economic sectors; and finally, through FDI, Rwanda has been able to exploit its national resources.

(iii) This study finally concludes that tax policy is positively and significantly related to the foreign direct investment. Thus, any improvement in the tax policy in the country will significantly boost foreign investors to come in to the country.

5.3 Recommendations

As tax policy is significantly related to foreign direct investment, the following recommendations have been forwarded.

(i) The government through the ministry of Finance and Economic planning should revise some of the sections related to individual tax income tax as make some adjustments such that it can become convenient to entrepreneurs.

(ii) The national tax administrators should also make sure that tax law on a taxpayer's decisions as to how to carry out a particular transaction is kept at minimum. This process will not only boost the foreign investment but also the local investors.

(iii) Those affected by areas of taxation that have not allowed or embraced equity and fairness should also cooperate and launch a formal complain to relevant authorities such that such areas that hinder individual's efforts can be worked upon.

(iv) The local and national tax authorities should also revise the existing tax policy in place and ensure that areas that do not allow investment financial subsidies are bridged so as to boost investment.

5.4 Areas for Further Research

The following areas have been recommended for further research:

(i) Foreign Direct Investment and development of SMEs in Rwanda.

(ii) Decentralized tax system and Foreign Direct Investment in Rwanda.

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APPENDICES

APPENDIX I: RESEARCH INSTRUMENTS

Part I: Profile of Respondents

Please tick any which applies:
Gender:
____ Male
____ Female

Age:
____ 20- 29
____ 30- 39
____ 40- 49
____ 50- 59
____ 60 and above

Education level:
____Secondary
____ Certificate
____ Diploma
____Bachelors
____Masters and above

Work Experience:
____1-3 years
____4-6 Years
____7 years and above

Category
____ Managerial
____ Operational
____ Technical
____ Client

Part 2: Questionnaire to determine effectiveness of Tax Policy

Direction: Please write your preferred option on the space provided before each item. Kindly use the rating guide below:

Response Made	**Rating**	**Description**
Strongly Agree	4	You agree with no doubt at all.
Agree	3	You agree with some doubt
Disagree	2	You disagree with some doubt
Strongly Disagree	1	You disagree with no doubt at all.

______1. The corporate tax in Rwanda is convenient

______2. The corporate tax favors development of investment

______3. Individual income tax rates are convenient to entrepreneurs

______4. Tax holidays are also given to investors

______5. Tax reductions are also offered to investors

______6. Rwanda's tax policy ensures convenience in tax payment systems

______7. Preferential tariffs in the country are also effective in the country

______8. Rwanda's economic zones also help to reduce tax burdens

______9. Rwanda's tax policy allows investment financial subsidies

______10. Tax policy in Rwanda embraces equity and fairness

______11. The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction is kept at minimum

______12. There is transparency and visibility in issues surrounding tax in Rwanda

______13. The tax system of Rwanda does not impede or reduce the productive capacity of the economy.

______14. There is a body that addresses complains regarding tax in Rwanda

Part 3: Questionnaire to determine the level of Foreign Direct Investment

Direction: Please write your preferred option on the space provided before each item. Kindly use the rating guide below:

Response Made	Rating	Description
Strongly Agree	4	You agree with no doubt at all.
Agree	3	You agree with some doubt
Disagree	2	You disagree with some doubt
Strongly Disagree	1	You disagree with no doubt at all.

______1. Different parties have been involved in enticing Foreign Direct Investment in Rwanda

______2. Foreign Investors have been able to cover both social and economic sectors

______3. Employment opportunities have been created through Foreign Direct Investment

______4. The country's economy has also been boosted by FDI

______5. Improvement of technology in the country has been as a result of FDI

______6. Through FDI, there has been improvement in skilled human resource

______7. There has been minimum capital requirement for foreign investors

______8. Foreign investors have been able to access industrial land easily

______9. Through FDI, Rwanda has been able to exploit its national resources

______10. Capital importation process for foreign investors has also been easily done

______11. The FDI net inflows (% of GDP) in Rwanda has been high

______12. The sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital derived from FDI has also been encouraging

APPENDIX II: INTERVIEW GUIDE

1. What do you say about the tax policy of Rwanda?

2. Which tax policies have been convenient in this country especially to foreign direct investment?

3. According to your answer to question 2, why do you say so?

4. Which tax policies have not been convenient in this country especially to foreign direct investment?

4. According to your answer to question 4, why do you say so?

5. What tax incentives have been there for foreign direct investment?

6. What can you say about the level of foreign direct investment in this country?

7. Has there been any improvement in different in FDI in this country?

8. Which sectors have benefited more from FDI in this country?

9. Which areas have remained behind as regards to FDI in this country?

10. According to your answers to questions 8 and 9, why do you say so?

11. Which bodies have been involved in enticing FDI in this county?

12. Are these bodies using better options to influence FDI in this country?

13. Why do you say so?

14. What challenges have been facing FDI in this country?

15. Is there any relationship between tax policy and FDI in this country?

16. How is this relationship established?

17. How can these challenges be resolved?

18. What other thing would you like to say about tax policy and foreign direct investment?

APPENDIX III: TIME FRAME FOR RESEARCH PROJECT

ACTIVITY	DURATION					
Months	SEP,2013	OCT,2013	NOV,2013	DEC,2013	JAN,2014	FEB,2014
Proposal writing	■					
Proposal Editing		■				
Data collection			■			
Data Arrangement				■		
Data analysis and presentation					■	
Editing and final submission						■

APPENDIX IV: RESEARCH BUDGET

Particular	Quantity	Amount
Stationary	Paper 7 Reams Ink 1 Cartridge Binding materials 7	100,000
Research Assistants	2 @ 100,000	500,000
Transport costs		300,000
Data Analysis		200,000
Up keep		200,000
Miscellaneous		100,000
Total		**1,400,000 UGX**