Master thesis

Cameroon & Desirable FDI, a case study.

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Summary

Foreign Direct Investment (FDI) is a package of capital, technology, management and entrepreneurship which allows a firm to operate and provide goods and services in a foreign market. It is known for increasing the competitiveness of firms operating in the host market; creating spillover effects on the export sector of the beneficiary country and favoring better integration into the world economy. It is also believed to be a response to improving developing countries' inadequate infrastructure, jobs creation and poverty alleviation. In Cameroon, poverty has been on the rise for the last decades with almost half of Cameroon's population living below the poverty line of $1,90 per day. In the past, various IMF/World Bank supported Structural Adjustment Programs have been adopted to reduce poverty, but they remained unsuccessful. The country's economy has a strong potential to develop and attract more FDI while using its natural resources to ensure economic growth and poverty reduction. By using John Dunning's eclectic paradigm and the Four-capital model, the investment climate of Cameroon has been studied and analyzed on ownership advantages (nationality, capital and knowledge of the firms), location advantages (natural resources, labor force, economic and political stability and aspect of infrastructure) and internalization advantages (financial incentives, tax & exchange rate policies and policies allowing transfer of a company ownership advantage across borders). The findings have been compared to the ones of four other African developing countries (Nigeria, Kenya, Ghana and Rwanda) that are viewed as attractive FDI destinations for multinational enterprises. This research has established that by implementing policies regarding fighting corruption, higher transparency of the government, modifying the educational system and implementing stricter rules regarding the hiring of nationals by investing MNEs, Cameroon should be able to improve its attractiveness as an FDI destination.

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1. Introduction

1.1 Introduction

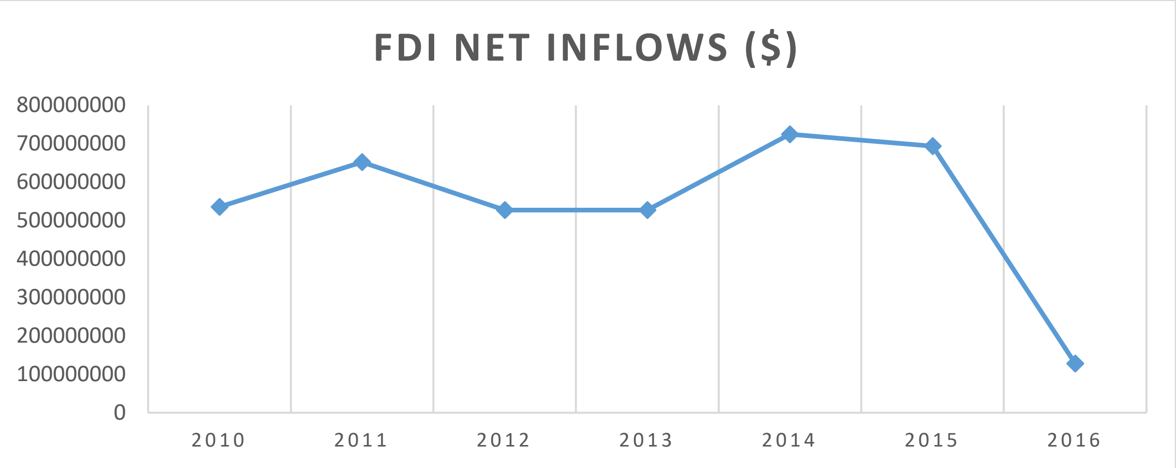
Foreign Direct Investment (FDI) is defined as a package of capital, technology, management and entrepreneurship which allows a firm to operate and provide goods and services in a foreign market. It provides a package of financial capital, technology, managerial skills, information, and goods and services that can make a national economy more competitive in the world marketplace, promoting economic growth and reducing poverty (Khan & Bamou, 2006). FDI is underlined by multinational enterprises (MNEs) in their quests to boost their fortunes through the exploitation of opportunities abroad which is achieved by establishing lasting business interest in a chosen host country (Farrell, 2008). There is no doubt that FDI can do a lot of good: (i) it increases the competitiveness of firms operating in the host market; (ii) it creates spillover effects on the export sector of the beneficiary country and favors better integration into the world economy. FDI is also non-debt creating and both commercial and exchange risks are passed on to the investor rather than borne by the host country (Khan & Bamou, 2006). Governments are key players in the acquisition of FDI; promoting open policies or implementing strategies are some of the most used approaches (Tembe & Xu, 2012). According to the OECD (2002), one of the strategies used by many governments is the introduction of various forms of investment incentives to encourage foreign-owned companies to invest in their jurisdiction. This decision is based on the argument and expectation that MNEs will raise employment, exportation, tax revenue or that some of the knowledge brought by the foreign companies will spill over to the host country's private sector (OECD, 2002). Tax incentives are however not the most influential factor for MNEs in selecting investment locations. Factors such as basic infrastructure, political stability and the cost and availability of labor are also important but in some of the time tax incentives do tend to affect the decisions of investors (Morisset, 2003). MNEs also consider determinants such as economy, politics, social, technology and law before choosing an investment location (Osabutey & Okoro, 2015). Other determinants that are important to MNEs are:

- political factors, business facilitation and economic factors (UNCTAD, 1998),
- past & present economic stability, predictable exchange rate, level of education and a large urban area (Lewis, 1999),
- the provision of transaction cost–reducing information on industries & markets and utility services to investors before and after a MNEs FDI decision (Bartels, Alladina, & Lederer, 2009) and
- regional economic cooperation (Asiedu, 2006).

If not well managed, FDI can have negative impacts on income distribution and it can have negative spillovers, such as some host countries become worse off because of the MNEs activities. For example, states could lose national control over strategic economic sectors, jobs could be lost, and the local environment could suffer (Dunning, 1993). Developing countries could become pollution havens, thus attracting MNEs escaping from countries with high environmental standards. Furthermore, MNEs could use technologies that are forbidden in their home countries due to their damaging impact on health or the environment (Chudnovsky & López, 2008). It is therefore important that FDI should be well managed by the host country's government in order to obtain positive spillovers.

As mentioned above, one central aspect of FDI is the crucial role it has on contributing to the economic growth of developing nations, which could eventually lead to poverty reduction (Vijayakumar, Sridharan, & Rao, 2010). According to the World Bank (2017), the Cameroonian economy has a strong potential to develop while using its natural resources to ensure inclusive economic growth and poverty reduction. However, rural poverty, inadequate infrastructure and a struggling education system continue to hinder the lives of people across Cameroon, contributing to a rising poverty rate in the last 10 years. Population growth has outpaced poverty reduction whereas the number of poor increased between 2007 and 2014 by 12 percent to 8,1 million people (World Bank , 2017). It is believed that the largest segment of the poor inhabitants is located in the rural areas and they are engaged in small-scale agriculture and its associated activities. The lack of infrastructure cuts off those who live in rural areas; they do not have access to fundamental resources and are isolated from diversified labor opportunities. The remaining poor inhabitants are located on the borders of urban centers where they engage in various forms of self-employment. The education system has failed to develop alongside market demands. Cameroon's education continues to focus on traditional academic disciplines and is not positioned to respond to economic transformation (Dover, 2017). In the past, in order to move the country's economy out of several crises, the government of Cameroon adopted various IMF/World Bank supported Structural Adjustment Programs. But, despite of all the efforts made by the government to reduce poverty, significant changes are still invisible (Tah, 2016). Cameroon started receiving FDI in 1977 and the government took several measures such as adopting an investment code in 1990 whose objective was to create favorable conditions to investments. The aim of the government of Cameroon was to build a competitive economy through the development of investment. However, this has not happened since 37,5% of Cameroon's population still lives below the poverty line of $1,90 per day (World Bank, 2017) and also, recently a diminishing tendency towards FDI net inflows is noticeable (see Figure 1).

Figure 1: Cameroon FDI net inflows. Source: (Index Mundi, 2017)



This research focuses on how Cameroon as a developing country can learn from other African developing countries that have succeeded in the past and are still succeeding in attracting and sustaining desirable FDI; meaning FDI that has positive spillovers for the host country's economy such as maximizing the welfare of its citizens and in the meantime not causing a loss of profits for the MNEs.

1.2 Research aim and research question

The aim of this study is to make a comparative case analysis between Cameroon and four other African developing countries which are Nigeria, Kenya, Ghana and Rwanda. This thesis makes an analysis of which country's characteristics contribute to their attractiveness to FDI. These five countries share the similarities of having a young population ready to join the workforce, available natural resources and a growing consumer market. However, Nigeria, Kenya, Ghana and Rwanda are attracting more FDI comparing to Cameroon. Nigeria and Kenya have been chosen because they both contribute to Africa's largest economies. Together with Egypt, Morocco and South Africa, the countries collectively attracted 58% of the continent's total FDI projects in 2016. In the case of Nigeria, which is one of Cameroon's neighboring country, a positive relationship has been noticed between foreign investments in the manufacturing sector and the employment rate (Inekwe, 2013). Rwanda and Ghana (West Africa's second largest economy) are both emerging FDI destinations. This is largely due to the increase of Chinese investments in Africa, making China the single largest contributor of FDI capital and jobs in Africa in 2016. In the case of Ghana, about 91% of the total employment projection between 2006 and 2010 came from Chinese investments with Ghanaians enjoying an amount of it against expatriates (EY, 2017). In contrast to the above-mentioned economies, Cameroon's economy performs poorly and is ranked 166th of 190 economies in the *Doing Business ranking of the World Bank* (Santander Trade Portal, 2017) and 19th in the *EY Africa Attractiveness Index Top 25* (EY, 2017). Cameroon's FDI policies and efforts have also failed to provide the needed positive effects on the country's economy. By conducting this case study, I aim to recommend which policies the Cameroonian government can implement in order to attract and sustain FDI that has positive spillovers for the country's population. The formulation of the research question is therefore as follows:

"Looking at the implemented FDI policies and characteristics of Nigeria, Kenya, Rwanda and Ghana, which policies can the Cameroonian government implement in order to attract and sustain desirable FDI inflows?"

Before answering the research question, I will look at which aspects of the chosen host countries make them attractive to foreign investors. Is it the available natural resources? The cheap or educated labor force? Or is it something else? Also, it is also important to know which types of investors the chosen countries are attracting. What are the MNEs nationalities or what technology do they bring and use or what are the reputation of the MNEs? Ultimately, I will investigate the efforts (in other words the implemented policies and incentives) that the chosen host countries have done and are still doing in order to attract foreign investments. The sub-questions have been formulated as follows:

- *What aspects make Cameroon, Nigeria, Kenya, Ghana and Rwanda attractive FDI destinations for MNEs?*
- *Which type of investors are the governments of Cameroon, Nigeria, Kenya, Ghana and Rwanda attracting to their jurisdiction?*
- *Which policies and incentives have the governments of Cameroon, Nigeria, Kenya, Ghana and Rwanda implemented in order to attract foreign investments?*

1.3 Research relevance

The societal relevance of this research lies in providing answers, by conducting a comparative case study, on how the Cameroonian government could attract more FDI with the aim of improving the welfare of the country's citizen. Cameroon has the potential of becoming one of the most prosperous and best placed economy to receive FDI in Africa; (i) it is one of the few African countries that has maintained political stability since its independence in 1960; (ii) it has strong points such as a cheap workforce, abundant natural resources (oil and gas, timber, aluminum) and high capital areas for mining, energy and agriculture (Santander Trade Portal, 2017). However, one consequence of the government's mismanagement is the increase in international emigration: 251.527 emigrants in 2013 compared to 57.050 emigrants in 2005 (United Nations, 2013). The highly educated (doctors and academics) constitute a significant portion of those Cameroonians who venture beyond Africa, which eventually causes a brain drain phenomenon that consequently has a negative impact on the Cameroonian society (Mberu & Pongou, 2012). Foreign direct investment in the country's economy is believed to be a response to improving the inadequate infrastructure, jobs creation and poverty alleviation. The academic relevance of this research lies in complementing the existing literature with a research that is focused on five Sub-Saharan developing countries while using the eclectic paradigm designed by J. Dunning and the Four-capital model. This field of study has yet remained underexplored in the academic world.

1.4 Research structure

The rest of this research paper is organized as follows: chapter 2 consists of a literature review regarding several aspects of foreign direct investment. In chapter 3, the theoretical framework of the research is laid out. This includes a description of the eclectic paradigm and the Four-capital model. Chapter 4 consists of the methodology, formulation of the hypotheses and the research design. In chapter 5, the findings are presented and analyzed. Subsequently in chapter 6, by answering the research question a conclusion is drawn. Furthermore, in chapter 6, an agenda for future research and the limitation of this research are mentioned.

2. Literature review

This section consists of an overview of the literature that has been written on FDI. I will start by giving a brief description of the historical background of FDI. In the following section, the types, determinants and disadvantages of FDI will be discussed. Also, a description of the types of incentives the governments offer to MNEs to attract foreign investment will be covered. Finally, I end this chapter by describing the gap that has been identified.

2.1 A brief history of FDI

Stephen Hymer's PhD dissertation "*The International Operations of National Firms: A study of direct foreign investment*" written in 1960 but only published in 1976, is set as the genesis of international business theory. Before Hymer's dissertation, a great deal of international business theories existed, but only in fragments and not in a unified and package form (Buckley, 2011). Dunning and Pitelis (2008) point out that Hymer was the first economist to address the questions ''*Why MNEs?*'' and ''*Why FDI?*''. The authors also argue that Hymer's thesis was path-breaking because the reason given by Hymer for the internalization of markets by firms was not to reduce costs, but to enable them to exploit their advantages better. Furthermore, Hymer is known to have contributed to the theory of the multinational enterprise (MNE) and FDI, and to international business scholarship (Dunning & Pitelis, 2008).

In his PhD dissertation (1960), Hymer mentions that foreign direct investment has a dual nature: on one hand, it is an instrument that allows firms to transfer capital, technology, and organizational skill from one country to another. On the other hand, it is an instrument for restraining competition between firms of different nations. Hymer also mentions that in order to understand "*Why foreign direct investment?*", *control* has to be first explained. He explains that one of the key motives for foreign direct investment, cited by corporations, is to gain control over marketing facilities in order to facilitate the spread of their products. It was according to him often profitable to control enterprises in more than one country in order to remove competition (Hymer S. H., 1960). Moreover, Buckley (2006) mentions that Hymer follows Coase[1] in seeing internalization as a general theory of the existence of firms. The international firm is a special case where market imperfections and the direction of the internalization of markets takes the firm's control across national boundaries (Buckley, 2006).

[1] Ronald Coase, 1991 Nobel Prize winner for Economics and author of "The Nature of the Firm"; a much-sited essay questioning "*Why do firms exist?*" and "*Why are some activities directed by market forces and others by firms?*". One of the challenges set by Coase was to explain where the boundary between firms and markets lies (The Economist, 2017).

Hymer also quoted extensively Joe Bain's[2] work. The existing neoclassical theory of the firm at the time of the writing of his dissertation was the market structure-based approach, as set out by Bain in 1956 (Dunning & Pitelis, 2008). Hymer's dissertation received some criticism. Dunning and Rugman (1985) believed that Hymer did not deal with policy and he had little to say about the political or social issues of developing nations: "*He does not attempt to calculate the benefits and costs of FDI or technology transfer, nor does he analyze explicitly the impact of MNEs on developing nations*" (Dunning & Rugman, 1985).

According to Buckley (2006), Hymer's work can be divided in three phases: (i) the first phase being his 1960 PhD dissertation; (ii) the second phase being a neoclassical phase and (iii) the last phase being what Buckley refers to as Hymer's '*radical phase'*. During this last phase, Buckley mentions that Hymer's later pieces were hostile to multinational corporations as agents of an international capitalist system which was causing inequality, poverty and distortions in the world economy (Buckley, 2006). Two years before his passing, Hymer himself mentioned in his 1972 paper "*The Internationalization of Capital"* that a Marxian bias was evident in his presentation: *"I wish in my analysis to stress how competition in the product and capital market helps forge a unified interest among capitalists, while the corporate hierarchy and competition in the labor market divide and weaken popular power. The dynamic of the multinational corporation is thus a contradictory one. True, it expands the social nature of production to a world level; but only on the basis of minority power, and a conflict emerges between the general social power into which capital develops, and the private power of individual capitalists over these social conditions. As capital unites many workers in production and collectivizes many capitals in ownership, it becomes an alienated independent power which stands opposed to society and checks the full development of human productivity and its universal application"* (Hymer S. , 1972).

According to McClintock (1988), Hymer acknowledged the private welfare-enhancing role of the MNE, but his conclusion on its impact on social welfare was a negative one: "*It creates hierarchy rather than equality, and it spreads its benefits unequally"* (McClintock, 1988). Hymer's attitude towards FDI altered between the writing of his dissertation till his passing. Hymer's attention shifted from focusing on the economic dimension of FDI and how MNEs should perform on foreign markets to looking at the political and societal dimension of FDI. This alteration shed a new light on the concept of FDI, which is

[2]Joe Staten Bain considered as father of modern industrial organization theory. His analyses were focused around oligopolies, and on entry and exit barriers. Bain focused his attention on three major obstacles to new competition: absolute cost advantages, product differentiation advantages, and economies of scale (Bianchi, 2013).

still relevant today. FDI has proved to be a successful instrument to enhance welfare in emerging economies in Asia; such as in the case of China (OECD, 2003) compared to other instruments used. The following section consists of a description of the different aspects of FDI.

2.2 Types of FDI

The most referenced author on FDI matters, John H. Dunning, described in his book "*Multinational Enterprises and the Global Economy" (1993)* three main types of FDI based on the motives behind the investment from the perspective of the investing firm. These are: (i) *market-seeking FDI*, which aims to serve local and regional markets. It is also called *horizontal FDI* since it involves replication of production facilities in the host country; (ii) *resource-seeking FDI*, which occurs when a firm invests abroad to obtain resources that are not available in the home country, such as natural resources and raw material. This is also referred to as *vertical-oriented FDI* which involves relocating parts of the production chain to the host country; and lastly (iii) *efficiency-seeking FDI,* which occurs when a firm gain from the common governance of geographically dispersed activities in the presence of economies of scale and scope (Dunning J. , 1993).

2.2.1 Determinants and advantages

In the early 1990s, FDI appeared to be the easiest way for developing countries to get foreign capital without undertaking any risks linked to the debt (Demirhan & Masca, 2008). Among policymakers, FDI is known to be more beneficial to long-run growth and development, compared to other forms of capital inflows. In addition to that, FDI brings along foreign technology and management skills, which can be adapted by the host country in other contexts (Walsh & Yu, 2010). In order to invest in a host country, MNEs consider several factors. In 1998, The United Nations Conference on Trade and Development (UNCTAD) classified determinants that are important for host countries in three groups as being *1. political factors, 2. business facilitation and 3. economic factors* (UNCTAD, 1998). In his research about factors that influences investment in Lesser Developed Countries (LDCs), Lewis (1999) identifies them as: *past and present economic stability*, *predictable exchange rate, level of education and a large urban area*. He argues that *past and present economic stability and performance* are a beneficiary to attract FDI. His reasoning is that investors have more confidence in a country that performed well in the past as past performance can serve as an indicator for future performance and stability. Another important factor is the *level of human capital* which includes a large educated population to harbor its investments, wages, and technological capacity. MNE's preference shifted from requesting an unskilled type of labor to a more specialized, highly technical type of labor. This resulted in highly technical firms looking to produce their products abroad, meaning that LDCs have to compensate by providing an educated population in order to attract FDI. A host country with a *large* *urban area* is also preferred by MNEs. These areas contain a large amount of people with a sufficient infrastructure. Thus, LDCs have to urbanize the nation and provide a sufficient infrastructure in order to attract more FDI. Lastly, he concludes that the human capital of a nation plays an important role in attracting FDI. More specially, education in technical disciplines provides the population skills that are demanded by MNEs. Therefore, LDCs with highly limited resources should invest in the education of the nation first in order to increase their probability of attracting FDI (Lewis, 1999).

Focusing on the Sub-Saharan (SSA) region, Bartels et al (2009) acknowledge other factors that are necessary in attracting FDI. According to the authors, *the provision of transaction cost–reducing information on industries & markets and utility services to investors before and after a MNE's FDI decision* are significant factors. Factors as incentives are less important before FDI enters a country, but more important to investors after FDI entry. The authors also imply that the decision on an FDI location is strongly influenced by *political economy considerations,* or in other words, a stable political economy infrastructure for investment. Governance and market failures are described as advantages for MNEs since they tend to reduce competition and amplify the firm-specific advantages. In their opinion, after entry and FDI establishment, labor and production input variables are not influential. Therefore, SSA host countries should concentrate less on proffering their low labor costs to attract new FDI and more on demonstrating high productivity-adjusted costs of their skilled labor force which consequently makes education an important factor (Bartels, Alladina, & Lederer, 2009). In her paper "*Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability"* which is also focused on SSA countries, Asiedu (2006) challenges one existing assumption on FDI. According to her, there is a belief that FDI is solely largely driven by natural resources and market size, which should suggest that FDI in the Sub-Saharan region is determined by an uncontrollable factor and that countries with a small amount of natural resources will attract very little or no FDI regardless of the policies the country pursues. However, the author argues that the problem is that in resources-rich countries, FDI are concentrated on natural resources and investments in such industries don't generate the technological transfer and employment which are often associated with FDI. Thus, she concludes that natural resources or having large markets isn't sufficient in attracting more FDI. According to her, *good infrastructure, an educated labor force, macroeconomic stability, openness to FDI, an efficient legal system* is also required for promoting FDI. However*, corruption and political instability* have a negative influence in attracting FDI. Furthermore, an argument given by Asiedu, which is different from other authors is the fact that regional economic cooperation may enhance FDI to the region. The arguments she gives are: (i) regionalism promotes political stability by restricting membership to democratically elected governments; (ii) regionalism permits countries to coordinate their policies e.g. having requirements for all participating countries to curb corruption, implementation of stable macroeconomic policies. When countries misbehave, costly sanctions can be imposed or a ban from membership. A threat of sanctions or losing access to the benefits of regionalism serves as an incentive for countries to implement 'good' policies. She hereby concludes that regionalism expands the size of the market, and therefore makes the region more attractive for FDI. The market size advantage of regionalism is particularly important for Africa since some countries in the region are small, both in terms of population and income (Asiedu, 2006).

2.2.2 Incentives

Many countries have introduced various forms of investment incentives in order to encourage foreign-owned companies to invest in their market economy; incentives that can be justified if the foreign firms are different from the local companies. This means that foreign firms should possess some firm-specific intangible asset that can spill over to local firms and to the host country's private sector (OECD, 2002). Most common incentives are either fiscal or financial incentives. Fiscal incentives consist of a favorable tax treatment to research and development expenditure and may take the form of accelerated depreciation, tax credits, tax holidays or import tariff exemptions. Financial incentives refer to the direct funding of enterprise research & development projects by the government through grants or subsidies, preferential loans or equity stakes (Guimón, 2008). Using investments incentives can be a risky strategy for governments: deciding how much to subsidize investment projects involves difficult political and economic choices. Authorities have to address these challenges and put in place appropriate regulatory and analytical frameworks at the risk of finding themselves over subsidizing projects or creating unintended economic disturbances if they get it wrong. Moreover, within federal countries there is a risk that regional authorities find themselves bidding competitively against each other without ultimately influencing the direction of investment flows very much. On the other hand, competition may also serve to enhance the efficiency of capital allocation, but this advantage needs to be weighed against the budgetary cost of achieving it (Christiansen, Oman, & Charlton, 2003).

2.2.2.1 Fiscal and financial incentives

In a rapport published by the OECD, fiscal incentives (lower taxes for foreign investors), financial incentives (grants and preferential loans to MNEs) and other incentives (market preferences and monopoly rights) are mentioned as important incentives for attracting investors. The benefits are: (i) financial incentives are known to leave authorities with more leverage over the actions of the recipients and are therefore suited to targeted FDI strategies; (ii) financial incentives are easier to use in policies of compensating investors for structural disadvantages; (iii) fiscal incentives are known to be appropriate for policies of improving the general climate for FDI, and for foreign corporate presence more generally (OECD, 2001). There is however a tendency of national FDI incentive policies in many developing countries to rely excessively on fiscal incentives. Arguments against this type of incentives mentioned by Morisset (2003) are that (i) fiscal incentives are likely to reduce fiscal revenue and (ii) they create frequent opportunities for illicit behavior by companies and tax administrators. These are critical issues in developing countries, which face more severe budgetary constraints and corruption compared to industrial countries. Morisset also argues that tax incentives are costly. The first and most direct costs are those associated with the potential loss of revenue for the host government (Morisset, 2003). Other arguments against this type of incentives that are mentioned in the OECD rapport are: (i) it is difficult to identify the marginal cases that would not enter the host economy without the incentives; (ii) it is hard to make reliable calculations about the expected future benefits in terms of growth, employment, or tax revenue. Moreover, governments tend to overbid when competing to attract FDI, and the subsidies may surpass the level of the spillover benefits, which can eventually lead to welfare losses. These problems may be particularly severe if the incentives discriminate against local firms and cause losses of local market shares and employment (OECD, 2001).

2.2.2.2 Corporate income tax

Reducing the corporate income tax is another popular form of fiscal incentive. This can be done by providing instruments such as tax holidays. Those instruments are among the most widely used incentives, especially in developing countries. According to Morisset and Pirnia (2000), this form of incentive has been popular in emerging countries where authorities have favored a discretionary approach. Tax holidays have as an advantage that they provide large benefits as soon as the company begins earning income. Some negative remarks from the authors on tax holidays are: (i) they primarily benefit short-term investments and they also tend to reward the founding of a company rather than the investment in existing companies; (ii) they can lead to a large erosion of the tax base as taxpayers learn how to escape taxation of income from other sources; (iii) they can be further counterproductive if they contribute to attracting more investors of the “wrong kind”, which is certainly the case in countries where basic fundamentals are not yet in place (Morisset & Pirnia, 2000).

The OECD proposes some recommendations for the design of investment incentives: (i) the incentives should be available to all investors on equal terms; irrespective of industry and nationality of investor, rather than based on discretionary decisions; (ii) the motive for supporting foreign investors should be equalizing social and private returns to investment; (iii) the reason for subsidizing local firms should be strengthening their capacity to absorb foreign technology and skills; (iv) the incentives should promote activities that create a potential for spillovers; activities like education, training, and R&D activities, as well as linkages between foreign and local firms (OECD, 2001). Morisset recommends that governments should rely on a targeted approach. In developing countries favoring such an approach, a popular tax incentive is a reduction in the corporate income tax rate, through tax holidays or temporary rebates for certain types of investment or companies. A few countries have chosen a nontargeted approach: lowering the effective corporate tax rate for all firms while providing limited or no incentives (Morisset, 2003).

2.2.2.3. Other types of incentives

The literature has traditionally focused on the instruments linked to the corporate income tax such as tax holidays and tax allowances. Other types of investment incentives that are offered are tax reductions and other fiscal concessions, cash grants and loans, start-up assistance to investors. FDI incentives can also take the following forms:

I. **Special economic zones such as free economic zones**

   Free Economic Zones (FEZ) have been established by developing as well as developed countries with the aim of attracting foreign capital through the provision of tax incentives, promoting exports, creating employment opportunities and promoting regional development. The FEZ can be seen as a territorial enclave in which foreign firms benefit from generous incentives and privileges and thereby produce industrial goods mainly for export. One of the crucial characteristics of the FEZ is the provision of generous tax investment promotion schemes solely permitted in this area. In general measures include: (i) profit tax exemption, (ii) free or accelerated depreciation, (iii) investment tax allowance, (iv) subsidy for investment costs (Nam & Radulescu, 2004).

II. **Export Processing Zones**

   Export Processing Zones (EPZs) have become rather popular trade policy instruments since the late 1950s and are defined by Madani (1999) as "*fenced-in industrial estates specializing in manufacturing for exports that offer firms free trade conditions and a liberal regulatory environment*". The primary goals of EPZs are: (i) they provide foreign exchange earnings by promoting non-traditional exports; (ii) they provide jobs to alleviate unemployment or under-employment problems in the country and assist in income creation; (iii) they attract FDI and engender technological transfer, knowledge spill-over and demonstration effects. EPZs generally achieve the two basic goals of creating employment and increasing foreign earnings under propitious circumstances and good management. EPZs are created as open market oases within an economy that is dominated by macro and exchange rate regulations, and other regulatory governmental controls (Madani, 1999).

III. **Bonded warehouses**

Bonded Warehousing is a form of temporary admission, which is equivalent to suspended import duty for specified imported goods for a limited period of time (normally until goods are either re-exported or entered into home use at which time duty/tax become payable). The benefits are at the discretion of the governments which grant them, and rules under which they operate also vary substantially from country to country, as well as over time in individual countries. Bonded Warehousing status allows specified firms to bring imported goods into their warehouses without paying import duty, use the goods in their production, and export the output. They can usually also import machinery and replacement parts and other supplies duty free, and buy from domestic suppliers free of domestic excise, sales and other taxes. Poorly designed and poorly controlled Bonded Warehousing can be exploited by deceivers to smuggle goods in the country. Freedom to choose location is the key feature distinguishing Bonded Warehousing from EPZs, although Bonded Warehousing lack the benefits of infrastructure and services sometimes provided in EPZs (Samen, 2010).

2.2.3 Promotions

Besides investment incentives, the use of investment promotion agencies has become an important approach for attracting FDI. Investment Promotion Agency (IPA) can take the form of a government agency or a non-profit organization whose mission is to promote the country's location as an attractive place to invest (UNCTAD, 2014). The main IPA functions are: (i) image building activities that are promoting the country and its regions as an attractive site for international investment. Activities commonly associated with image building include focused advertising, public relations events and the generation of favorable news stories by cultivating journalists; (ii) investor facilitation and investor services refer to the range of services provided in a host country that can assist an investor in analyzing investment decisions, establishing a business, and maintaining it in good standing. Activities include information provision, 'one-stop shop' service aimed at expediting approval process, and various assistance in obtaining sites, utilities; (iii) investment generation entails targeting specific sectors and companies with a view to creating investment leads. Activities include identification of potential sectors and investors, direct mailing, telephone campaigns, investor forums and seminars and individual presentations to targeted investors; and (iv) policy advocacy consists of the activities through which the agency supports initiatives to improve the quality of the investment climate and identifies the views of the private sector on that matter. Activities include surveys of the private sector, participation in task forces, policy and legal proposals, and lobbying (Rajan, 2004)(Morisset & Andrews-Johnson, 2004). The UNCTAD advocates for a policy of targeted promotion, suggesting it has potentially high payoffs. The choice of the exact type and extent of such investment promotion activities and agencies must be based on a careful and systematic evaluation of potential costs and benefits. One size cannot fit all countries at all times. Particularly in cases where administrative capacity is weak, government failure is pervasive, and resources are scarce, it may be advisable for countries to renounce selective policy intervention (RAJAN, 2004).

2.2.4 Disadvantages

The standard model holds that FDI creates direct benefits such as new capital and jobs, which in turn boost government tax revenues and foreign exchange; however, if not well managed, FDI can have a negative impact on the social welfare of the host country which could lead eventually to inequality. Several authors have argued that if host countries take an uncritical attitude toward the benefits of FDI, those will not necessarily benefit them. Allowing foreign ownership in strategic industries can have a negative impact on the comparative advantage of the nation. In order to have a positive impact, FDI inflow needs to be greater than the sum of profit repatriation, royalties, intra-company loans from subsidiary to parent, and transfer pricing. Also, tax paid by FDI needs to be greater than subsidies and fiscal relief offered to FDI (Amadeo, 2018). Incentives given to attract investment can be expensive and hard to undo. The efficacy and benefit-cost advantage of FDI incentives such as tax breaks has long been questioned. If companies would have invested anyway, subsidizing them to do so means giving up valuable tax revenue for nothing. Moreover, privileging a particular set of businesses or targeting a particular sector can introduce distortions in the economy. If a foreign company is investing purely to gain market share, and if it repatriates profits to its parent company, the impact on the receiving economy is dampened (Beattie, 2014). FDI is not only a transfer of ownership from domestic to foreign residents but also a mechanism that makes it possible for foreign investors to exercise management and control over host country firms. Through FDI, foreign investors can gain crucial inside information about the productivity of the firms under their control. This gives them an informational advantage over uninformed domestic savers (Loungani & Razin, 2001). In some cases, extractive-industry FDI has exacerbated inequality, where it has created severe social and environmental challenges to the receiving economy. In addition, when economies compete for FDI by offering fiscal or tax incentives to potential investors, the case for clear welfare gains for the host economy is also less clear. There are many cases where countries in the same region or states within the same country compete to attract FDI projects without coordinating their actions, allowing foreign companies to play the states against each other and gain huge breaks (Hornberger, 2011). FDI that is labor intensive in the non-agricultural sectors and employs skilled and urban labor is likely to lead to worsening income inequality and has few pro-poor benefits. Raw-material-seeking FDI may create benefits of exports but little employment and few local spillovers (Sumner, 2005). Local firms that are not linked to the new foreign investment tend to suffer from it because they find themselves competing for scarce resources like skilled workers and electricity connections. Joint-ventures between foreigners and local entrepreneurs unleash greater and faster spill-overs than projects paid and run only by foreigners. Predictably, countries with less education or larger technological gaps have a harder time extracting spill-overs from the foreign investment they pull in. The kind of impact foreign investment has on the overall economy ultimately depends on how good or bad the general business environment is (Giugale, 2014).

2.3 Identifying the gap

FDI has historically been focused on the economic dimensions; e.g. the transfer of technology or capital inflows or maximizing a MNE's profit or a nation's export. The existing literature on FDI and developing countries has been concentrated on the determinants that are important for MNEs in order to invest in a host country, or the methods used by governments to attract MNEs investments e.g. offering incentives. Incentives are known to have disadvantages such as reducing fiscal revenue or creating opportunities for illicit behavior by companies and tax administrators which eventually cause loss of revenue for the host government. Fears and evidence of the growth of joblessness in many regions have added pressures on governments to look for the right types of investment and to adopt measures to maximize the job-creation impact of investment. In developing countries, the same fears fuel the debate on whether investment is bringing enough jobs for the poor and is sufficiently inclusive. Nowadays, FDI is known to be a better method to fight poverty compared to development aid and other development programs. There is also a desire to pursue sustainable development through responsible investment placing social and environmental goals on the same footing as economic growth and development objectives (UNCTAD, 2015). After revising the literature, the gap that has been identified is the lack of research and studies conducted on how African developing countries should attract FDI that produce positive spillovers for the host country's citizens and add value to the sustainability of the host country's economy. One may think of positive spillovers as helping build a knowledge-based economy or enhance the welfare of the host country's citizens. It is an important matter because those studies could provide recommendations for developing countries on how to improve their business climate in order to meet the requirements of the MNEs. Improving their business climate and attracting more FDI could eventually lead to the decline of the brain drain and emigration of skilled workers. By conducting this research, I aim to address this issue and encourage further research into this topic.

3. Theoretical framework

This chapter provides a brief description of the chosen theories which are the *eclectic paradigm* also known as the *OLI framework* and the *Four-capital model.* The first theory gives not only a frame but also an explanation of factors that weight on a MNE's decision of investing abroad. In this case study, the eclectic paradigm allows to explore which aspects are important to MNEs before and when they decide to engage in foreign investments. It is going to be used to provide an answer on which policies should the Cameroonian government implement in order to attract desirable FDI inflows. The Four-capital model is the second theory that is used in this case study. It is focused on sustainable development and it provides an overview of the four capitals that are needed to build a sustainable society. This model is going to be used to provide an answer on which policies should the Cameroonian government implement in order to sustain desirable FDI inflows.

3.1 The eclectic paradigm by Dunning

The concept of the *eclectic paradigm* was presented for the first time by John Dunning in 1976 at a presentation to a Nobel Symposium in Stockholm on The International Allocation of Economic Activity. The eclectic paradigm is defined as a general framework aiming at explaining and analyzing not only the economic rationale of economic production but also many organizational and impact issues in relation to an MNE activity (Dunning, 1988). The eclectic paradigm has been developed by Dunning in a series of publications (1980, 1981, 1988 and 1992) (Rugman, 2010). Using the framework enables to identify and evaluate the significance of the factors influencing the initial act of foreign production by enterprises (Dunning, 1988). The most important part of the eclectic paradigm is the assumption that for FDI to be undertaken, three necessary conditions have to be satisfied: (i) an MNE willing to invest abroad has to possess some sort of ***ownership advantage****;* that may relate to assets or transaction skills in the firm; (ii) the host country must have ***location advantages*** that favor FDI. Those advantages could be for example low factor prices, appropriate technology or market conditions; (iii) overseas operations have to possess ***internalization advantages***; meaning that full control should remain with the investing firm (Pedersen, 2003). Dunning's eclectic paradigm, also known as the OLI framework, suggests that MNEs develop competitive ownership advantages at home and then transfer these abroad to specific countries (depending on the location advantages) through FDI, which allows the MNE to internalize the ownership advantages (Rugman, 2010). As mentioned above, the eclectic paradigm is an inseparable set of ownership (O), location (L) and internalization (I) variables that provide an explanation for MNE activity. The next section will provide further explanation of the three variables.

3.1.1 Ownership advantages (O)

For a firm to compete in a foreign location, it must possess certain ownership advantages; also referred to as competitive or monopolistic advantages. This sub-paradigm asserts that the greater the competitive advantages of the investing MNEs, relative to those of other firms and those domiciled in the country in which they are seeking to make their investments, the more they are likely to be able to engage in/or increase their foreign production (Dunning, 2000). Two types of competitive advantage can be distinguished: (i) one advantage that is attributed to the ownership of particular unique intangible assets, such as firm-specific technology; those are firm-specific and can be used in different locations (ii) the other advantage is due to the ownership of complementary assets, such as the ability to create new technologies, or the ability to coordinate cross-border activities effectively. Those are the ones that the firms are building gradually interacting with their home institutional environment or with the institutional environment of the countries where they establish subsidiaries (Cantwell & Narula, 2001). Some of these ownership advantages may also stem from the nationality of the firm (Dunning, 1988). Other firm's intangible assets are knowledge, brands, organizational structure, and management skills, and also natural factor endowments; manpower; capital; the cultural, legal and institutional environment; and industry market structure (Rugman, 2010). These advantages must be sufficient to compensate for the costs of setting up and operating a foreign value-adding operation, in addition to those faced by indigenous producers or potential producers (Dunning, 1988).

3.1.2 Location advantages (L)

This sub-paradigm asserts that the more the immobile, natural or created endowments, which firms need to use jointly with their own competitive advantages, favor a presence in a foreign, rather than a domestic location, the more firms will choose to augment or exploit their O specific advantages by engaging in FDI (Dunning, 2000). MNEs will chose to produce abroad whenever it is in their best interests to combine intermediate products produced in their home country which are spatially transferable with at least some immobile factors or intermediate products specific to the foreign country (Dunning, 1988). Some of the location advantages include factors endowment and availability, geographical factors or public intervention in the allocation of resources as reflected by legislation towards the production and licensing of technology, patent system, tax and exchange rate policies which a multinational would like either to avoid or to exploit (Dunning, 1977). Other host country's location advantages that matter are the market size, natural resources, aspects of the infrastructure, the education system, government structures, and other aspects of political and government activity (Rugman, 2010). Institutions are important determinants of FDI because they represent the major immobile factors in a globalized market. Legal, political and administrative systems tend to be internationally immobile frameworks whose costs determine the international attractiveness of a location (Mudambi et al, 2002). Although in the eclectic paradigm the location advantages are treated independently from ownership advantages, the decision of where to expand internationally is not independent of ownership advantages (Cantwell & Narula, 2001; Dunning, 2001).

3.1.3 Internalization advantages (I)

The last sub-paradigm of the OLI paradigm offers a framework for evaluating alternative ways in which firms may organize the creation and exploitation of their core competencies. Methods range from buying and selling goods and services in the open market to the integration of intermediate product markets, and a purchase of a foreign corporation (Dunning, 2000). Internalization advantages arise from the greater ease with which an integrated firm is able to appropriate a full return on its ownership of distinctive assets such as its own technology, as well as directly from the coordination of the use of complementary assets, subject to the costs of managing a more complex network (Cantwell & Narula, 2001). The internalization of ownership advantages occurs when the international market is not the best modality for transacting intermediate goods or services. A condition of international production is that the company must be better off transferring its ownership advantage within the firm across borders, rather than selling it to a third party via licensing or franchising. Another condition is a higher control of the mother company over the subsidiary: it is believed to be more efficient to transfer higher level of technology and thus transform this subsidiary to a much more productive unit against its local competitors (Dunning, 1988).

3.2 Sustainable development: The Four-capital model

One theory used to monitor the sustainability of a society is *the Four-capital model*. Sustainable development is defined as *"development that meets the needs of the present without compromising the ability of future generations to meet their own needs"* (UN, 1987). Meeting present human needs and increasing the quality of life is viewed as the development part of sustainable development while maintaining this into the future is viewed as the sustainability part (EC, 2008). The Four-capital model puts four capitals that are needed to the process of production and the generation of human welfare and provides a theoretical framework for the evaluation of sustainable development outcomes (Ekins et al, 2008). Increasing quality of life and meeting human needs through consumption, satisfying work, good health, rewarding personal relationships and well-functioning social institutions, and the full range of environmental goods and services, is regarded as resulting from the flows delivered by the capital stocks (EC, 2008). The model also explains that a sustainable society is impossible to build without maintaining the balance among the following four capitals: human, social, natural and manufacturing. For example: the development of large-scale agricultural production can lead to a deterioration of the natural environment or, too much attention to human or manufactured capital may affect the environmental sustainability. The potential for unsustainable development lies in the loss of one or more capital stocks, or in the trade-offs made between different forms of capital (Ekins et al, 2008). In the next section, the four capitals (human, social, natural and manufactured) are further elaborated.

3.2.1 Human capital

Human capital is defined as *"the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being"* (OECD, 2001). The key function in the creation of human capital is learning. In other words, learning within the family and early childcare settings, formal education and training, workplace training and informal learning at work or in daily life. Human capital formation takes place not only in formal education or training programs, but also in informal interaction with others as well as through self-reflection and self-directed learning. Types of human capital include mental and physical health, education, motivation and work skills. These elements contribute to a happy, healthy society, but also improve the opportunities for economic development through a productive workforce (Ekins et al, 2008). Human capital corresponds to any stock of knowledge or characteristics the worker has that contributes to his or her productivity. Firm-specific skills and knowledge are acquired through learning on the job and firm-based training. Human capital grows through use and experience, both inside and outside employment, as well as through informal and formal learning, but human capital also tends to depreciate through lack of use. Educational credentials are a simple and readily measured proxy for skills and competence. Their drawback is that they do not reflect human capital obtained through informal training or through experience (OECD, 2001).

3.2.2 Social capital

Social capital is defined as *"networks with shared norms, values and understandings that facilitate co-operation within or among groups"* (OECD, 2001). Social capital, like human capital, is related to human well-being, but on a societal rather than individual level. Social capital is mainly a public good that is shared by a group and consists of the social networks that support an efficient, cohesive society, and facilitate social and intellectual interactions among its members. Social capital refers to those stocks of social trust, norms and networks that people can draw upon to solve common problems and create social cohesion. The political and legal structures that promote political stability, democracy, government efficiency and social justice; all of which are good for productivity as well as being desirable in themselves are part of social capital (Ekins et al, 2008). Social capital allows individuals, groups and communities to resolve collective problems more easily. Three basic forms of social capital have been identified: social bonds, bridges and linkages. Bonding refers typically to relations among members of families and ethnic groups. Bridging social capital refers to relations with distant friends, associates and colleagues. Linking refers to relations between different social levels in a hierarchy where power, social status and wealth are accessed by different groups. Social capital can lead to dysfunction when used by one group against others (OECD, 2001).

3.2.3 Natural capital

Natural capital is considered as the components of nature that can be linked directly or indirectly with human welfare (Ekins et al, 2008). Two types of natural capital can be differentiated: (i) renewable or active natural capital and (ii) nonrenewable or inactive natural capital. The former is active and self-maintaining using solar energy as example. The latter is more passive as fossil fuel and mineral deposits since they yield no services until extracted (Constanza & Daly, 1992). In addition to traditional natural resources, such as timber, water, and energy and mineral reserves, natural capital includes natural assets that are not easily valued monetarily, such as biodiversity, endangered species and the ecosystems that perform ecological services e.g. air and water filtration (Ekins et al, 2008).

3.2.4 Manufactured capital

Manufactured or human-made capital is what is traditionally considered as capital: produced assets that are used to produce other goods and services. In its narrowest interpretation capital is used to mean manufactured goods that themselves produce, or facilitate the production of, other goods and services (Ekins et al, 2008). The manufactured capital is described as the entire physical man-made stock, produced and reproduced by society. It comprises buildings, transport, energy, water, and waste infrastructure, industrial production facilities, and all durable production and consumer goods, such as machinery, cars, airplanes, or computers. Manufactured capital provides essential goods, services, and shelter for human well-being. In doing so it consumes natural resources and induces environmental change, such as climate change and habitat loss (Weisz et al, 2015).

3.3 Hypotheses

Dunning's OLI framework serves as the main reference to the formulation of the three hypotheses in exception of the first hypothesis for which the Four-capital model is also used. The first hypothesis that need to be tested concerns the ownership advantages of the MNEs and it has been formulated as follows: ***"Only MNEs owning unique intangible assets are selected by the host country's government in order to invest in its market".*** This hypothesis is formulated in order to give an answer to the sub-question "*Which type of investors are the governments of Cameroon, Nigeria, Kenya, Ghana and Rwanda attracting to their jurisdiction?".* In order to investigate which MNEs invest in the chosen host countries, it is necessary to investigate whether the chosen host countries are being selective with which MNEs they allow to invest in their jurisdiction and or whether their jurisdiction is open to everyone and every MNE willing to invest. This hypothesis will be tested by investigating in the case countries' policy documents which MNEs invest the most and which requirements the case countries impose on the MNEs before they are allowed to locate themselves in the chosen country. This hypothesis will also be tested by using the Four-capital model in order to give an answer on how the case countries can sustain the FDI inflows. I will hereby research in the countries' policies documents on how the four capitals (human, social, nature and manufactured) have benefited from the presence of MNEs, which sectors benefited most of the presence of foreign investors and how or if the recipients' countries have reused the received investments in order to enhance the welfare of its citizens. On the countries' location advantages, the hypothesis that need to be tested is formulated as follows: ***"Host countries with a large variety of location advantages have a higher chance of attracting foreign direct investment".*** This hypothesis serves to answer the sub-question "*What aspects make Cameroon, Nigeria, Kenya, Ghana and Rwanda attractive FDI destinations for MNEs?*". It is based on the assumption that MNEs are more eager and interested in investing in a country that offers a large variety of advantages as i.e. an abundant availability of natural resources and/or adequate infrastructure. This hypothesis will be tested by investigating each case countries on which location advantages they are possessing. Lastly, on the internalization advantage, this hypothesis will be tested: ***"A host country supporting an MNE's ability to internationalize is favored by MNEs in order to receive foreign direct investment".*** The last sub-question "*Which policies and incentives have the governments of Cameroon, Nigeria, Kenya, Ghana and Rwanda implemented in order to attract FDI?"* will be answered by testing this hypothesis which is based on the assumption that MNEs tend to choose host countries that don't interfere with their operations. This hypothesis will be tested by researching in the case countries' policy documents which policies have been implemented and which incentives are being offered by their IPA that facilitate an MNE's entry in their market.

3.4 Operationalization of the theories

The theories described will form the reference framework for providing an answer to the main research question. The OLI framework will be used to research which MNEs the selected countries have been attracting to their jurisdiction, which actions are taken by the case countries to attract foreign investments and what aspects make the case countries attractive to foreign investors. The Four-capital model will be used to investigate the effects of foreign investments on the selected case countries. It is hereby necessary to investigate who, and which sectors have benefited from the presence of the MNEs and what the impact of foreign investments has been on the case countries. The following sections elaborate on the methods used to conduct this research.

4. Research design and methods

This research aims at comparing some aspects and policies of Cameroon regarding its attractiveness to FDI to four other African developing countries in order to establish which policies the Cameroonian government can implement to attract and sustain desirable FDI inflows. Within this research, I aim to answer the question of how a specific factor, in this case, the FDI policies implemented by the selected countries can make a difference for a specific outcome, which is the attraction and sustainability of desirable FDI inflows. In the next sections, I will first elaborate on the research method that has been used in this case study. Secondly, the reliability and validity of this research are mentioned and lastly, I will close this chapter by stating which control variables are going to be used for this comparative case study.

4.1 Research method

According to Zainal (2007), a case study research allows the exploration and understanding of complex issues. It can be considered as a robust research method particularly when a holistic, in-depth investigation is required. Recognized as a tool in many social science studies, the role of case study method in research becomes more prominent when issues with regard to education, sociology and community-based problems, such as poverty, unemployment, drug addiction, illiteracy are raised (Zainal, 2007). Case study designs are suited to situations involving a small number of cases with a large number of variables. This approach is appropriate for the investigation of cases when it is necessary to understand parts of a case within the context of the whole and case studies are also useful when the researcher wishes to examine the effect of external variables on the phenomenon he is investigating (Vaus, 2001). The research approach to small-N studies is also known as a *Co-variational analysis* (COV). In a co-variational analysis, small-N research outperforms large-N research in terms of the concept validity of measurement. This methodological approach presents empirical evidence of the existence of co-variation between an independent variable X and a dependent variable Y to infer causality. The COV approach requires that other independent variables that may have an effect on the dependent variable are controlled. This can be achieved by deliberately choosing cases that have similar scores on these variables. The COV approach is X-centered in the sense that it focuses on the effects of causes and not on the causes of effects. In other words, while conducting a cov approach, the researcher is primarily interested in the independent variable and not in the dependent variable (Blatter & Haverland, 2012). This case study is focused on comparing the FDI policies implemented by the governments of Nigeria, Ghana, Kenya and Rwanda to the policies implemented by the Cameroonian government in order to provide some recommendations to the government of Cameroon on how it can attract and sustain desirable FDI. According to Blatter and Haverland (2012), in all types of small-N research, cases should not be selected randomly. Selecting a few cases randomly may result in the cases not varying in the independent variable of interest (Blatter and Haverland, 2012). Due to my interest in the economic development of African countries, the focus of this study was laid on five African developing countries. As mentioned in the introduction, Nigeria and Kenya attract a large amount of the continent's total FDI projects. Rwanda and Ghana also saw an increase in their FDI inflows, mostly due to the increase in investments flowing from China and lastly Cameroon saw its FDI inflows decrease instead of increasing. Dunning's OLI framework and the Four-capital model were used to provide the answer to the research question. As mentioned in chapter 3, the OLI framework consists of three advantages (ownership, location and internalization) and the Four-capital model consists of four capitals (human, social, natural and manufactured). To answer the main question, the countries specific advantages, the existing FDI policies and also which MNEs are investing in the selected countries have been analyzed and compared. Using the OLI framework, the selected countries have been investigated on the advantages they possess that may favor the presence of foreign investors such as natural resources, education system and aspects of infrastructure. In addition to that, the existing FDI policies that may influence their international attractiveness has been studied. Lastly, the MNEs investing in the selected countries have been investigated on their competitive advantages such their nationality and the ownership of unique intangible assets and using the Four-capital model to research the impact those investments have had on the recipients' economies.

4.1.1 Reliability and validity

Reliability has to do with how we measure the things in which we are interested. A reliable system of measurement is consistent in that each time it is used on the same data, it yields the same measure (Bellamy & Perri 6, 2012). In order for this case study to be reliable, the data that will be investigated dates from 2010 to 2017. For the economic data, I will use the data which is not older than 2015. This is because the economy is always fluctuating, meaning that if one country performs economically well in one year, it is not guaranteed that the country will also perform well the next year. This is mostly due to several external shocks that a country can't control for example low oil prices or natural disasters. The reliability is also guaranteed by using the same sources that provide information on the chosen host countries as much as possible. Important data on each country has been retrieved from the same sources as the World Bank, Santander Trade Portal, Central Intelligence Agency etc. Validity is the degree to which our statements approximate to truth (Bellamy & Perri 6, 2012). Two concepts, internal and external validity, are fundamental to developing research designs.

Internal and external validity

Internal validity is described as the extent to which the structure of a research design enables the researcher to draw unambiguous conclusions from the results. The more the structure of a study eliminates the alternative interpretations, the stronger the internal validity of the study. A central task of a research design is to structure the study so that the ambiguities are minimized (Vaus, 2001). Internal validity also applies within a study regardless of whether we want to generalize to other, it concerns the warrant we have for inferring that an outcome can be explained by a particular causal factor (Bellamy & Perri 6, 2012). For this case study, it is mentioned in the theory before choosing an investment location, MNEs consider variables such as economy, politic, social, technology and law (Osabutey & Okoro, 2015). Internal validity has been tested by defining and using the same control variables for each country. The selection of the control variables is mentioned in the next section of this chapter. According to Blatter and Haverland (2012), external validity is achieved if the results can be generalized across population and times and settings. Also, the sample has to be representative for a population and the treatment has to be like a real-world phenomenon (Blatter & Haverland, 2012). External validity also concerns the warrant the researcher has for inferring that the findings would hold in other situations or studies that were similar in relevant ways (Bellamy & Perri 6, 2012). External validity for this study is achieved by the selection of the countries. Five countries that are located in Sub-Sahara Africa have been chosen: three from West-Africa being Cameroon, Nigeria and Ghana, and two from East-Africa being Rwanda and Kenya. The countries all have in common that they are defined as developing countries and they have all been receiving FDI for the last couple of years.

4.1.2 Selection of control variables

The COV approach requires that other independent variables that may have an effect on the dependent variable are controlled for. The more independent variables that are included in the analysis for control, the more difficult it is to find cases that have similar scores on all these variables. The researcher should consider causal factors from the major theoretical approaches concerned with explaining the dependent variable (Blatter & Haverland, 2012). In order to provide an answer to the research question, the following sub-questions will be answered:

1. What aspects make Cameroon, Nigeria, Kenya, Ghana and Rwanda attractive FDI destinations for MNEs?

   For this sub-question, the following control variables have been used:

   - Natural resources
   - Aspects of infrastructure
   - Level of education
   - Economic stability and market size

- Government structures and political stability

2. Which type of investors are the governments of Cameroon, Nigeria, Kenya, Ghana and Rwanda attracting to their jurisdiction?

   The following control variables will be used for answering this sub-question:

   - The nationality, manpower and capital of the firms
   - Knowledge including ownership of particular unique intangible assets and ownership of complementary assets

3. Which policies and incentives have the governments of Cameroon, Nigeria, Kenya, Ghana and Rwanda implemented in order to attract foreign investments?

   The following control variables will be used while answering this sub-question:

   - (Financial) incentives, tax and exchange rate policies
   - Policies allowing transfer of a company ownership advantage within the firm across borders, rather than selling it to a third party via licensing or franchising and a higher control of the mother company over the subsidiary

5. Analysis and Discussion of findings

The following section consists of a description of the findings on each country. First, I will describe the aspects that make the chosen host countries attractive FDI destination for MNEs. Second, I will describe the types of investors the government attracts in their jurisdiction and lastly, I will mention the policies that the governments have implemented and the incentives that the different governments offer in order to attract FDI.

5.1 Cameroon

Area	**465.500 km²**
Population	24 million
Median age of population	18,4
Unemployment rate	4,3%
Corruption index (2016)[3]	145th out of 176 countries
GDP (USD)	31 million
FDI net inflows in USD (2016)[4]	128 million
Set up a company (days)[5]	17

Table 1: Cameroon Factsheet. Source: (Euromonitor International, 2017)

The research conducted on Cameroon has revealed the following results. The Cameroonian economy has many assets: it has favorable conditions for farming, plentiful water resources, forests and oil. Cameroon also offers benefits such a cheap workforce and abundant natural resources. The country is known to be a large producer of aluminum. Other principal exports are crude oil, timber, aluminum, cocoa, coffee, rubber, cotton and bananas (WTO, 2011). Agriculture including subsistence farming and fishing plays a key role in the economy and employs over 60% of the labor force (U.S. Department of State, 2016). The country maintains a long-stated goal to become an emerging market economy by 2035. By enacting a new investment code in April 2013; the country introduced new tax incentives, eliminated minimum investment requirement and incentivized export through numerous exemptions on VAT and duties (Davis, 2013). The government of Cameroon is seeking FDI to develop vital economic infrastructure and for major industrialization projects. Area's that attract FDI are the mining, transport, food industry, energy and construction area (Santander Trade Portal, 2017).

[3] (Transparency International, 2017)
[4] (World Bank Group, 2017)
[5] (World Bank Group, 2017)

1. *The aspects that make Cameroon an attractive FDI destination for MNEs*

- *Natural resources*

  Cameroon is endowed with an abundance of natural resources, including in the agricultural, mining, forestry and oil & gas sectors. The country possesses crude oil, timber, hydroelectric power, natural gas, cobalt, nickel. It is believed that the exploitation of these sectors could be the government's greatest resource of revenues. The country also has one of the largest gas reserves in Africa, estimated at over 3,5 trillion cubic meters. Furthermore, the country possesses a vast array of cash crops, including cotton, bananas and peanuts. Cameroon is one of world's largest cocoa grower. Palm oil and oilseed processing provide vast opportunity for feed production and oil-based products. Lastly, the country generates a revenue of $40 million through the export of rubber. Mining potential is largely untapped with opportunities available in iron, diamonds and gold among others (Fortune of Africa, 2014).

- *Aspects of infrastructure*

  Following the distribution of economic activity and population; the country's roads, power, and ICT backbones are concentrated in urban areas, mainly around the two largest cities of the country: the economic capital Douala and the country's capital Yaoundé. The current urban infrastructure stock is almost the same as it was at the end of the 1980s, while the population has more than doubled. The country has 11 airports with paved runways, with three of them being international airports (Central Intelligence Agency, 2017). Cameroon is a natural hub for the region, with the port of Douala as the main entrance. Douala is also the starting point of the CAMRAIL railway, which extends 1.100 kilometers toward Chad but stops short of the border. The railway connections are generally efficient but limited. The rail lines connect major cities of Douala, Yaoundé, Ngaoundere and Garoua. Because of the poor condition of its road network and delays in the port of Douala, the country's ability to move goods and connect manufacturers and consumers with international markets is one of the lowest in the world. However, freight transport costs to and from Cameroon are among the lowest in Central Africa. According to numerous players in the country, the Cameroon government needs to do more in the infrastructure space. There is a need for upgrading infrastructure in all subsectors (Dominguez-Torres & Foster, 2011).

- *Level of education*

  The level of literacy of the total population (over 15 years old and can read or write) is 75%. Over 50% of the population is under 25 years old. Although there is a lack of trained mid-level technicians, the youth is eager to gain professional knowledge. The official unemployment rate is around 4,3%, although youth unemployment is much higher. An estimation made by the Institute of National Statistics states that 75% of young people are underemployed with qualifications that do not match requirement of the job market. Unskilled labor is prevalent in the agricultural and service sector, and under-employment is prevalent in manufacturing, commerce, technician or technical trades, and mid-management jobs. The agriculture, fishing and textile sectors are still in need of significant development, and a lack of skilled workers tends to be the norm across the country. There is also a shortage of technical trade skills, for maintenance and repair of industrial machinery (U.S. Department of State, 2016).

- *Economic stability and market size*

  Cameroon has a diversified economy featuring oil and gas, timber, aluminum, agriculture, mining and the service sector. With a GDP of USD 31 million, the GDP growth rate consisted of 4% in 2017. Oil remains the country's main export commodity, and despite falling global oil prices, it still accounts for nearly 40% of exports. The services sector makes a modest contribution to GDP. The manufacturing sector's contribution to GDP is limited because the capacity to supply energy has reached saturation point, although the start-up of a new gas-fired power station could improve the situation. The country has a large labor force that consists of 9,9 million persons with 70% working in the agricultural sector, 13% in the industrial sector and 17% working in the service sector. There are labor unions that are independent, and others that are affiliated with the government under existing laws and regulations. The labor union movement is however highly fractured and somewhat ineffective in promoting workers' rights (Central Intelligence Agency, 2017). The consumer market at home is large and growing. The spending power of Cameroonians has grown during the past few years and it has also created infinite opportunity for fast consumer goods (Davis, 2013). Cameroon's economy suffers from factors that often impact underdeveloped countries, such as stagnant per capita income, a relatively inequitable distribution of income, a top-heavy civil service, endemic corruption, and a generally unfavorable climate for business enterprise. The corruption of the national bureaucrat and capital flight remains major sources of leakages in the economy.

- *Government structure and political stability*

  Cameroon is a presidential republic. President Paul Biya has been the country's chief of state since November 1982. The president is directly elected by simple majority popular vote for a 7-year term and there is no term limit. The country has a multiparty system of government, but the Cameroon People's Democratic Movement has remained in power since it was created in 1985 (Central Intelligence Agency, 2017). The poor management of state resources and poor governance has been a major cause of poverty in the country. The fact that the state has been rated twice by Transparency International (an anti-corruption Non-Governmental Organization) as the most corrupt country in the world shows the deep-rooted nature of corruption in the country. Corruption is perceived to be rampant in the Cameroonian judiciary and is ingrained at all levels of society; 79% of Cameroonians admit to paying bribes (Ndeh, 2015).

2. ***The types of investors the government attracts in their jurisdiction***
   - *The nationality, manpower and capital of the firms*

     Cameroon's FDI inflows come from the European Union, particularly France and Germany and target the mining industry, including oil extraction. FDI inflows in Cameroon consisted of USD 128 million in 2016 compared to USD 627 million in 2015. China influence in Cameroon has however increased. According to Cameroonian Ministry of Economy, the country has been investing steadily in Cameroon with a total amounting to USD 2,43 billion in 2016 consisting of direct and indirect[6] investments (Santander Trade Portal, 2017).

   - *Knowledge including ownership of unique intangible assets and ownership of complementary assets*

     The Chinese investments have allowed the construction of Kribi Port and Industrial Complex, Memve'ele Hydroelectric Dam and new football stadiums considering the 2019 Africa Cup of Nations hosted by the country. EU cooperation focus on improving governance, boosting trade and regional integration. In the governance sector, the EU contributes to consolidate the rule of law, management of public finances, forestry governance and the sustainable management of natural resources. Regarding trade and regional integration, assistance has been on competitiveness and facilitating trade, strengthening production and exports as well as improving the road network (European Commission, 2018).

3. ***The policies and incentives the governments have implemented in order to attract FDI.***
   - *Policies allowing transfer of a company ownership advantage within the firm across borders, rather than selling it to a third party via licensing or franchising and a higher control of the mother company over the subsidiary*

     Cameroon does not have laws that prohibit, limit or condition foreign investment in specific economic sectors. The laws of Cameroon do not discriminate against foreign investors which

[6] Indirect investments include various types of interests in companies including stockholding that can be held directly or indirectly (UNCTAD, 2011)

means that foreign nationals can be 100% owners of a company. The law does not impose outright prohibition on investment, mandatory domestic joint venture partner, licensing restrictions, mandatory Intellectual Property, technology transfer requirements on foreign investors and entrepreneurs. The government of Cameroon does not require companies to hire nationals. However, foreign nationals are required to obtain work permits prior to formal employment. While foreign nationals are automatically issued work permits for companies of the industrial free zones regime, their number may not exceed 20% of the total workforce of a company after the fifth year of operation in Cameroon if benefiting from the Industrial Free Zone regime. The government does not impose rules on the recruitment of senior management nor impose unusually excessively visa, residence, work permit, or similar requirements inhibiting mobility of foreign investors and their employees. There are no restrictions or limitations placed on foreign investors in converting, transferring, or repatriating funds associated with an investment. Funds may be converted to any world currency (U.S. Department of State, 2016). Cameroon laws enable foreign investors to create, own and operate their business without limitations. Cameroon has free trade zones in which all export companies can set themselves up; companies that produce goods and provide services meant exclusively for export. There are a many advantages for companies in those free trade zones like exemption from all licenses, authorization or quota limitation for both export and import, possibility of being able to open a foreign currency account, no restrictions on sales operations, purchase of foreign currency, right to transfer profits abroad, tax and duty exemption for a period of 10 years from the beginning of operations and taxation at a general rate of 15% on profits from the 11th year (Santander Trade Portal, 2017). In general, the government is moving away from privatization and towards Public Private Partnership or some variation of outsourcing of contractual management, with the State retaining some ownership of assets or of the business. In some cases, the State also prefers to take participation in ventures, such as mining companies, rather than permitting a wholly privately-owned company. Subject to the fulfillment of the obligations, notably with respect to the exchange rate regime and the tax legislation, investors may enjoy the following benefits:

- the right to open in Cameroon and abroad local and foreign currency accounts and to carry out transactions on such accounts;
- the right to freely use and or keep abroad funds acquired or borrowed abroad, and to freely use such;
- the right to freely keep cash abroad dividends and proceeds of any kind from capital invested, as well as proceeds from the liquidation or sale of their assets;

- the right to directly pay abroad non-resident suppliers of goods and services essential for conduct of business;
- free transfer of dividends and proceeds from the sale of shares in case of disinvestment.

- *(Financial) incentives, tax and exchange rate policies*

  Cameroon's 2013 investment law lists several types of investment incentives for investors and also specifies the conditions that they have to meet, in order to benefit from those incentives. Common incentives are granted to investors during the establishment and operation phases. The investor may, during the operation phase which may not exceed ten years, according to the scale of investment and expected economic return, enjoy exemptions from or reductions of payment of several taxes, duties and other fees including corporate tax, tax on profit and stamp duty on loans. The investor shall enjoy the following benefits during establishment phase, which may not exceed five years,

  - Exemption from transfer taxes on the acquisition of immovable property, land and buildings essential for the implementation of the investment program;
  - Exemption from stamp duty on contracts for the supply of equipment and construction of buildings and installations, that is essential for the implementation of their investment program;
  - Full deduction of technical assistance fees in proportion to the amount of the investment made, calculated on the basis of the total amount of the investment;
  - Exemption from VAT on the provision of services related to the execution of the project and obtained from abroad,
  - Exemption from business license tax;
  - Exemption from taxes and duties on all equipment and materials related to the investment program;
  - Exemption from VAT on the importation of equipment and materials;
  - Immediate removal of equipment and material related investment program during clearance operations.
  - Administrative incentives

5.2 Nigeria

Area	**923.850 km²**
Population	190 million
Median age of population	17,8
Unemployment rate	13,6%
Corruption index (2016)[7]	136th out 176 countries
GDP (USD)	376 million
FDI net inflows in USD (2016)[8]	4,4 billion
Set up a company (days)[9]	19

Table 2: Nigeria Factsheet. Source: (Euromonitor International, 2017)

With a population of over 190 million people, Nigeria has Africa's largest population, economy, and oil production and export. The country has access to abundant natural resources, an inexpensive workforce and it is strategically located near many West African countries. The country's government has introduced many programs to boost FDI, notably in the agriculture, exploitation and mining, oil and gas extraction, and in the export sectors. The country's laws apply equally to domestic and foreign investors and tax incentives are granted to pioneering industries deemed beneficial for the economic development of the country and employment of its workforce. Outside of the oil and gas sector where investment is limited to joint ventures or production-sharing agreements, foreign companies are allowed to own 100% of businesses. Industries considered crucial to national security, such as weapons, ammunition, military and paramilitary clothing, are not open to private investment (Santander Trade Portal, 2017).

[7] (Transparency International, 2017)
[8] (World Bank Group, 2017)
[9] (World Bank Group, 2017)

1. The aspects that make Nigeria an attractive FDI destination for MNEs

- *Natural resources*

  Nigeria is the world's thirteenth largest oil producer and sixth largest oil exporter, producing crude oil. With an oil production over 2 million barrels per day, the country's economy remains heavily dependent on its oil and gas sector which accounts for 11 percent of GDP (U.S. Department of State, 2015). Apart from petroleum, Nigeria's other natural resources include natural gas, tin, iron ore, coal, limestone, niobium, lead, zinc and arable land. Also, precious metals stones as barites, gypsum, kaolin and marble are available in the country with most of these that still have to be exploited (OPEC, 2017).

- *Aspects of infrastructure*

  Nigeria has a relatively advanced power, road and rail networks that cover extensive areas of the nation's territory; compared to many African peers. Nigeria has five operational international airports and six major domestic airports. With a total road network of 193.200 km, 14,9% (28.980 km) are currently paved while over 85% (164.220 km) are unpaved. The country has a total of 3,798 km of rail line, which makes it the 47th longest in the world, and the longest in West Africa. The ports in Nigeria include the Lagos port, Tin Can Island port, Rivers port, Onne port, Delta port and Calabar port. Nigeria is currently ranked 7th in West Africa in terms of quality of port Infrastructure (Invest in Nigeria, 2017).

- *Level of education*

  Nigeria is the number one country of origin for international students from Africa; it sends the most students overseas to any country on the African continent. The number of Nigerian students abroad increased by 164 percent in the decade between 2005 and 2015 alone (WENR, 2017). However, in the country itself, the literacy level is 59,6%. Due to inadequate educational systems, limited employment opportunities, and the migration of educated Nigerians to other countries, including the United Kingdom, the United States, and South Africa, Nigeria's skilled labor pool has declined over the past decade. The low employment capacity of Nigeria's formal sector means that almost three-quarters of all Nigerians work in the informal and agricultural sectors or are unemployed. A research conducted by the UNESCO in 2012 mentioned that there is a huge skill deficit among the youth that is facing the world of work:

  - Almost a quarter of young people in the country have not completed primary school and as a result they don't have the basic skills they need for work. This is equivalent to over seven million 15-24 years old. Almost double the number of young women is affected by this crisis as young men. Young people from disadvantaged backgrounds are least likely to have skills for decent work.

- Almost all the urban rich reach lower secondary, compared with less than half of the urban poor.
- Young women are the worst affected of all. Over half of rural women have less than a secondary schooling compared to around a quarter of young women in urban areas. Only 15% of young men in urban areas suffer the same disadvantage (Unesco, 2012).

Nigeria's laws regarding minimum age for child labor and hazardous work are inconsistent. While the Nigerian Labor Act forbids the employment of youth under age 18 in work that is dangerous to their health, safety, or morals, it allows children to participate in certain types of work that may be dangerous by setting different age thresholds for various activities (U.S. Department of State, 2015).

- *Economic stability and market size*

Nigeria's economic growth has been concentrated in trade, agriculture, manufacturing, and telecommunications. The country's labor force consists of 60,08 million persons with 70% working in the agriculture sector, 10% in the industry and 20% in the service sector (Central Intelligence Agency, 2017). Some of the country's main advantages are a partially privatized economy, an advantageous taxation system, significant natural resources and the low cost of labor (U.S. Department of State, 2015). Nigerian businesses have been known to seek to protect and expand market share through political connections and economic protections, rather than through free and fair competition, and vested interests may seek to retain such a system. Nigeria's tax laws generally do not impede investment, but the imposition and administration of taxes remains uneven and lacks transparency. Tax evasion commonly occurs, with individuals and businesses often colluding with relevant officials to avoid paying taxes. Multiple taxes remain a problem for businesses at state and local levels, with companies within concurrent state and local jurisdictions expected to pay several taxes and levies. Domestic and foreign observers identify corruption as a serious obstacle to economic growth and poverty reduction. The country is placed as 136th out of the 176 countries in Transparency International's corruption index (Transparency International, 2017).

- *Government structure and political stability*

Nigeria is a federal republic with a presidential system. The country is headed by President Muhammadu Buhari since 2015. The president is directly elected for a 4-year term by a qualified majority popular vote and at least 25% of the votes cast in 24 of Nigeria's 36 states.

The president is eligible for a second term (Central Intelligence Agency, 2017). The country has a mixed legal system of English common law, Islamic law (in 12 northern states), and traditional law. Political, religious, and ethnic violence continue to affect Nigeria. Boko Haram has waged a terrorist campaign across a growing number of northern states. Nigerian President Muhammadu Buhari has made progress on reforming the country's military and intensifying the fight against the extremist group Boko Haram, which threatens the stability of not only Nigeria, but other countries in the Lake Chad Basin (US Institute of Peace, 2016).

2. The types of investors the government attracts in their jurisdiction

- *The nationality, manpower and capital of the firms*

  The primary countries investing in Nigeria are the United States, China, and the EU particularly the Netherlands (Santander Trade Portal, 2017). FDI inflows increased in the country, going to USD 4,4 billion in 2016 compared to USD 3,1 billion in 2015 (World Bank Group, 2017).

- *Knowledge including ownership of particular unique intangible assets, such as firm-specific technology and ownership of complementary assets*

  The cooperation with the EU targets poverty alleviation, governance and development of the Niger Delta region. The cooperation strategy focuses on governance reforms and the fight against corruption (European Commission, 2018). FDI coming from the US is led by the oil and gas sector. There is new investment from the US and other countries in Nigeria's power, telecommunications, real estate (commercial and residential), and agricultural sectors. U.S. exports to the country are primarily refined petroleum products, used vehicles, cereals, and machinery (U.S. Department of State, 2015).

3. The policies and incentives the governments have implemented in order to attract FDI

- *Policies allowing transfer of a company ownership advantage within the firm across borders, rather than selling it to a third party via licensing or franchising and a higher control of the mother company over the subsidiary*

  There are currently no limits on foreign control of investments in Nigeria. The Nigerian Investment Promotion Commission (NIPC) Act of 1995 liberalized the ownership structure of business in the country, so that foreign investors can now own and control 100% of the shares in any company (as opposed to the earlier arrangement of 60%-40% in favor of Nigerians). The Act also provides that a foreign investor in an enterprise shall be guaranteed unconditional transferability of funds through an authorized dealer in a freely convertible currency. Furthermore, the Act provides guarantees to investors against nationalization and expropriation. Where an acquisition is made in national interest or for public purpose, the investor shall be entitled to:

- payment of fair and adequate compensation;
- a right of access to courts for the determination of the investor's interest or amount of compensation to which the investor is entitled; and
- payment of compensation without undue delay, and authorization for its repatriation in convertible currency, where applicable (Nigerian Investment Promotion Commission, 2017).

Foreign investors have full access to local credit markets which has facilitated access to credit from domestic financial institutions. Foreign investors who have incorporated their companies in Nigeria have equal access to all financial instruments. Regarding the transfer of technology, the government states that attention should be given to the employment of Nigerians with relevant scientific and technological background to collaborate with foreign experts with a view to gradually take over their responsibilities (OECD, 2015).

- *(Financial) incentives, tax and exchange rate policies*

Tax incentives are available for investments in domestic research and development, for companies that invest in local government areas deemed disadvantaged, for local value-added processing, for investments in solid minerals and oil and gas, and for a number of other investment scenarios. Additional incentives are also granted in respect of investments in certain sectors such as the oil and gas, power, solid minerals and agricultural sectors. Where a company operating in the oil and gas sector utilizes Nigeria's natural gas resources, the incentives that are available include a tax holiday for an initial period of 3 years, which is renewable for an additional 2 years. In the power sector, all areas of investment are considered to be pioneer and would, therefore, qualify for the grant of pioneer status (Etomi, 2017). There are several investment incentives available to investors in Nigeria which are aimed at reducing their tax liabilities:

- The Pioneer Status scheme grants companies, operating in certain industries, a non-renewable tax holiday exempting the company from the obligation to pay corporate income and education tax, and the obligation to withhold tax on dividends for 5 years. Companies that receive pioneer status may benefit from a non-renewable, 100 percent tax holiday of five years (seven years, if the company is located in an economically-disadvantaged area).
- An industry engaged in research and development is allowed to deduct up to 120% of costs incurred and up to 140% of the cost if local materials are used;

- Capital Gains Tax is not charged in respect of gains from the sale of shares and stocks.
- The interest payable in respect of a loan granted to a Nigerian company by a foreign company may be exempt from tax.
- Industries that use 60 to 80 percent of local raw materials in production may benefit from a 30 percent tax concession for five years.
- Investments employing labor-intensive modes of production may enjoy a 15 percent tax concession for five years.

5.3 Kenya

Area	**582.645 km²**
Population	49 million
Median age of population	19,8
Unemployment rate	10,9%
Corruption index (2016)[10]	145th out of 176 countries
GDP (USD)	79 million
FDI net inflows in USD (2016)[11]	393 million
Set up a company (days)[12]	25

Table 3: Kenya Factsheet. Source: (Euromonitor International, 2017)

Kenya is one of the most attractive East African countries to companies wishing to invest in the region. The country is known to have a diversified and established economy with a strong business sector and it has enjoyed a steadily improving environment for FDI, creating opportunities in agriculture, tourism, mining, power generation, and ICT enterprises. The country has a strong telecommunications infrastructure and financial sector, and extensive aviation connections within Africa and to Europe and Asia (UNCTAD, 2012). In 2013, the government passed a new law on public-private partnerships in order to attract foreign investment in the infrastructure sector. The government has put in place an extensive program of privatization in various sectors. Furthermore, in 2015 the country simplified procedures for business creation and the transfer of ownership and improved access to credit and electricity. Simplification of the conditions for obtaining business licenses, alongside the development of public-private partnerships are part of the 'Vision 2030' strategy, which should have a positive influence on FDI inflows. The country also took some significant steps to improve the environment for foreign investment. The highlights include the passage of the new Bribery Act (2016) which heightens penalties, mandates bribery prevention procedures, and imposes reporting obligations for private entities. Lastly, continued progress is made by the Kenya Investment Authority to reduce bureaucracy and simplify the business registration process (U.S. Department of State, 2017).

[10] (Transparency International, 2017)
[11] (World Bank Group, 2017)
[12] (World Bank Group, 2017)

1. ***The aspects that make Kenya an attractive FDI destination for MNEs***

- *Natural resources*

  The Kenyan economy relies heavily on natural resources to support people’s livelihoods and to contribute to national income. Kenya’s natural resource base are mainly forests, wetlands, dry-land, aquatic and marine resource. Precious stones are usually mined, and small-scale gold mines exist in the western region of the country. Natural resources can be divided in:

  - Metals mineral resources as gold although the production is artisanal and small-scale, iron, steel, titanium and zirconium.
  - Industrial minerals as cement, diatomite, fluorspar, salt and gemstones. The country also produces gemstones that include amethyst, aquamarine, cordierite, green garnet, ruby, sapphire, and tourmaline.
  - Other natural resources consist of limestone, soda ash, zinc, gypsum, wildlife and hydropower.

- *Aspects of infrastructure*

  Kenya's road network is about 160.886 km long, of which 14.000 km consists of paved roads. The road network accounts for over 80 percent of Kenya's total passenger and freight transport. The state-owned Kenya Railways Corporation manages Kenya's single-track railway system, which runs from Mombasa through Nairobi to the Ugandan border. The country’s location is also good having international air and sea gateway to the region. Kenya's port of Mombasa is the country's main seaport and serves most East and Central African nations. The international and domestic air transport infrastructure is relatively well-developed in Kenya. There are three international airports; the largest is Nairobi's Jomo Kenyatta International Airport, which serves more than 30 airlines providing scheduled services to cities around the world (Central Intelligence Agency, 2017).

- *Level of education*

  In the urban areas, Kenya has a young, well-educated and English-speaking population. There is a vast majority of internationally mobile Kenyan students in neighboring countries. More than 20.000 Kenyan students are estimated to be studying in Ugandan universities, and approximately 5.000 in Tanzania (WENR, 2015). The literacy level in the country is 78%. Official and non-official reporting cites a 40 percent unemployment rate, with unemployment and underemployment for youth approaching much higher levels. According to the UNESCO (2012), one in ten young people never completed primary school, and thus struggles to find well paid work. Also, over a quarter of young people has less than a lower secondary education, and lack foundation skills. Young people from disadvantaged backgrounds are least likely to have skills for decent work:

- 32% of young women and 27% of young men in rural areas have less than a lower secondary education.
- About 60% of Nairobi's 3 million inhabitants live in slums. In two of the poorest slums, Korogocho and Viwandani, young people make up almost a third of the population. With no secondary schools in the slums, only 19% of men and 12% of women have attended secondary school in Korogocho. Only around one in five of those aged 19-20 report having training in a trade or skill, and only half of these can use their training to earn an income (Unesco, 2012).

The government continues to implement a range of programs for the elimination of child labor with dozens of partner agencies and has actively pursued the elimination of forced labor.

- *Economic stability and market size*

Kenya's macroeconomic fundamentals are among the strongest in Africa, with a shrinking current account deficit, improving infrastructure, and strong consumer demand from a growing middle class. The country's economy has many strong points: (i) it is a market economy and functions as the commercial, economic, technological and logistic hub of East Africa; (ii) it is a regional financial center; (iii) it has a strong industrial base and well-developed road infrastructure (Santander Trade Portal, 2017). The labor force consists of 19,82 million persons with 61% working in the agricultural sector, 7% in the industrial sector and 32% in the service sector. The latter is the biggest economic sector of the country, providing more than 60% of the GDP with tourism earning the country the third highest amount of foreign exchange and supplying about one-tenth of all jobs. The entire industrial sector accounts for just under a fifth of the gross domestic product (Central Intelligence Agency, 2017). Kenya has a generally positive investment climate that has made it attractive to international firms seeking a location for their regional or pan-African operations. Though small by Western standards, Kenya's capital markets are the deepest and most sophisticated in East Africa. The Kenyan capital market has grown rapidly in recent years and has also exhibited strong capital raising capacity. Corruption in Kenya is pervasive and entrenched. Transparency International's 2016 Global Corruption Perception Index ranks Kenya 145 out of 176 countries. The lack of political will, little progress in prosecuting past corruption cases, and the slow pace of reform in key sectors are reasons cited for Kenya's low ranking. Corruption is an impediment to FDI with local media reporting on allegations of high-level corruption related to health, energy, ICT, and infrastructure contracts (Transparency International, 2017).

- *Government structure and political stability*

  Kenya is a presidential republic and the country has a mixed legal system of English common law, Islamic law, and customary law. The chief of state is Uhuru Kenyatta since 2013. The president is directly elected by qualified majority popular vote for a 5-year term and is also eligible for a second term. In addition to receiving an absolute majority popular vote, the presidential candidate must also win at least 25% of the votes cast in at least 24 of the 47 counties to avoid a runoff (Central Intelligence Agency, 2017). The country has suffered the far-reaching effects of repeated attacks by Somalia-based Al-Shabaab terrorist group. Al Shabab has issued public threats against Kenya due to Kenya's military intervention in Somalia. Between 2008 and 2015, the group executed a total of 272 attacks in Kenya (Pkalya, 2017). At the end of 2017, Kenya was embroiled in an electoral crisis. After the declaration of Kenyatta as the country's new president, the opposition responded, and supporters took to the streets to protest. These developments crippled East Africa's largest economy and led to the decline of tourism, loss of jobs and the drop of FDI (Carotenuto, 2018).

2. *The types of investors the government attracts in their jurisdiction*

- *The nationality, manpower and capital of the firms*

  The United Kingdom, the Netherlands, Belgium, China and South Africa are the main investors in Kenya. FDI inflows were USD 393 million in 2016 compared to USD 619 million in 2015. In recent years, the telecommunications sector has attracted the most FDI, thanks to the arrival of fiber optics in 2009-2010. The other sectors attracting FDI are banking and tourism. Furthermore, the European Union spends about 100 million euros per year on development cooperation that benefits Kenya (European Commission, 2018).

- *Knowledge including ownership of particular unique intangible assets and ownership of complementary assets*

  In 2015, Kenya benefited from a 50% rise of FDI projects compared to the previous year, becoming the second African country in terms of FDI, behind South Africa. There has been a rise of investments, mainly Chinese, in the mining and hydrocarbon sectors. Chinese investors have launched a project to create a railroad connecting Rwanda, Uganda, South Sudan and Kenya, for a cost of nearly USD 14 billion. The cooperation with the EU focusses on sustainable infrastructure, transport and energy. The EU is working together with the government of Kenya on increasing the accountability of public institutions (European Commission, 2018).

3. ***The policies and incentives the governments have implemented in order to attract FDI***

- *Policies allowing transfer of a company ownership advantage within the firm across borders, rather than selling it to a third party via licensing or franchising and a higher control of the mother company over the subsidiary*

  Foreign investors seeking to establish a presence in Kenya generally receive the same treatment as local investors, and multinational companies make up a large percentage of Kenya's industrial sector. There is little discrimination against foreigners in access to government-financed research, and the government's export promotion programs do not distinguish between goods produced by local and foreign-owned firms. The government does not have a policy to steer investment to specific geographic locations but encourages investments in sectors that create employment, generate foreign exchange, and create forward and backward linkages with rural areas. The government provides the right for foreign and domestic private entities to establish and own business enterprises and engage in all forms of remunerative activity. In an effort to encourage foreign investment, the government repealed regulations in 2015 that imposed a 75 percent foreign ownership limitation for firms listed on the Nairobi Securities Exchange, allowing such firms now to be 100 percent foreign-owned. One limitation of foreign participation is in the oil, gas and minerals mining sectors. Other major sectors in which investment (foreign and domestic) is limited are those where state companies still enjoy a legal monopoly. These monopolies are almost exclusively limited to infrastructure in the fields of energy, telecommunications and ports (Santander Trade Portal, 2017). The government mandates local employment in the category of unskilled labor. The Kenyan government regularly issues permits for key senior managers and personnel with special skills not available locally. For other skilled labor, any enterprise whether local or foreign may recruit from outside if the skills are not available in Kenya. Firms seeking to hire expatriates must demonstrate that the requisite skills are not available locally through an exhaustive search. Work permits are required for all foreign nationals intending to work in Kenya (U.S. Department of State, 2017).

- *(Financial) incentives, tax and exchange rate policies*

  To strengthen Kenya's manufacturing capacity, the government offers incentives for the production of goods for export. The minimum foreign investment to qualify for investment incentives is \$100.000, a potential deterrent to foreign small and medium enterprise investment, especially in the services sector. Kenya's Export Processing Zones (EPZ) and Special Economic Zones (SEZ) offer special incentives for firms operating within their boundaries. Companies operating within an EPZ benefit from the following fiscal incentives:

- 10-year corporate income tax holiday and a 25% tax rate for a further 10 years thereafter (except for EPZ commercial enterprises)
- 10 year withholding tax holiday on dividends and other remittances to non-resident parties (except for EPZ commercial license enterprises)
- Perpetual exemption from VAT and customs import duty on inputs – raw materials, machinery, office equipment, certain petroleum fuel for boilers and generators, building materials, other supplies. VAT exemption also applies on local purchases of goods and services supplied by companies in the Kenyan customs territory or domestic market.
- Perpetual exemption from payment of stamp duty on legal instruments
- 100% investment deduction on new investment in EPZ buildings and machinery, applicable over 20 years (Keninvest, 2017).

5.4 Ghana

Area	**238.533 km²**
Population	27 million
Median age of population	20,4
Unemployment rate	11,9%
Corruption index (2016)[13]	70th out of 176 countries
GDP (USD)	46 million
FDI net inflows in USD (2016)[14]	3,4 billion
Setting up a company (days)[15]	14

Table 4: Ghana Factsheet. Source: (Central Intelligence Agency, 2017)

FDI flowing into Ghana's economy has been increasing in the recent years. The country's wealth of resources, democratic political system and dynamic economy contribute to the attractiveness of the country as an FDI destination. The country is known to have a conducive social, political and economic environment in which investors can invest. The investment climate in Ghana is relatively welcoming to foreign investment, with no discrimination against foreign-owned businesses, investment laws that protect investors against expropriation and nationalization, a free-floating exchange rate regime and guarantees that investors can transfer profits out of the country, and a lower degree of corruption than that of some regional counterparts (GIPC, 2017). Ghana is one of the more open economies to foreign equity ownership in Sub-Saharan Africa. Most of its major sectors are fully open to foreign capital participation. Ghana is trying to attract projects that would drive development of the local labor market. The authorities are trying to simplify the complex and lengthy procedures while also offering tax incentives. Additionally, Ghana is one of the most democratic countries in Africa, and it counts a large and inexpensive labor force, a substantial agricultural base, numerous natural resources and stable institutions (Santander Trade Portal, 2017).

[13] (Transparency International, 2017)
[14] (World Bank Group, 2017)
[15] (Santander Trade Portal, 2017)

1. The aspects that make Ghana an attractive FDI destination for MNEs

- *Natural resources*

  Ghana is a country endowed with various natural resources that span through the agricultural, mining and human sectors. Mineral resources include gold and diamond. The country is the one of the largest producers of gold in Africa and one of the largest producers of cocoa in the world. Oil production started a few years ago after the discovery of oil in the country. Timber, bauxite, and manganese exports are major sources of foreign exchange. Other raw materials are salt, fish and forestry, oil and gas, hydro-power, limestone and clay (Chizoba, 2015).

- *Aspects of infrastructure*

  Ghana's total roadways is 109.515 km long with 13.787 km of paved roads. Road transport is the major carrier of Ghana's land transport system, currently taking up about 98% of freight and 95% of passenger traffic. The railway connects Accra, Kumasi, and Takoradi, the major mining areas, to the sea ports. The railway network also provides passenger services from the interior of Ghana to the main sea ports at Tema and Takoradi. Most major international carriers fly to Kotoka International Airport in Accra, the main entry point to Ghana by air (GIPC, 2017).

- *Level of education*

  Even though the country's literacy level is 76%, Ghana still has a large pool of unskilled labor. Almost a fifth of 15-24 year old (17%) never completed primary school and almost a third of 15-19 year old have less than a lower secondary education. These young people lack the skills they need to find decent work. Young people from disadvantaged backgrounds are least likely to have skills to find decent jobs. Child labor remains a problem with children being engaged in the worst forms of child labor in agriculture, including in cocoa and in fishing. Other facts regarding the level of education in Ghana are:

  - *Poverty*: 8 in 10 of poor 17-22-year-old women in Northern Ghana had less than four years of education in 2008. Meanwhile, only 11% of the poorest quintile of young people had been through an apprenticeship in 2008 as opposed to 47% of the wealthiest.
  - *Gender*: 48% of young women aged 15-24 have less than a lower secondary education, compared to 40% of young men. Currently, apprenticeships are often in trades more accessible to male workers and so disadvantage women.

- *Location*: Only 9% of urban richest with less than a lower secondary education, compared with over half of the rural poorest (54%), and 49% of the urban poorest (UNESCO, 2012).

- *Economic stability and market size*

  Ghana is likely to have one of the world's fastest-growing economies in 2018, according to the World Bank, the African Development Bank and the International Monetary Fund. As oil prices rise again, the country's oil production is expanding rapidly. In January of this year, the country achieved the world's highest rate of growth, 19 percent, according to Bloomberg. Oil is not the only resource helping to drive Ghana's economy. Cocoa is also contributing to it (MCDONNELL, 2018). Ghana $45bn economy is the seventh biggest in sub-Saharan Africa and will probably expand 8,3% in 2018, the fastest growth rate on the continent, according to World Bank projections, on increased oil output and stronger credit growth. That's after growth slumped to a more than two-decade low of 3,5% in 2016 (Dzawu, 2018). Other major economic natural resources in Ghana are gold, manganese, bauxite and industrial diamonds (Baxter, 2013).

- *Government structure and political stability*

  Ghana is also a presidential republic. Since 7 January 2017, the chief of state has been President Nana Addo Dankwa Akufo-Addo. The president and vice president are directly elected on the same ballot by absolute majority popular vote in 2 rounds for a 4-year term. They are also eligible for a second term (Central Intelligence Agency, 2017). Gaining the world's confidence with a peaceful political transition and a grounded and firm commitment to democracy has helped in expediting Ghana's growth in FDI in recent years. Good governance, political stability, and policy reforms make Ghana stand out as one of the better locations for investment in sub-Saharan Africa. Corruption in Ghana is comparatively less prevalent than in other countries in the region but remains a problem. The government has a relatively strong anti-corruption legal framework in place but faces challenges with enforcement. Bribery is common in the judicial system and across public services. Companies report that bribes are often exchanged in return for favorable judicial decisions (U.S. Department of State, 2017).

2. *The types of investors the government attracts in their jurisdiction*

- *The nationality, manpower and capital of the firms*

  Mining and oil exploration are the main sectors that attract most of the FDI. China, Mauritius, Canada, Lebanon and the United Kingdom are the main investing countries. The Ghanaian Government has also signed several agreements with Turkey in order to promote FDI

(Santander Trade Portal, 2017). There has been an increase in FDI inflows in 2016 USD 3,4 billion compared to USD 3,1 billion in 2015 (World Bank Group, 2017).

- *Knowledge including ownership of particular unique intangible assets and ownership of complementary assets*

  The Chinese government encourages the Chinese companies to invest in the fields as energy, aviation, manufacturing and agriculture. The Chinese government is also involved in keeping policy dialogue, improving cooperation mechanism and exchanging governance experiences through consultation and cooperation with the country (GNA, 2015). Even though the EU isn't one of Ghana high investing partners, the EC is still investing in the country. The EC invest in promoting good governance, the rule of law and accountability by focusing on making central and local institutions deliver more effective and accountable services and enhancing the rule of law and fight against corruption. Also, the EC invest in sustainable agriculture wealth in selected growth pole areas focusing on increasing household incomes from agriculture-related activities. Furthermore, the EC aim to create decent employment opportunities for vulnerable population groups (youth, women and minority groups) and enhance social protection services (European Commission, 2018).

3. ***The policies and incentives the governments have implemented in order to attract FDI***
   - *Policies allowing transfer of a company ownership advantage within the firm across borders, rather than selling it to a third party via licensing or franchising and a higher control of the mother company over the subsidiary*

     The government of Ghana has no overall economic or industrial strategy that discriminates against foreign-owned businesses. The government has made increasing FDI a priority and acknowledged the importance of having an enabling environment for the private sector to thrive. Sector-specific laws regulate banking, non-banking financial institutions, insurance, fishing, securities, telecommunications, energy, and real estate. In the oil and gas sector, these laws include specific local content requirements that could discourage international investment. Foreign investors are required to satisfy the provisions of the investment act as well as the provisions of sector-specific laws. Ghana's investment code excludes foreign investors from participating in eight economic sectors: petty trading; the operation of taxi and car rental services with fleets of fewer than 25 vehicles; lotteries (excluding soccer pools); the operation of beauty salons and barber shops; printing of recharge scratch cards for subscribers to telecommunications services; production of exercise books and stationery; retail of finished pharmaceutical products; and the production, supply, and retail of drinking water in sealed pouches. Sectors where foreign investors are allowed limited market access include: telecommunications, banking, fishing, mining, petroleum, and real estate. The country regulates the transfer of technologies not freely available in the country. Ghana has no discriminatory or excessively burdensome visa requirements. A foreign investor who invests under the GIPC law is automatically entitled to a specific number of visas/work permits based on the size of the investment. An enterprise may apply for extra visas or work permits, but the investor must justify why a foreigner must be employed rather than a Ghanaian. There are no restrictions on the issuance of work and residence permits to Free Zone investors and employees. Labor regulations and policies are generally favorable to business. Although labor-management relationships are generally positive, there are occasional labor disagreements stemming from wage policies in Ghana's inflationary environment (U.S. Department of State, 2017).

- *(Financial) incentives, tax and exchange rate policies*

  Ghana operates a free-floating exchange rate regime. The Ghana cedi can be exchanged for dollars and major European currencies. Investment incentives differ slightly depending upon the law under which an investor operates; while all investors operating under the Free Zone Act are entitled to a ten-year corporate tax holiday, investors operating under the GIPC law are not automatically entitled to a tax holiday. The GIPC law allows for import and tax exemptions for plant inputs, machinery and parts that are imported for the purpose of the investment. Once an investor has been registered under the GIPC law, the investor is entitled to the incentives provided by law. The corporate tax rate is 25 percent, and this applies to all sectors except income from non-traditional exports (8 percent tax rate) and oil and gas exploration companies (35 percent tax rate). For some sectors there are temporary tax holidays. These sectors include:

  - Free Zone enterprises and developers (0 percent for the first ten years and 8 percent thereafter);
  - Real estate development and rental (0 percent for the first five years and 25 percent thereafter);
  - Agro-processing companies (0 percent for the first five years, after which the tax rate ranges from 0 percent to 25 percent depending on the location of the company in Ghana), and
  - Waste processing companies (0 percent for seven years and 25 percent thereafter) (U.S. Department of State, 2017).

5.5 Rwanda

Area	**26.338 km²**
Population	11 million
Median age of population	19
Unemployment rate	16,7%
Corruption index[16]	50th out of 176 countries
GDP (USD)	9 million
FDI net inflows in USD (2016)[17]	254 million
Setting up a company (days)[18]	4

Table 5: Rwanda Factsheet. Source: (Central Intelligence Agency, 2017)

Rwanda has a reputation to be a safe, peaceful and attractive location for expatriates. The country has a stable location next to mineral-rich eastern Democratic Republic of the Congo and the country scores low on petty crime. The country enjoys strong economic growth, high rankings in the World Bank's Ease of Doing Business Index, and a reputation for low corruption. The country is ranked 56th on the Doing Business 2017 ranking of the World Bank and is the second highest ranked country located in the Sub-Saharan Africa after Mauritius. The government of Rwanda has continued to develop liberal policies to transform the country into a trade and services hub. A new investment code launched in 2015 aims at attracting FDI into tourism, energy and new technologies. The country has all sectors open to investors with no restrictions. Coffee, tea, tin, energy and telecommunications are some of the sectors that have attracted most of foreign investment in the past. Foreign investors are no longer be required to invest a minimum of USD 100.000 according to this new code. The new investment code goes in line with the government's development program 'Vision 2020', which should help improve the business climate. There are niche opportunities in high-end ecotourism and conference tourism, information and communication technologies. Also, the possibility of acquiring government stakes in banks, insurance, telecommunications, hotels and agricultural operators exist (UNCTAD, 2012).

[16] (Transparency International, 2017)
[17] (World Bank Group, 2017)
[18] (Santander Trade Portal, 2017)

1. ***The aspects that make Rwanda an attractive FDI destination for MNEs***

- *Natural resources*

  Rwanda is a country with few natural resources. The country offers the following natural resources which include:

  - Mineral resources (gold, cassiterite, wolframite, methane)
  - National Parks (Akagera national park, Gishwati forest, Nyungwe forest national park, Vulcans national park)
  - Forests (Nyungwe forest, Gishwati forest)
  - Other natural resources (hydropower, arable land).

  Rwanda has a substantial reserve of methane gas, a yet-to-be explored mining potential in expansion. Crops grown in the country include coffee, tea, pyrethrum, bananas, beans, sorghum and potatoes. Coffee and tea are the major cash crops for export, with the high altitudes, steep slopes and volcanic soils providing favorable conditions (Fortune of Africa, 2014).

- *Aspects of infrastructure*

  Being a landlocked country with mountainous terrain, Rwanda faces various problems in relation to both national and international transportation. Inadequacies in its transport infrastructure impose significant additional costs on the country's economy and represent a serious impediment to improving per capita incomes. Because of such inadequacies, the poorest rural communities face considerable problems gaining access to markets for their produce. Rwanda's total roadway is 4.700 kilometers long with 1.200 km of paved roads (Central Intelligence Agency, 2017). The country is currently not served by any railway system and most of its international trade is transported through the Kenyan port of Mombasa. There are two airports and five airfields including one international airport Kanombe Airport at Kigali (World Bank group, 2015).

- *Level of education*

  In 2009, the government designated English, rather than French, as the language of instruction for students from grade four onwards. The Rwandan education system continues to struggle with the transition, given a shortage of teachers qualified to teach in English. The official 2015 literacy rate for individuals aged 15 to 59 is 80,2 percent for women and 82,4 percent for men, according to the government, but functional literacy rates are much lower according to independent evaluations. General labor is available, although the country suffers from a shortage of skilled workers, including accountants, lawyers, and technicians. In 2009, parliament passed a new labor code, which sets the minimum age for formal employment at 16 and for hazardous work at 18 and strengthened prohibitions on the use of child labor and hazardous or forced work. Approximately 13 percent of children in Rwanda are engaged in child labor, particularly in agriculture and in domestic service (U.S. Department of State, 2017).

- *Economic stability and market size*

  Rwanda has one of the fastest growing economies in Central Africa, with a GDP growth of around 8% per year between 2001 and 2014. The country's major foreign exchange earners include mining, tourism, coffee, and tea. Continued growth in these sectors is critical for economic development and poverty reduction (U.S.AID, 2018). The country reduced the percentage of people living below the poverty line from 57% in 2005 to 45% in 2010. Around 83% of Rwanda's population of 11 million live in rural areas and more than 70% of the population still work in subsistence farming (Hutt, 2016). Rwanda's long-term development goals are defined in "Vision 2020," a strategy that seeks to transform the country from a low-income, agriculture-based economy to a knowledge-based, service-oriented economy with middle-income country status by 2020. The government of Rwanda is actively working to develop the economy and reform the financial and business sectors and improving the business climate. At the moment, the labor force consists of 6,3 million persons with 75% working in the agricultural sector, 7% in the industrial sector and 18% working in the service sector (Central Intelligence Agency, 2017).

- *Government structure and political stability*

  Rwanda is a presidential republic. It has a mixed legal system of civil law, based on German and Belgian models. The chief of state is Paul Kagame who has been in power since April 2000. The president is directly elected by a simple majority vote for a 7-year term and is eligible for a second term. A constitutional amendment approved in December 2016 included the reduction of the presidential term from 7 to 5 years and an exception that allowed President Kagame to serve another 7-year term in 2017 (Central Intelligence Agency, 2017). The country has guarded its political stability since the genocide in 1994. Parliamentary elections in September 2013 saw women fill 64% of the seats, and the Rwandan Patriotic Front maintain an absolute majority in the Chamber of Deputies. Rwanda is a stable country with relatively little violence. A strong police and military provide a security umbrella that minimizes potential criminal activity. Despite occasional violence along Rwanda's border with eastern DRC and the ongoing political crisis in neighboring Burundi, there have been no incidents involving politically motivated damage to investment projects or installations since the late 1990s.

Rwanda is ranked among the least corrupt countries in Africa and the government maintains a high-profile anti-corruption effort. Senior leaders articulate a consistent message emphasizing that combating corruption is a key national goal. Giving and accepting a bribe is a criminal act, and penalties depend on circumstances surrounding the specific case. Foreign firms have identified the perceived lack of government corruption in Rwanda as a key incentive to invest in the country. A bribe by a local company to a foreign official is a crime in Rwanda (U.S. Department of State, 2017).

2. ***The types of investors the government attracts in their jurisdiction***
   - *The nationality, manpower and capital of the firms*

     FDI inflows increased to USD 254 million in 2016 compared to USD 223 million in 2015 (World Bank Group, 2017). In terms of country of origin, most of the inflows came from Mauritius (USD 155,6 million) followed by United States of America (USD 70,1 million), Kenya (USD 51,5 million), China (USD 23,5 million) and Luxemburg (USD 17,3 million) (NISR, 2016).

   - *Knowledge including ownership of particular unique intangible asset and ownership of complementary assets*

     The four first recipients of the FDI inflows in 2016 were the ICT sector, electricity, gas and steam, tourism and financial and insurance activities (NISR, 2016). The EU invests in improving basic services, particularly in education, health and water. Rural development and infrastructure are financed via EU sector budget support. EU support is also available to strengthen good governance and the rule of law, improve economic and financial management, boost trade and regional integration and develop the private sector (European Commission, 2018).

3. ***The policies and incentives the governments have implemented in order to attract FDI***
   - *Policies allowing transfer of a company ownership advantage within the firm across borders, rather than selling it to a third party via licensing or franchising and a higher control of the mother company over the subsidiary*

     The government of Rwanda has undertaken a series of pro-investment policy reforms intended to improve Rwanda's investment climate and increase FDI. The country presents a number of opportunities for FDI, including in renewable energy, infrastructure, agriculture, mining, tourism, and information and communications technology. The Investment Code includes equal treatment between foreigners and nationals with regard to certain operations, free transfer of funds, and compensation against expropriation. In pursuit of its goal to become a regional hub for tourism, services, and logistics, the government has plans to commission a number of high-profile energy and infrastructure projects. Under the Rwandan law, foreign firms should receive equal treatment with regard to taxes, as well as access to licenses, approvals, and procurement. Foreign nationals may hold shares in locally incorporated companies. Foreign investors can acquire real estate, though there is a general limit on land ownership. While local investors can acquire land through leasehold agreements that extend to a maximum of 99 years, there are stricter limits on land ownership for foreign investors. In 2015, the government published a new investment code aimed at providing tax breaks and other incentives to boost foreign investment. Investors are required to hire Rwandan nationals whenever possible. According to the new investment code, a registered investor who invests an equivalent of at least USD 250.000 may recruit three foreign employees. However, a number of foreign investors reported difficulties importing qualified staff in accordance with the Investment Code due to Rwandan immigration rules and practices. Labor laws are not waived in order to attract or retain investors. The investment code also includes:

- equal treatment between foreigners and nationals with regard to certain operations,
- free transfer of funds, and
- compensation against expropriation (U.S. Department of State, 2017).

- *(Financial) incentives, tax and exchange rate policies*

The government of Rwanda does not have a formal program to provide incentives for domestic firms seeking to invest abroad, but there are no restrictions in place limiting such investment. The 2015 investment code offers a package of investment benefits and incentives to both domestic and foreign investors under certain conditions, including:

- For an international company which has its headquarters or regional office in Rwanda a preferential corporate income tax rate of zero percent;
- For any investor, a preferential corporate income tax rate of 15 percent;
- Corporate income tax holiday of up to seven years;
- Exemption of customs tax for products used in Export Processing Zones;
- Exemption of Capital Gains Tax;
- Value Added Tax refund;
- Accelerated depreciation; and
- Immigration incentives.

5.6 Discussion of findings

In this section, the findings on the five host countries are discussed; and in the same time, I will provide an answer to the three formulated hypotheses.

H1: Only MNEs owning unique intangible assets are selected by the host country government in order to invest in its market

MNEs investing in the chosen countries come mostly from the European Union, the United States of America, China and a few African & Middle East countries as Mauritius and Lebanon. As mentioned in the theory, for an MNE to compete in a foreign location, it must possess some competitive or monopolistic advantages. MNEs from the United States and the EU have the advantage that they possess intangible assets as unique technology and knowledge that aren't available in developing countries; which explains why they engage in foreign productions to increase their market share. The investing countries, mainly China, engaged in investments projects targeting the infrastructure (for example a creation of a railroad connecting Rwanda, Uganda, South Sudan and Kenya or the construction of Kribi Port and other industrial complexes in Cameroon); thus, contributing to the human capital (brought knowledge) and manufactured capital (new energy and other infrastructures and industrial production facilities) of those developing countries. For Cameroon and Kenya (due to political unrest) the amount of FDI inflows was lower in 2016 comparing to 2015 while the other three countries noticed an increase in FDI inflows. The EU also provides funds for facilitating and boosting trade, investing in governance matters as fighting corruption and the improvement of the road networks. Because of the fact that the chosen countries in exception of Rwanda don't provide the rapports needed (with cases where the governments websites are offline or not up-to-date), I haven't been able to find the in-depth data that I needed to test this hypothesis such as which MNEs invest the most in the case countries, which sectors benefit most of the presence of MNEs and how are the investments reused by the case countries. Thus, I have not been able to investigate which effects the investments had on social and natural capital. This lead to the answer of this hypothesis being inconclusive.

H2: Host countries with a large variety of location advantages have a higher chance to attract foreign direct investment.

As mentioned in the theory, MNEs will choose to exploit their competitive advantages by engaging in FDI when natural or created endowments favor their presence in a foreign location. Natural resources are some of the location advantages that matter to MNEs. Varying from oil and gas reserves (Ghana, Cameroon, Nigeria) to industrial minerals (Kenya) and having arable land and the perfect climate for agriculture (Rwanda), the selected countries offer to investors a large variety of natural resources. Out of the five countries that were selected in this case study, four of them have access to abundant natural resources. Rwanda is the only country that isn't endowed with a large variety of natural resources (mainly forest and natural parks). The exploitations of these resources can result in high revenues for the governments. However due to several disadvantages as corruption and weak bureaucracies, many of these sectors are left unexploited which results in a loss of revenues for the governments; as being the case in Cameroon. Regarding the aspect of infrastructure, out of the five countries, Ghana, Kenya, Cameroon and Nigeria are all accessible by land, air and water. Rwanda again is the country with the least attractive location since it's landlocked between Burundi, DRC, Uganda and Tanzania and the country doesn't have direct access to the sea which makes the country highly dependent on the Kenyan port of Mombasa for transportations. Additionally, investment in the infrastructure is highly needed in all the countries. The conditions of the roadworks remain poor since the highest percentages of the roads are unpaved and the railways (available in all countries except Rwanda) are needing of improvements. Looking at the case of Cameroon, the infrastructure stock has been the same since the end of the 1980's while the population has doubled. However, Kenya has one of East Africa's best sea and air gateway.

Other location advantages that are mentioned are the market size, aspects of the infrastructure, the education system, government structures, and other aspects of political and government activity. Regarding the education system, there is in each country a high level of literacy with an average of 75% with Kenya having in its urban area a young, well-educated English-speaking population. However, the education level in all the countries is quite poor because eventually it doesn't match the job market requirements. Even though there is an abundance of young people ready and willing to gain professional knowledge, there is in each country a lack of skilled workers. Most young people are underemployed with qualifications that don't match the requirements of the job market. The limited employment opportunities also cause the migration of the educated people to either Europe or the United States or other African countries as being the case in Nigeria. Child labor remains also a problem, however the different governments are taking measures to eradicate this phenomenon.

Country	**Literacy level (%)**
Cameroon	75
Nigeria	59,6
Kenya	78
Ghana	76
Rwanda	80

Country	GDP 2017 (USD)
Cameroon	31 million
Nigeria	376 million
Kenya	79 million
Ghana	46 million
Rwanda	9 million

Countries as Nigeria and Cameroon have fragile economy since they are highly dependent on the exports of oil which means that their economy suffers when the oil price is low. The highest percentage of the labor force in all the five countries worked in the agricultural sector. In countries as Kenya and Rwanda, the service sector has a higher contribution to the country's GDP comparing to the industrial sector. The economy of Cameroon, Nigeria and Ghana suffers from corruption (for example 79% of the population of Cameroon admits paying bribes and the country has been voted as the most corrupted country in the word twice); which is serious obstacle to economic growth and poverty alleviation in those countries. Ghana and Rwanda are both an exception on this matter because both countries tolerate corruption less and in Rwanda, it is even seen as a criminal act.

Political and government activities are also aspects that can contribute to the location advantages of the host countries, just as governmental institutions and the political systems determine the international attractiveness of a location. The five countries are all presidential republics and are relatively politically stable; except for Kenya where last year's election caused some uproar in the population. This eventually caused a drop in FDI inflows and a decline in tourism sector. In the other four countries, the latest elections went smoothly. However, looking at the Cameroon case, the president has been chief of state since 1982 whose poor management of resources and poor governance is seen as a major cause of poverty. Nigeria, Cameroon (in a smaller extent) and Kenya do suffer from time to time from terrorist attacks from groups as Boko Haram and Al Shabab respectively.

The answer to this hypothesis will be a yes. Countries with a large variety of location advantages have a higher chance to attract FDI. It is however important for the host countries not to just rely on their natural resources or cheap workforce. Investors are also interested in a pleasant working and business environment with less corruption.

H3: A host country supporting a MNE's ability to internationalize is favored by MNEs in order to receive foreign direct investment

A condition to efficient international production mentioned in the theory is that the company must be better off transferring its ownership advantage within the firm across borders, rather than selling it to a third party via licensing or franchising. All five countries have implemented policies that are favorable for foreign investors. The laws of the countries don't discriminate against them and provide guarantees against nationalization and expropriation. A higher control of the mother company over the subsidiary is another condition to internalization; which is met by the host countries. Foreign investors can be 100% owners of their companies. In some case as the Nigerian one, foreign investors have equal access to local credit markets which facilitates access to credit. Most countries also have free trade zones where foreign nationals can start up their company. There is however a large difference in how many days it can take to set up a company. It can go from 4 days (Rwanda) to 25 days (Kenya). Cameroon is the only country that doesn't have a law that prohibit or limit foreign investment in specific economic sectors. Other countries as Nigeria, Kenya and Ghana are more protective and do have those laws. In Nigeria for example, investments are not open in industries that are considered crucial to national security; as in Kenya foreign participation is limited in the oil, gas and minerals mining sectors and in Ghana, investments are excluded in sectors as lotteries and petty trading. The chosen countries except Cameroon requires companies to also hire national whereas Kenya's government mandates local employment in the category of unskilled labor and may only recruit if the needed skills aren't available in the country. Many incentives are provided by the different governments. The government provides several benefits to foreign nationals who operates in the country's free trade zone or special economic zones. Benefits as tax and duty exemption for a couple of years and corporate income tax holidays are some of the provided benefits.

The answer to this hypothesis will be a yes. A country supporting a MNE's ability to internationalize is favored by MNEs in order to receive FDI. Each government has a national investment promotion agency and several incentives as tax exemption, tax holidays and vat deduction are provided to attract foreign investors.

6. Conclusion

This final chapter consists of giving an answer to the formulated main question of this research. Also, the limitations of the research are described and a recommendation for an agenda for future research on the topic is given.

6.1 Outcomes

The purpose of this study was to determine which policies the government of Cameroon has to implement in order to improve the country's investment climate for foreign investment; which eventually could lead to the attraction of more FDI that benefits the country's population. This research has been focused on how the government of Cameroon can learn from four other countries which consists of Nigeria, Ghana, Kenya and Rwanda that are viewed by MNEs as attractive FDI destinations. Cameron has been receiving FDI since late 70's but this hasn't contributed in the growth or poverty alleviation. The aim of this study has been to give an answer to the research question which was formulated in chapter 1 as follows:

> ***"Looking at the implemented FDI policies and characteristics of Nigeria, Kenya, Rwanda and Ghana, which policies can the Cameroonian government implement in order to attract and sustain desirable FDI inflows?"***

Dunning's OLI Framework and the Four-capital model were used in order to have a structure for this research. By investigating on the location advantages of each country and using the selected control variables, the case study determined that MNEs are interested in knowing what the country can offer in term of natural resources, labor force, economic and political stability and aspect of infrastructure. The research on the ownership advantages and what the impact of foreign investment has been on the recipient economies was inconclusive due to the lack of available information. Lastly, all the countries are trying to create a good investment climate for the foreign investors by offering many incentives and having a non-discriminatory attitude towards foreign firms.

Before answering the main question, I will first give a brief summary on the findings. This research has determined that the chosen FDI destinations offer a large variety of natural resources to the foreign investors except for Rwanda. The other countries are endowed with resources as oil and gas, gold and other precious gems, cacao and other materials as aluminum and rubber. Natural resources are however not always the deal breaker as I have found out in the case of Rwanda where the pleasant business climate is viewed as a main reason for attracting FDI. The countries are receiving FDI from principally western countries as the United States and some countries from the European Union as France, United Kingdom and the Netherlands. An increase of Chinese investments in each of the chosen host countries is visible. Also, Rwanda, Ghana and Nigeria saw their FDI net inflows increase in 2016 while the contrary occurred for Cameroon and Kenya. Foreign investors are interested in countries that offer a favorable business climate, with a good and strong governance and less toleration for corruption. The selected host countries have all access to a large pool of cheap labor force but one major problem that keeps coming up is the fact that the vast majority of the population lacks the skills that are needed to meet the job market requirements. This phenomenon has been identified in each country. The countries except for Rwanda are all accessible by water, land and air however, the road and rail network do require improvements. The largest part of the road network remains unpaved which causes that most rural areas are badly accessible. lastly, the laws of the selected host countries don't discriminate against foreign investments and several incentives as tax holidays and tax exemptions are offered in order to attract foreign investors.

This study has determined that natural resources aren't always the main reason for MNEs to be attracted in investing in a host country. Based on the findings of the conducted case study, the policies that the government of Cameroon must implement should concern improving the country's governance and business climate. First and foremost, the government of Cameroon should implement policies aiming at fighting corruption. The level of corruption in Cameroon is higher comparing to the level of corruption in the emerging FDI destinations as Ghana and Rwanda and corruption is known to hinder business practices. Fighting corruption helps to increase public revenues and these funds could consequently help to improve the infrastructure, fund social services and provide better health care for the country's citizens. Second, another policy that the government could implement in order to improve the investment climate in Cameroon, is the improvement of the government's and public servants' transparency. The country has been ruled by the same administration since 1982 while in other countries, there has been more change in the political scenes. There has been no improvement on the poverty level of the country and this could point out the lack of goodwill of the public servants. Another policy that the government of Cameroon could implement are policies regarding the training of the country's youth. The skills that are currently available don't match the job market requirements and this lead to a high unemployment rate. The study has determined that cheap labor force isn't the norm for MNEs however, a country with an access to a large pool of skilled workers attracts foreign investors. The government should therefore invest in modifying the country's educational system by analyzing which requirements are essential for foreign investors. Also, the government should motivate students to gain international experience and get skilled in the neighboring countries. Lastly, the research results have revealed that the country doesn't have strict requirements regarding foreign investments as in foreign investors are allowed to invest in every sector and they are not required to hire nationals. The government of Cameroon could modify these policies and demand the foreign investors to hire a certain number of nationals; which could lead to educational spillovers. To summarize, by implementing policies regarding fighting corruption, higher transparency of the government, modifying the educational system and implementing stricter rules regarding the hiring of nationals, the country should be able to improve its attractiveness as an FDI destination.

6.2 Limitation of research

There were some limitations to this research. While investigating on the ownership advantages and what the impact of foreign investment have been on the recipients' economies, I have found that the local governments do not provide the information needed. In some cases, the government's websites were not functioning and offline. Also, some rapports mentioned on the government's websites were not up to date which led to not being able to give a clear answer to one of the sub-questions. This eventually led to the fact that I mostly used the data provided by other foreign governments or international organizations. These shortcomings have to be taken into consideration while reading this case study.

6.3 Agenda for future research

While conducting this research, it has occurred to me that corruption is one of a major cause that makes Cameroon an unattractive FDI destination. In order to sustain foreign investments and to provide to the welfare of the countries' citizens, it is important to have a pleasant business climate. Doing further research into how to eradicate an issue as corruption that has been entrenched for years in the country's public and other sectors would be recommended.

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