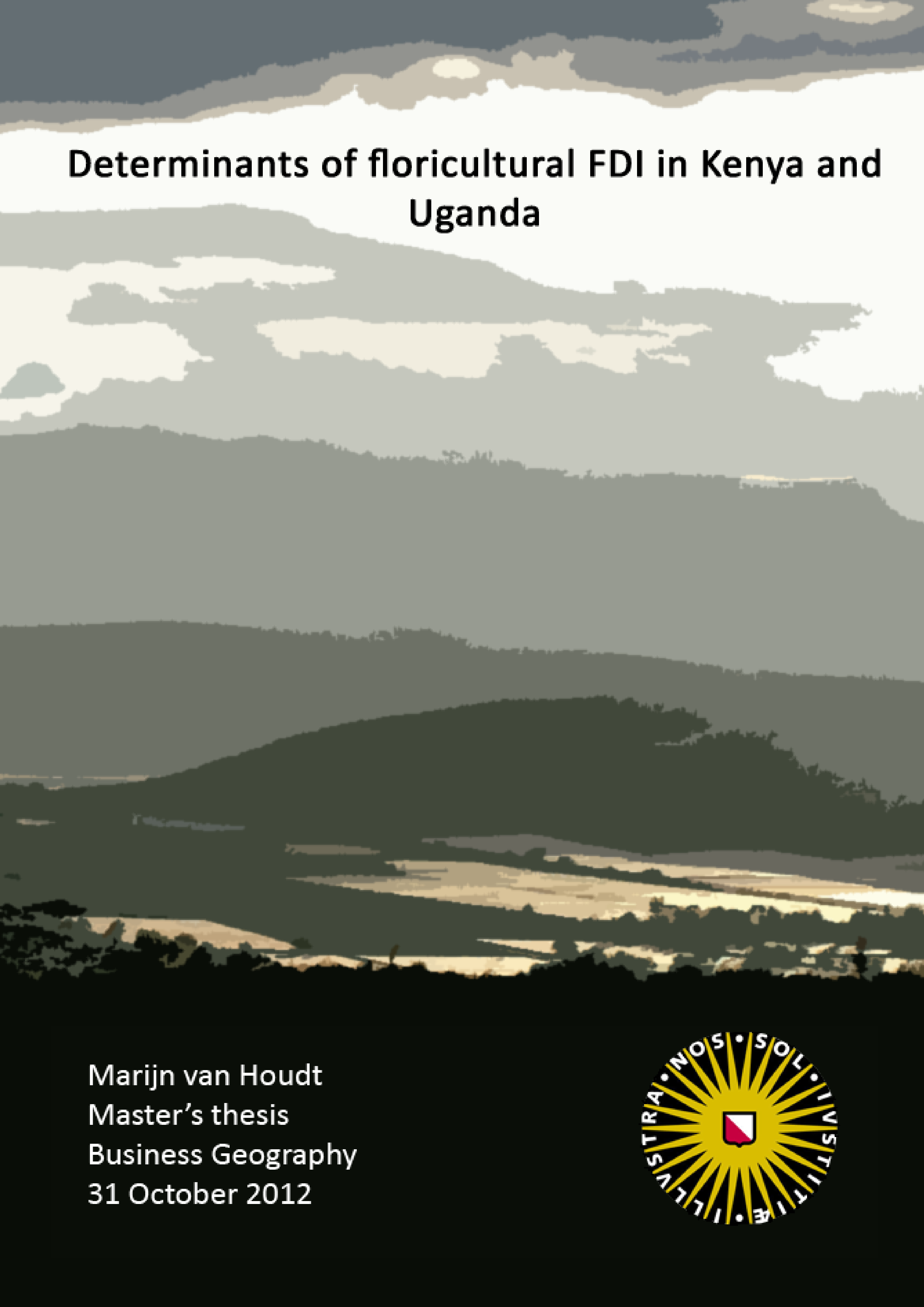

Determinants of floricultural FDI in Kenya and Uganda

Marijn van Houdt
Master's thesis
Business Geography
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Preface

This study is an initiative as master's thesis for the master Business Geography on the Utrecht University, the Netherlands. The topic is chosen as a result of an internship at the Royal Netherlands Embassy in Kampala, Uganda, a component of the master degree. Main aim was to show the unexpected business opportunities in developing countries nowadays due to the globalization trend. Also the negative image of African countries plays an important role in the choice. Uganda and Kenya are concerned to be the fastest economic growing countries in the world from 2008 till 2020, but are still ignored by investors. This study is an example of a sector that found a synergy with these two countries and can be regarded as an example of the sign of the improving circumstances in Africa.

This study would not be possible without the cooperation of the flower companies in Kenya and Uganda, many thanks to them. It is nice to see that Dutch investors take the lead to invest in developing countries in the most well-known sector in the Netherlands and share their knowledge, give local people some more life prospects and even achieve profitable business.

Finally all my ex-colleagues at the Royal Netherlands Embassy in Kampala deserve my thank word, because of giving me the opportunities and support during my internship. Specials thanks to Marieke Janssen who also participated as respondent in this research.

Summary

Foreign direct investment is an important source of income for every country in the world. It is external support for the economy and has many positive spillovers, like GDP growth, employment and knowledge spillovers. Especially for developing countries with a lack of capital, FDI is the hope to escape the underdevelopment. The last decennia it has resulted in a competition among countries to attract FDI. Africa has only limited FDI inflows and the majority is with resource-seeking motives. Cheap labor and natural resources attract companies to start business in Africa. Furthermore Africa is not very attractive in the other determinants of foreign direct investments, according to the literature and that is supported by the figures about FDI.

Velde (2006) has made a division of the determinants into four categories; policy factors, FDI specific policies, macroeconomic factors and firm/sector specific factors. The current literature tends to stress the importance of macroeconomic factors and also policy factors are concerned to be significant for firms. Macroeconomic determinants, like labor costs, -quality, infrastructure and market size have a direct impact on the costs and profits of firms. However, policy factors can have a lot of influence indirectly. Political instability has proved to limit FDI inflows to a country. Conflicts and turmoil are a big concern of firms and mostly they refuse to invest in unstable countries.

Besides the general determinants of foreign direct investment, the specific regional and sectoral dimension of this study has resulted in extra determinants: in Africa and the floricultural sector. Generally, the determinants that are characteristic for Sub-Saharan Africa are constraints for investors, like corruption, weak rule of law, safety and health. The history of oppression of Africa has made the continent not only dependent, but especially inexperienced in ruling a country successfully. The Sub-Saharan African determinants are concerned of being the result of that, however, they are regarded to be controllable for investors.

Despite the fact that Africa is not an attractive continent for investors, there are certain sectors with opportunities for investors. In the floricultural industry climate, water, land and power are important ingredients for the production. Also the distance from the market influences the costs. Especially Kenya has become an important player in the floricultural industry, however there is less evidence for the reason why the sector has replaced the product locations to equatorial regions in the world. Better circumstances have won the game against the increased transportation distance in such regions, since the market of floricultural products is located in the United States, Europe and Japan.

In this study floricultural investors in Kenya and Uganda are interviewed with the aim to give an overview of the key determinants of FDI in the synergy between the floricultural sector and the countries Kenya and Uganda, with special focus on the relationship between the key determinants and the countries. An East African expert is important to place the determinants for the floricultural investors in perspective of the overall economy and to determine to what extent the factors can be generalized over the whole population flower farms in Kenya and Uganda.

The companies were asked to determine their five most important factors to invest. In Uganda the climate, water management, political stability and labor costs are concerned to be the key

determinants. In Kenya market size (not generalizable), climate, physical infrastructure, economic stability and labor costs are chosen. The East African expert regarded these factors as realistic. The reasons behind the importance of the key determinants are needed to explain the synergy between the sector and the countries. At first, the key determinant climate: producers of cut flowers need specific climate circumstances year-round; roses prefer cold nights and warm days, while chrysanthemums flourish in moderate climates with a small difference in day and night temperature. By producing flowers under natural circumstances the quality is optimal and substantial savings in the greenhouse can be achieved. Those benefits are higher than considered in the literature. Kenya's equatorial position and high altitude causes the warm days and cold nights, where in Uganda the high altitude and Lake Victoria causes small differences in temperature between the day and night.

Other determinants can make the second selection of perfect production location. For the flower production the availability of water has proved to be a key determinant, where in the literature water only has been discussed as basic need. Therefore the water management is considered to be an important determinant in Uganda, where the hilly landscape causes swamps which eases the water access. Also Lake Victoria and Lake Naivasha (Kenya) provide enough water to for the producers of cut flowers. In Kenya the physical infrastructure is an important and positive determinant of floricultural FDI, although not a decisive factor for an export company, as considered in the literature. The physical infrastructure is more developed than roses producing countries (Colombia and Ecuador) and other African countries, like Uganda.

Political stability is an issue in Africa and a key determinant for floricultural FDI in Uganda. The stable political situation is dependent on the rule of president Museveni and therefore only a long term risk, less important than the literature suggests about the influence of political stability on FDI. After the dead of Uganda's president the political stability is highly uncertain. In Kenya the political stability is not an issue, since the stronger acting government will prevent long conflicts. Both countries share the determinant economic stability, however, in Kenya the economy is concerned to be relatively stable and in Uganda more unstable. The big difference is the exchange rate: in Uganda an unbalanced trade causes exchange rate fluctuations and inflation. Both countries have difficulties with tempting the inflation, but the flower farms limit the touch with the local economy by import and export everything they need and produce. Inflation can only cause problems indirectly for the salaries. There is no direct influence of economic stability on the production process, what is often the case according to the literature. For that reason scholars have attached more value at economic stability than the flower farms in this study.

Labor costs are generally a condition to do business in developing countries. They can compensate the more expensive transport costs to the market. The labor costs are very low, however, the higher productivity of Kenyans causes lower unit labor costs in Kenya than Uganda. Labor costs are with 20% a substantial part of the operational costs and an increase of the labor costs can also bring the companies in trouble. In spite of this, it is not a decisive factor for floricultural firms, although it generally has been indicated as decisive determinant for export companies in the literature.

The constellation of determinants causes the locational advantage of firms in Kenya and Uganda. A worsening of one of the determinants can cause a deterioration of the locational advantage. However, the determinant with the most influence is by far the climate characteristics of the region.

The most important key determinants in the floricultural sector are firm/sector specific determinants. That makes the floricultural sector a special sector, which require more insights in the production process than overall FDI knowledge.

It does not mean that general determinants do not have a high influence, but less than the attention it receives in the FDI literature. Sub-Sahara African determinants have not been appeared in the list of the five most important determinants. These factors are constraints, but can be controlled by the investor. The most important outcome of this study is that the floricultural sector is a climate-based sector and that the unique climate circumstances in East-Africa bring them to this specific region in the world. Other constraints, common in Africa, can be handled or by-passed. Also the increasing ease of transportation makes remote product locations possible, even in the ‘dark continent’ of Africa. This study is an eye-opener that firm/sector specific determinants can cause an unexpected synergies between sectors and countries.

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1 The equatorial sky is the limit!

Foreign direct investment is an important source of income for many countries to achieve more economic growth and wealth. FDI has even become part of the discussion about the effectiveness of development cooperation and is considered as solution for developing countries by many scholars and managers. On the other side FDI is for companies a chance to do business more efficiently, necessary to survive in economic difficult times. The more and more globalized world offers opportunities in almost every sector, also the floricultural sector, originally a sector where knowledge and routine caused an static, but extremely productive business environment. The floricultural value chain has already become more global, but only recently all the possibilities for growing flowers are discovered. East Africa, the fastest growing region in the world (Haussman et al., 2011), has also increased its share in the floricultural sector. However, doing business in Africa remains different; political instability, weak rule of law, presence of corruption, inflation …. in short: for many entrepreneurs only the image of Africa is already a reason to quit. This study is an eye-opener and example of a synergy between a specific sector in a specific region in the world; the frugal Dutch floricultural sector in the wild equatorial bushes of Africa.

The determinants of foreign direct investment are an important topic in the spatial economic literature. More and more scholars focus on specific developing regions, with the majority of studies focused on the BRIC (Brazil, Russia, India, China) countries. However, the economic landscape keeps on changing. Most recent studies have proved the rise of East Africa in this context. An unlimited workforce, low wages, more stable governments and increased productivity are reasons for this rapid growth of the economy . In short: East Africa can participate in an increasing number of global value chains, what can result in the economic vicious circle on the 'dark continent': a circle where investments cause economic growth and upgrading of the determinants, which again attracts more investments.

The globalization has also had its influence on the floricultural sector. The traditional markets for luxury goods, like Europe and North America, are stagnating and new countries are announced like Eastern Europe, BRIC and South-East Asia. However, also new product locations are discovered and the floricultural sector has easily joined the club of globalizing sectors. Countries on or around the equator are more and more in the picture, but less evidence has been produced about the detailed reasons why the flower farms are established in these more exotic regions. The regions do not have the floricultural experience and history, which has always been important in the past.

This study combines the rise of Sub-Saharan Africa and East Africa in particular with the more and more globalized floricultural sector. It aims to find the key determinants of FDI and the reasons why these determinants are so important in particular. The cut flower subsector in the countries of Kenya and Uganda is subject of research with the following research question:

1.1 Research question

What are the key determinants of FDI in the floricultural sector of Kenya and Uganda and why these determinants for the sector particularly?

1.2 Sub questions

- ***What are the general determinants foreign direct investment in the global economy?***

The determinants of foreign direct investment are the leading object in this study. There are many important factors identified by many scholars. Some determinants are applicable everywhere on earth in every sector, however, most factors have more significance in certain regions or sectors. Chapter 2 with the corresponding sub question gives an overview of the literature about determinants of FDI in general, necessary to understand the selection of key determinants for the region Kenya and Uganda and the sector of the floriculture.

- ***Which determinants are important and unique to Sub-Saharan African in relation with its turbulent history?***

Africa is a developing continent with a very low economic performance, however, this is changing and Africa can become an important player in the world economy. Important in the development of Africa is its turbulent history with imperialism, independence wars, rebellions and unstable governments. These circumstances are responsible for extra determinants, mainly applicable on Sub-Saharan Africa. In chapter 3 this history and the determinants of the 'dark' continent are discussed with an increased focus on the East African countries Kenya and Uganda, the most rapid growing countries in the world at the moment (Haussman et al., 2011).

- ***Which specific determinants play a role in the floricultural sector?***

The floricultural sector has also adopted the globalized character of the overall economy. New markets in terms of demand for flowers are added to the value chain and also new product locations are discovered They can make the floricultural value chain more productive. In chapter 4 the profile of the floricultural sector is discussed and the floricultural value chain and its development explained. This also results in a couple of determinants which are very important for the floricultural sector in particular.

- ***What are the 5 key determinants of floricultural investment in Uganda and Kenya?***

The 5 key determinants of floricultural investment in Kenya and Uganda are the first findings of this study. Since there are many factors important for FDI, it is necessary to define the decisive factors and dive into the detailed relationship with the company and sector. In this study there have been randomly chosen for the number of 5 factors to limit the research to the core factors. Facts and figures about the determinants in this chapter show the current state of the factors in relation with other countries and are a good operating base for the interviews. The difference between the 5 key determinants of Kenya and Uganda also gives an indication of the differences between the countries.

- ***What is the specific reason of the importance of each key determinant in Uganda?***

The most important input for the research question are the results of the interview about the specific reasons for the importance of the 5 determinants in Uganda. The detailed relationship of the factor with the company is explained in this chapter and is also a reflected against what has been argued about these factors in the literature. Not only the current state of the determinant, but also the past and future are discussed.

- ***What is the specific reason of the importance of each key determinant in Kenya?***

The important input in the form of the detailed relationship between the 5 determinants of floricultural FDI and the company and sector in Kenya is discussed in this chapter.

- ***What are the differences in key determinants of floricultural investment between Kenya and Uganda?***

As a result of the outcomes of the previous two sub questions combined with the facts and figures about the key determinants, a comparison is made between Kenya and Uganda. It shows the similarities in what the two countries can offer the floricultural sector, but also the important differences.

2 Foreign direct investment

For developing economies is foreign direct investment an extraordinary important form of investments. Many positive influences will cause economic growth in direct and indirect ways; although, there are also negative aspects. 37.000 multinationals worldwide with 35% of the world's private sector productive assets are mainly operating in foreign countries and are foreign direct investors. 'Foreign direct investment can act as a powerful catalyst for economic change, bringing with it technology, management, access to foreign markets and financial resources' (Lewandowski, 1997). For this reason almost every country tries to improve their economic landscape in order to attract foreign direct investment by liberalize their economies and reducing the risks, like political instability, inflation and infrastructural deficiencies. But also policies and incentives can make the economic landscape more attractive. Since the floricultural sector in East Africa is based on foreign direct investment, in this chapter foreign direct investment in general is discussed.

2.1 Definition of foreign direct investment

Foreign direct investment is one of the two types of investments which can be made from a firm in one country into another country. The managerial involvement of the foreign company and physical investment of the firm is stressed in this type of investment, for example the construction of a processing plant or the provision of machinery and/or equipment. This is in contrast with portfolio or passive investment, where the firm has not the control of the affairs of the foreign firm (Sullivan, 2003, pp. 551). The minimum level of ownership in a foreign direct investment is 10%; otherwise it will be regarded as portfolio investment.

However, there are more differences between FDI and PFI and the major one is funds. Both investments can be based on the injection of funds, but FDI is generally more focused on foreign assets and physical investments. Equity investments (PFI) tend to flow out of an economy at the first sign of trouble which can cause economic shocks in the country. It is not a sustainable source of investment. It does not help the country in their growth strategy. In FDI a foreign firm is involved on a high level and will try to manage troubles, because they have a decent share in the company, where it is more difficult to withdraw without significant losses (Economy Watch, 2010).

There are many definitions of foreign direct investment. All of them contain the term 'physical investment', which refers to a tangible investment like a processing plant or machinery. Graham (2004) stresses that the definition has been broadened with the acquisition of a lasting management interest in a firm outside the investors home country. This definition includes all kind of investments, as long as the investor has a decent share of the management in the firm. Of course, the nature of investment will vary among the many different sectors of investment. However, in almost every case there is need to establish the investment on a property which has to be (re)build. Generally, startup costs are relatively high and have to be recovered afterwards. Those risks are characteristic for foreign direct investments.

In the past the definition of foreign direct investment has been mixed up with the definition of trade. However, FDI will affect trade in many ways, but today's scientists' emphasizes the difference between investment and trade, because the trader will not have a share of the supplier's firm. Pontes (2005) stresses that horizontal FDI displaces trade, because the foreign company will duplicate a plant in the market country instead of export it from the donor country (Glass, 2008). Vertical FDI is characterized by the split of the production process into more product plants and locations. It automatically means more export moments, although not necessarily more export costs. The choice for horizontal or vertical FDI depends on the motive for FDI (2.3). Many empirical studies prove that the relationship between FDI and trade is a complex one, although not subject of study in this thesis.

2.2 History of foreign direct investment

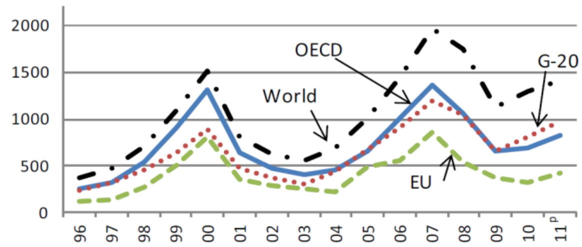
The last decennia of the 20th century have meant an explosion of foreign direct investment in the world economy. The globalization and the ease of transportation stimulated the investments in foreign countries. It became a very important source of income for countries, and governments have become now more favorable towards FDI. However, FDI is not always seen as a positive capital stream and the FDI world patterns have changed radically in the 20th century.

During the first half of the 20th century the FDI to developing countries was relatively high due to the infrastructural investments in their search for natural resources of colonial powers in developing countries. Two third of the world FDI was flowing into developing countries. After the Second World War, when the colonies became independent, the FDI outflow dropped dramatically and now only a quarter of the FDI is going to developing countries. The major part of this FDI is going to the emerging economies like China, Russia and India (Velde, 2006).

A vast group of developed countries became responsible for the major part of the FDI. In the 20th century the Netherlands have always had the highest percentage outward FDI of the GDP (because of their big multinationals), while the United States received the highest percentage of the total FDI in the world. Velde (2006) stresses that the percentage FDI of the GDP varies, however, big markets generally have higher FDI flows than small markets. It means that there a relationship between FDI flow and GDP. After the Second World War, the FDI flows can be more and more regarded as strategic asset-seeking FDI. Reasons for investment in other locations are low salaries, pools of talent and other comparable costs. Where in the beginning a lot of investment was going to the manufacturing industry, now the service industry is dominant, however, the same pattern is valid for the overall world economy. The service sector has now a more fragmentized character. For example, metal assemblers in Korea used to account for 70% of the total added value of a car. However, now it is only 30% and at least 5 other fragments in different countries add value to the car (Velde, 2006).

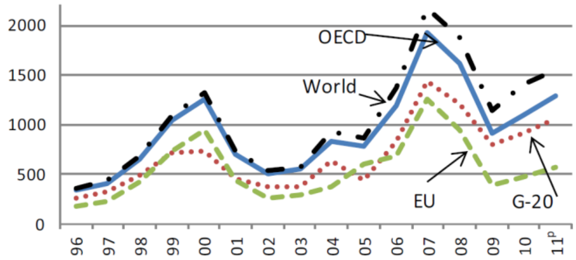
By the end of the 1970s the total annual FDI in- and outflow was about $ 40 billion (UNCTAD, 2012a). After the recession as a result of the oil crisis in 1979, the FDI outflow started to grow again. However, only in the 1990s the boom started with its peak in 2007. The last years the less flourishing economic situation influences the FDI flows, especially in Europe and the United States. From 2005 the FDI flows are characterized by major shocks (figure 2.1 & 2.2). Developing countries are slowly catching up their FDI outflows compared with the outflows from developed countries. Especially the developing countries represented in the BRIC group are increasing their outward FDI flows and their FDI stock elsewhere on earth (UNCTAD, 2012ab).

Figure 2.1: FDI inflows ($ billion)



OECD, 2012

Figure 2.2: FDI outflows ($ billion)



OECD, 2012

Not only the FDI flow volume grew significant, also the directions and patterns of the FDI flows changed. New players as China and India are responsible, with massive investments in Africa and the United Kingdom respectively (Velde, 2006). The Asian countries are now major investor in Africa and also the BRIC-countries (Brazil, Russia, India & China) are ambitiously active in Africa, for example in the upgrade of the infrastructure in several African countries, including Uganda.

Africa plays a marginal role in the world of FDI. The FDI inflow was 42,5 billion dollar in 2011 with an inflow 3,5 billion dollar the same year. That is 2,8% and 0,2% of the worldwide FDI inflows and outflows respectively, and compared with the size of Africa is that already a sign of underdevelopment. Due to the fact that there is dominantly more inflow than outflow can be concluded that Africa as continent in situated in the first phase of the investor development path. The development of FDI in Africa is as follows; in 1990 were the percentages 1,4% and 0,3%, where in 2000 Africa's share of worldwide FDI was 0,7% and 0,1% respectively. Generally the inflow to the continent rose, but the outflow from the continent stagnated. Another statistic is the FDI stock, where the type of FDI is showed, see figure 2.3 and 2.4.

Besides FDI flows, the FDI stock is an important FDI statistic. The FDI stock is the value of the capital in a country attributable to a parent enterprise in another country (UNCTAD, 2012b). A high inward FDI stock can be a sign of economic dependency on other countries, because the origin of the companies lies in another country. Figure 2.3 and 2.4 show the dominance of Europe in FDI stock. Especially differences between inward and outward are interesting, and these difference can be found in continents with developing countries in particular. For Africa and Latin America the FDI outward stock is not even a quarter of the inward stock. These continents are largely dependent on companies with their origin elsewhere on earth.

Figure 2.3: inward FDI stock 2011 ($ billion)

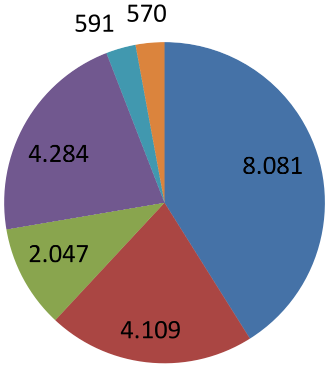
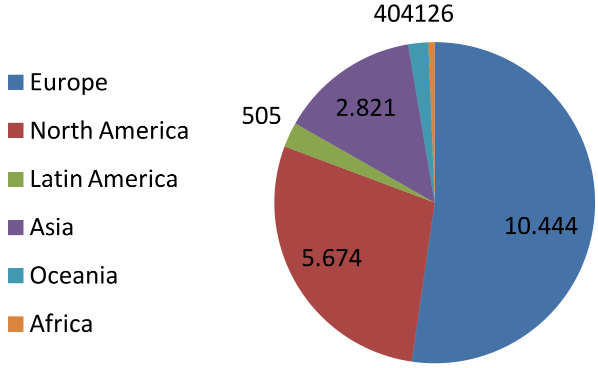


Figure 2.4: outward FDI stock 2011 ($ billion)



UNCTAD, 2012b

UNCTAD, 2012b

The reputation of FDI has also changed in the last decennia. At the start of the 20th century the infrastructural investments of the colonial powers in their colonies in Africa were carried out by Asian workers. The African countries didn't have profit from the activities, neither the improvements. Many scholars still stress the risk of foreign direct investments for recipient countries, especially developing countries. FDI can destroy local capabilities and extracting natural resources without adequately compensating poor countries (Velde, 2006). FDI can also disturb existing markets; foreign entrepreneurs might think that they can do business more efficiently in a certain sector and destroy the local business in that sector.

However, the harsh truth is that developing countries not even think about the negative aspects of foreign direct investment and that there has been started a worldwide competition in attracting FDI. Developing countries try to create the perfect circumstances for foreign investors to stimulate the economy and increase the financial strength, although it is very difficult for them. These determinants of FDI will be discussed in chapter 2.5.

2.3 Firm motives for foreign direct investment

The globalization has developed itself hand in hand with the increase of international entrepreneurship. More and more business factors make it relatively easy to invest in foreign countries. Investors have different reasons to invest and participate in this international business community. According to Dunning (1993), there are four different motives for foreign direct investment with different developments and characteristics for host countries and volumes.

2.3.1 Resource-seeking

Foreign direct investments with resource-seeking motivations try to profit from the comparative advantages of other countries, especially labor cost or quality and natural resources. Resource-seeking firms aim to get access to specific resources in the host countries at lower levels than they will find in their home countries. Not only the lower costs of resources, but also the availability of resources can be a reason for foreign investment. Dadzie (2012) stresses the importance of what he calls resource security in his study about Ghana, where resources can be found in large volumes.

Resource-seeking FDI is characterized by export-oriented firms and less dependent on the host country. Examples are the clothing industry in Asia or the oil industry in Africa, where mostly foreign firms profit from the low labor costs and large resources of oil respectively. However, Dunning (1993) argues that resources-seeking FDI only correspond to a small percentage of FDI in the world. Despite to the fact that this motive has been the first reason for multinationals (MNEs) to go abroad.

2.3.2 Efficiency-seeking

Efficiency-seeking FDI tries to optimize the structure of the production units of the firm. Dunning (1993) stresses that 'firms can gain from the common governance of interrelated activities in different locations'. Not only the host country is important, also the relationship with other production countries and market countries is important. The firm is looking for the perfect allocation of production units in order to maximize the results.

Efficiency-seeking FDI is characterized by firms active on markets worldwide. Investments will be undertaken in broadly similar economies and income levels. They make a division of labor per country where they start business. The macroeconomic determinants and policies of a country are the main factors for investors (Dadzie, 2012). Efficiency-seeking FDI is a calculation of the best location of a part of business taking the determinants of a country, but especially by taking the efficiency in the whole business into account. Resources can be an important factor for efficiency-seeking FDI, but overlap is not possible. Efficiency-seeking FDI is a consideration of all the determinants of FDI (2.5) in order to maximize the profits, not only resource factors.

2.3.3 Strategic asset-seeking

FDI with strategic asset-seeking motives try to profit by acquiring the assets of foreign companies to promote their strategies. Strategic asset-seeking FDI is often undertaken to improve their competitiveness or start a new competition in a sector, sometimes even in an unfamiliar market. Especially during first-time investment strategic asset-seeking motives are common. However, most firms have this motivation to exploit firm/sector specific advantages in a host country (Dadzie, 2012).

Strategic asset-FDI was according to Dunning (1993) the fastest growing motive for foreign direct investment for overseas investment. Certain strategic assets on the market, fitting in their general company strategy, are not available in their home country and are considered to be safer, as business is already running by experienced people. Strategic asset motivations differ in that sense from the other motives of FDI that it does not imply the exploitation of existing ownership advantage of the firm (Dadzie, 2012). Dunning (1993) stresses that strategic asset-seeking FDI strengthens the existing firm's position, but rather weakens the competitors.

2.3.4 Market-seeking

Market-seeking FDI is undertaken to protect existing markets or to exploit new markets. Market-seeking firms aim to increase their sales in the host country or host region. It is important for them to minimize the transport or transaction costs to these markets and being an insider in the region. They have to stay close to their customers (Shepherd, 1985), which is difficult from outside the region. Investors not only focus on the current market patterns, but also predict the potential in the future (Dadzie, 2012). Countries with a rapid population growth or growing middle class like emerging economies are often destination of market-seeking FDI.

Market-seeking FDI is sometimes regarded as defensive strategy, because firms tend to invest when they lose their share on the market. However, market-seeking FDI can also be a response to unique local preferences with an increased market demand. Local preferences on a market mean that there is need for market presence in the form of FDI, because they have to familiarize themselves in the country to prevent a disadvantage against local firms. Also in R&D perspective is it important to stay close to your competitors (Dunning, 1993).

2.4 Country benefits of foreign direct investment

Almost all the countries of the world try to attract FDI in their pursuit for economic growth. Money from outside is believed as an extra help for the economy, however, also from outside it is not only believed as benefitting their own business. FDI is considered to be an effective and sustainable way of development cooperation by some scholars. The many benefits of foreign direct investment in itself already proves this, without enumerating the ways companies can invest sustainable and with local communities involved.

There are some benefits which will always achieved by a foreign investment. The factor which receives the most attention is the GDP growth, because many scholars have proven the positive relationship between FDI and GDP and the fact that FDI encourages more rapid economic growth (Sylwester, 2006; Adams, 2009; Aaron, 1999). However, people from the development assistance side often argue that it increases income inequality and that the vast part of the population does not benefit from the economic development. This statement is supported by Aaron (1999) and he argues that in order to achieve equal economic benefits for the whole populations, governments should take a closer look on sustainable FDI.

The way how foreigners invest in a new country can largely vary, with many different benefits for the locals, however, that FDI generally increases the income inequality is doubted by many scholars. Sylwester (2006) supports the argument of Aaron that many people will not benefit, but argues that the positive relationship between FDI and income inequality has not been proven and generally there can be said that FDI encourages economic growth at the local level.

Another important benefit is the capital flow from outside. Often developing countries have a lack of capital and investments from outside are very welcome for them. There is a two way positive relationship between foreign investments and domestic investments (Nidkumana, 2008; Adams, 2009). Therefore a rise in FDI, but also domestic capital, can cause a vicious circle with FDI and DC, stimulating each other and enhancing economic growth. Good performances of investments will serve as a sign of high profits, which will attract more FDI (Nidkumana, 2008).

FDI also causes knowledge spillover, often in the form of technology (Kemeny, 2010). Adams (2009) argues that FDI to developing countries creates more technology spillovers and narrows the technology gap. However, Adams (2009) sees more spillover, especially in efficiency. He identifies marketing skills, firm specific skills, managerial skills and best practice spillovers on local people as well as on domestic firms. FDI also creates employment.

Sometimes the benefits for host countries are high to a such extent, that it causes a discussion whether private sector development is more effective than the current way of development cooperation, which is often considered as not sustainable enough. The United Nations has called up her members to practice development cooperation more in the form of FDI. Nunnenkamp (2004) reduces this argument by arguing that an investment must be profitable and that creates a field of tension with the development idea. However, FDI is a heterogeneous phenomenon; realizing investments can be practices in many ways. Only small benefits are needed to make FDI an effective way of development assistance, since it generally does not cost anything, it even realizes profits.

2.5 Determinants of foreign direct investment

Investing in foreign countries is risky business. The unfamiliarity with rules and regulations, but also a different culture can cause problems in the interaction with the new country during the outflow of FDI. Those problems will exist as long as the world has different nations and cultures; it is part of the game. However, many elements are changeable and shape the economic landscape of a country. In this chapter the determinants, important for foreign direct investments, will be discussed. Important to note is that the literature about determinants of foreign direct investment is too general for Africa. In Africa more factors play a role in the choice of firms to start business in Africa (Asiedu, 2006) than the current literature suggests. Later on, in chapter 3 there is more about these determinants of Africa. In chapter 4 extra determinants in the floricultural sector have been added. Many scholars have made a division of the general determinants. Velde's (2006) division of foreign direct investment determinants into four main categories can be regarded as a very clear one, applicable on all sectors of and all regions of the world:

<u>General policy factors</u>
The way the government rules the country, resulting in the stability of the country and the relationship with their neighbor and other important countries. There are many more factors that might be affected by the government and politics and there is no conformity about how far the power of politics reaches in the society. Important factors for foreign direct investment are the overall political stability, the degree of privatization, rule of law, business regulations and also very important, especially in Africa; degree of corruption. The consequences of the policies for the economy as wells as the political relations in the world are discussed.

<u>Specific FDI policies</u>
The investment regime is also a very important factor and is the basis for the FDI policy regime. Investments have to be made possible by the government. Liberalization of the investment regime is the keyword and the degree of liberalization is very important. Countries can provide protection and promotion of FDI. Also the donor country can provide incentives for foreign investors, in developing countries for instance, which can be regarded as development cooperation in the form of private sector development.

<u>Macro-economic factors</u>
Macro-economic policies shape the underlying fundamentals of cost-competitiveness and are therefore very important to attract FDI. Human resources, infrastructure, market size and market potential are the most important factors. It is very difficult to attract knowledge based foreign direct investment without some standards of domestic technological and human resource capabilities. In developing countries without these assets, often investors are threatened by more negative macro-economic factors, like poverty or bad infrastructure (Velde, 2006).

<u>Firm specific factors</u>
Firm specific factors can be regarded as micro-economic factors. Firm specific assets are the main reasons for FDI (Markusen, 1995), but overlap with macro-economic factors. However, where macro-economic factors are important for all sectors in the economy, firm specific factors only have influence on a specific sector or even a specific firm. Companies mostly establish in a particular sector where they have the greatest technological expertise, even if the education level as macro-economic factor of a country is considered as very low.

2.5.1 General policy factors

Risk is the keyword in many investment guidebooks. Almost all the determinants of FDI have a potential risk; labor costs can rise, currencies fall, rules and regulations change and climates dart out. However, the most direct risks for FDI is physical risk against the investment. In unstable countries, unfortunately, this can occur and mostly general policy factors are the reason, especially the way the government is acting. However, politics have more and more influence on the economy, but this has mainly to do with their policies instead of the way the government is organized, two sub factors.

Kobrins (1979) old definition of political risk, 'the possibility of unwanted consequences arising from political activity', is very broad, but describes the risks as a result of general policy factors in a way that both sub factors fit. A country, regarded as stable, can still make the economic landscape worse for investments policy wise, but on the other hand unstable countries can also have good policies. In this chapter the distinction is made between the governmental factors, the way the government acts, and policy factors, resulting from the policies of the government.

2.5.1.1 Governmental factors

In the literature about governmental factors of foreign direct investment the form of government plays a major role. Many scholars argue that the level of democracy reduces political instability. Not only a similar policy context can create synergies between countries (2.5.1.2), but a similar government structure also favors the relationship among states. However, the process of democratization or transition of system is often fraught with violence and political instability.

Tsebelis (2002) made some important attributions in the field of political systems. He stressed that the number of veto players, resulting in the ability to block policy changes, causes political stability. Undesired changes can be prevented by the veto right. On the other side of the policy making process, multinationals have the possibility to influence and lobby in the policy framework of the government. Democracy means that the policy making process is transparent and effective. It is hard to wind up and introduce new policies, but that does also mean that in a democratic regime multinationals can enter the market with the knowledge that policies will not change dramatically. That is an important contribution of democracy to political stability.

There are also disadvantages of democracy as form of government for foreign direct investment. Rodrik (1991) emphasizes that it can lead to unstable policies, because the changes in governments and approaches via elections. Related to that problem are the incumbent government decisions with next period of government and elections in mind. These decisions are probably not the best for the country, but for themselves. Other forms of governments can bring along these problems as well, but to less extent. Another disadvantage is that besides the foreign firms also domestic firms can lobby in the government. Their influence could harm the multinational. There is no consensus about the relationship between democracy and FDI flows. Composite effects make it also difficult to test. However, there is evidence that democracy highly reduces political risk (Jensen, 2008).

Countries with unstable governments in the sense of organization and power, are vulnerable for resistance in their own country. Resistance also causes political instability, since the government is not able to defend itself and its policies. Political instability can ruin foreign direct investments very quickly and it is difficult to receive protection in times of trouble. This is one the reasons that unstable countries do not attract a lot of foreign direct investment. Kobrin (1979) has studied the influence of ‘political risk’ on foreign direct investment and presented this as major problem for foreign companies coming from stable political countries. They are not familiar with political instability. The globalization has improved the knowledge about each other’s cultures, but this statement is still more or less valid for worldwide investments. It is an important reason that strategic-asset investment are so popular. Local representatives can correct the intuitive understanding of politics of the investor.

Kobrin (1979) already emphasized in his era the increased importance of politics for the economy, however, his arguments are still important in the investment theories. Economy and politics are tied together now and therefore a stable political system is usually expressed in a stable economy. In developing countries governmental factors play a major role for FDI. South Sudan has recently separates itself from Sudan, resulting in another government and another constellation of policies. Both aspects have to become stable before FDI inflows can increase. Important is the sovereignty of the government supported by the army. A stable government and political system is the first determinant for foreigners to invest in a country:

- ✓ **Political stability**

Political instability can cause conflicts. Gartzke (2001) underpins the negative relationship between FDI and conflicts in a study. However, he found that it only characterizes only foreign direct investment, because there is no relationship with portfolio investments. Investors are not willing to take more risks if the country has a conflict. The option to withdraw the investment is a must. Rosecrance (2003) stresses that two-way FDI relationship between countries limit conflicts more than one way relationships do, because of the firmness of the relationship. He also argues that foreign direct investment represents a link that is costly to break, more than portfolio investments. However, there is a two way relationship between FDI and political relation, because a more FDI generally improves the relationship between countries. Several scholars have proven this. Findings of studies about this relationship have therefore be interpreted with care.

The focus in this paper is political relation as determinant for FDI. Rosencrance (2003) stresses that long economic relationships have been proven reliable, but China as upcoming market is an exception. They invest a lot in countries where they do not have long relationships with and in such a way that they improve the bilateral relationship with those countries (Rosecrance, 2003). The absence of ideological conflicts also improves the homogeneity of the political relations. Also multilateral organizations improve the homogeneity among countries.

As foreign direct investment creates a strong bond between states, an increase of FDI flows between countries can improve the relation between states. FDI differs from trade in that sense. Trade can be immediately stopped as a result of a conflict. There is no sustainable cooperation between countries. In FDI both countries have to cooperate intensely and mostly both countries have a share in the investment resulting in a dependency of each other (Rosecrance, 2003). It can be concluded that political relations have impact on FDI; a good bilateral relationship between the home country and the host country is important. Since political stability does not guarantee a good political relationship between countries, political relations is considered as a different determinant:

- ✓ **Political relations**

2.5.1.2 Policy factors

Most scholars point to the policy level when they discuss political risk. In that sense political risk means that decisions of the government can harm the foreign firm or a constellation of decisions cause a bad investment climate or difficult employment regulations. Kobrin (1979) stated that managers first prepare their investment anyway and that it is not depending on the degree of political risk. They use a lot of research to get the feel for the market and an estimation of the potential of their product. However, political risk is still a very important factor for investors. Robock (1971) distinguished 'micro' and 'macro' political risks, referring to the degree of impact that political decisions have, where micro risks only affect certain fields of business activities.

Lewandowski (1997) emphasizes the importance of the economic performance of the host-country. Main concern is the inflation of a country, which can rapidly increase the relative costs of production for the foreign firm. It reduces the amount of invested capital directly and it has to be earned back in later stages of the production process or value chain. A result of inflation is that foreign firms only take a short-term approach to FDI and that firms mainly invest in those economies where they have been relatively successful in limiting inflation. The importance of limited inflation varies to the extent of contact with the local economy. Some companies only pay the local employees and do not buy or sell anything in the local economy.

Related to inflation are exchange rate fluctuations. Both factors cause high price uncertainties, which are not controllable. Often the inflation of a country is reflected in the fluctuations of the exchange rate. Important is the macroeconomic policy of the government, although inflation and exchange rate fluctuations are also difficult to control by the government, especially if there are less means for a macro economic strategy (Lewandowski, 1997). The introduction of the euro has brought less means for macroeconomic politics, but is also concerned as a big advantage, because exchange rate uncertainties are out of order. Also a coupled currency with the US dollar can be solution, although it will result in inflation or overvaluation of the economy quite often.

Lewandowski (1997) also stresses the importance of low credit risks of a country. It can be regarded as 'a measure of confidence of international institutions' in the economy of a country, but also the region's debt, capitalization troubles and an unstable banking sector can cause troubles for foreign firms. Also insurance companies rate the confidence of the economy by means of their insurance policies. It is a direct factor since companies might be interested in credits and an indirect factor as credit risk is an indicator for some economic standards.

The three previous factors determine the economic stability of a country for a major part. However, also stable and a constant economic output is important to realize economic growth and stability. Afsar (2007) concluded that the relationship between economic growth and FDI flows in Turkey is only a one way relationship, with the direction from foreign direct investment to economic growth and not the other way. Many scholars, however, argue that a stable economic growth is important for the economic stability of countries, which has proved to be a determinant of FDI inflows. However, since it is part of a stable economy, it is not regarded as apart determinant. All the factors together which make the economy stable are grouped under one determinant:

- ✓ **Economic stability**

Mukherjee (2007) studied another important economic factor for FDI based on political decisions; liberalization. Many other scholars (Gani, 2005; Merlevede, 2005) already stressed the importance of privatization in an open economy with foreign participants involved. However, the direct relationship with FDI is never proved, it is always an indirect relationship. Liberalization reduces market inefficiencies and imperfect competitive markets. However, nationalization improves the welfare generally, because it provides an extra services to the inhabitants. The relationship between FDI inflows and privatization might be positive, because an open market is more attractive for foreign firms as there are less rules and less protection of domestic firms. However, the optimum level of privatization is not always full privatization. If the degree of privatization that is required to attract FDI is much higher, partial privatization is in many cases the optimal strategy of the host country. Concrete policies during liberalization can be the removal of trade barriers or trade protection, but also reduction of costs for start-up and close a business. This stimulates a more active and flexible business climate and also for investors a reduction of these costs can be a stimulus.

Since the transformation of many economies from a planned economy to a market economy, liberalization has taken place in many countries. Merlevede (2005) studied the FDI stock of the first years EU members or accession countries (mostly Eastern European countries) and concluded that the way the economy has been liberalized is a very important factor, besides usual factors as labor costs and market potential. Direct privatization schemes do not negatively affect the speed of adjustment and direct privatization even has an immediate positive effect on foreign direct investment.

Gani (2005) studied the relationship of privatization and foreign direct investment worldwide in eight Asian and nine Latin American and Caribbean countries between 1990 and 2000 and found evidence that privatization is positively related to FDI. It has led to a positive opinion of the UNCTAD against openness to trade and FDI to replace national companies in certain countries. It concerns liberalization besides investment climate and macroeconomic stability as the most important condition for stimulating the FDI inflows into a country. Developed countries are generally very eager to full fit the privatization needs of countries, however, China takes the cake with 90 percent of the privatization proceeds in East Asia and the Pacific. Liberalization is not only a condition for FDI, it is also a determinant for foreign companies to enter the market:

- ✓ **Liberalization**

Only a few scholars studied the role of the labor market of the donor country in FDI inflows. A flexible labor market makes it easier to finish the economic activities based on the foreign direct investment. Javorcik (2005) found a positive relationship for European firms between the flexibility of the labor market and FDI destinations and volumes. How bigger the difference between the home labor market and the labor market of the host country, how more likely the investment in this country. European labor market are characterized by protection, so a flexible labor market will be a pre for European firms. Labor market patterns will be very important for specific labor-intensive sectors or labor-intensive countries, like developing countries, but that will be discussed in micro economic and firm specific factors. Labor market flexibility is a result of governmental policies and is therefore a policy factor. A flexible labor market gives firms the possibility to simply hire and fire employees and makes the firm more flexible in anticipating on markets, resource and policy changes:

- ✓ **Labor market flexibility**

2.5.2 Specific FDI policies

Foreign direct investment is concerned to stimulate economic growth. Almost all the countries of the world have improved their investment climate to attract FDI. In this chapter specific foreign direct investment policies undertaken by the government will be discussed. This differs from general economic or macroeconomic policies, which are undertaken to stimulate the overall countries economy and wealth. Liberalization is concerned to be the most effective strategy to attract FDI indirectly (Gergely, 2003), but is not a specific FDI policy. Ginevicius (2011) defines it as 'creating a friendly business environment where foreign investors feel comfortable with the legal and financial framework of the country and have the potential to reap profit from economically viable businesses' and he calls it a competition among countries to attract investment. Specific FDI policies mean an improvement of the investment climate to attract FDI via administrational body's. There are two ways of doing this: via financial incentives or via bureaucracy means. Promotion is only an indirect factor in attracting investments (Wells & Wint, 2000), but is considered to be important.

2.5.2.1 Financial incentives

Financial incentives are the most well-known FDI policies, but also financial incentives have many different shapes and can often be regarded as short-term incentives, because often they only attract FDI in the first stage (Ruane, 2008). Fiscal incentives reduce the tax burden for foreign investors and apply on several bases. Profit-based incentives apply on the standard incorporate tax rates or can be introduced in the form of tax holidays (losses can be written off against profits later). The Netherlands has low profit taxes and attract quite some companies, although they generally only issue their taxes, but not participate actively in the Dutch economy. The fiscal incentive can be a reduction on the profit tax with a fixed percentage, but it can also be based on total sales, investment, labor, added value or other particular expenses (Gergely, 2003). Often tax incentives are interesting for efficiency-seeking investors in particular, because they try to find the cheapest location for their production, without being dependent on natural resources or markets. Long-term fiscal incentives will help to decrease the fixed costs. For only attracting foreign direct investment, import-based tax incentives are common. Investors get exemption from import duties on capital goods, equipment or raw materials (Gergely, 2003). Especially developing countries are in favor of greenfield investors. They will import these goods and will apply the tax exemption. Those investors can bring in production, employment and innovation and are therefore important for the economy. On the other side also export-based tax incentives exist to stimulate export-oriented foreign investors. They can strengthen the local currency by enhancing the export.

In this overview of FDI incentives a distinction can be made between one-time grants and subsidies. One-time grants are incentives that are only applicable one time, subsidies continue for a longer period or even for an unlimited period. The choice between grants or subsidies is dependent on the symmetric information on the reliability of the foreign investor as well as the efficiency of the host country. If this information is widely available the type of incentive is of little importance. However, with a lack of information, governments can try to attract the investor with the termination risk after start-up or with a substantial tax relief with fewer benefits from the foreign investor (Ginevicius, 2011). Incentives can be unconditionally or conditionally. Conditional incentives may be linked with performance. In this way the costs of the incentives will be recovered in the economy. Conditions can be based on result, innovation, employment or other consequences.

Subsidies have often a fiscal background; grants can also be provided without any fiscal model. However, less common than fiscal incentives, but still important in developed countries (Ginevicius, 2011), governments can cover a part of a part of the capital, production or marketing costs of an investment project. It is important for developed economies in particular, because they have fixed fiscal regulations and are therefore not flexible and often unable to provide subsidies. In developing countries grants are difficult to provide, because they lack the resources needed for grants on forehand. For high grants governments will have a share of the project, but mostly limited involvement. Most of the times grants are provided to finance manufacturing products or labor training. They both cause an upgrade of the production supply of a country. Governments can also provide subsidized loans. These can be very difficult to find in the financial sector in unstable and/or developing countries. Other incentives to reduce risks are government insurances at preferential rates to cover risks as exchange-rate volatility, currency devaluation and even more difficult risks to prevent as political turmoil (Gergely, 2003).

The choice among all the possible financial incentives mainly depends on the strategy of the government. Often import- and export-based incentives make investing attractive for trade-oriented companies or companies with a high degree of innovation. It is also possible to make more incentives for specific important sectors or industries. Only firms investing in one of these sectors will apply for these incentives. General incentives indirectly make these sectors attractive to investing. Finally, if certain regions need to be more developed, regional incentives often exist for those regions. Also the regional governments can play an important role in this phenomenon. Not only regions have their own incentives, also cities try to make their agglomeration more attractive to establish business. Both geographical units often have investment promotion agencies (IPAs) (Gergely, 2003).

- ✓ **FDI incentives**

2.5.2.2 Bureaucracy

Not only financial incentives matters, also bureaucracy means can improve the investment climate. Countries differ significantly among each other regarding the ease of entering the market. Bureaucratic procedures can be very hard to go through, especially in developing economies, where there is less technology and efficiency to organize this. Gergely (2003) recognize services and technical support in this category, although these measures are mainly to help investors during bureaucratic processes instead of improving the procedures directly. Assistance during the start-up of a company can be the identification of financing, pre-investment studies, market information or help with other parts of the production process or even the complete management of the firm (Gergely, 2003).

Assistance of host countries to foreign direct investors is mainly carried out by investment promotion agencies. IPAs generally have two tasks; the promotion function and the assistance function. The assistance functions are quite extensive, it is not only advice. They can arrange the registration of foreign investors or obtain land for them. Sometimes they even regulate land permission on behalf of the government. Also other forms of infrastructure can be regulated by the government and a way of subsidizing investors (Gergely, 2003). In countries where the bureaucracy is difficult to go through, IPAs often have more functions. Bureaucracy is an important factor in the ‘doing business’ of the World Bank, which compares the ease of doing business among countries. See the box for more info.

Some countries know their own weaknesses and can give bureaucratic incentives to avoid them. Gergely (2003) gives an example of countries that have given allowances to investors to maintain offshore accounts and insurances to secure their investments against local currency devaluation and other risks. However, with a liberalized economy it will become more and more difficult, because discriminating incentives do not fit in a liberalized economy. However, liberalization is already a determinant of FDI.

- ✓ **Bureaucracy**

2.5.2.3 Promotion

Promotion is spreading information about the (mostly friendly) investment climate of a country, improving the image of the economy of a country and supporting potential investors with investment services (Wells & Wint, 2000). Almost every country which tries to attract FDI has an investment agency (IPAs) with those tasks. In this paragraph the promotion function of IPAs is discussed. Information is a very important element in the choice whether or not to start business in a country. Informational asymmetries constitute a big obstacle to capital flows across international borders and especially foreign direct investment is more sensitive to information frictions than portfolio investments (Daude & Frantzscher, 2008). Fortunately, countries are aware of the fact that a lack of information about doing business in a country constitutes a barrier for foreign direct investment inflows (Harding & Javorcik, 2012), but to what extend is this function of IPAs effective?

Some scholars concluded that investment promotion is cost-effective way of attracting investors to developing countries (Harding & Javorcik, 2011; Bobonis & Shatz, 2007), but for developed countries it has not be proved to be efficient. It mainly depends on the facilities of the IPA. IPAs with limited functions are not effective, while IPAs with many different and extensive functions, often in developing and emerging economies, can be very important to attract foreign investors (Harding & Javorcik, 2012). From the literature it can be concluded that in potential IPAs have a lot added value, up to 189 dollars of FDI inflow per dollar spend on investment promotion, depending on the already available information. If there is already a lot of information available, then IPAs have a lesser role to play (Harding & Javorcik, 2011). Therefore, promotion is not a direct determinant of FDI, it only can improve other determinants, e.g. the bureaucracy situation in the country.

2.5.2.4 Treaties and multilateral agreements

Not only host countries try to stimulate investing in their country, but developed countries can also have strategies to stimulate that their firms invest in developing countries as form of development cooperation (Gergely, 2003). Some scholars argue that involving developing countries in the world economy is the best way of development cooperation. It is sustainable and for donor countries profitable in times of recession, because they recover the costs in their own economy. However, investment programs are only available for developing countries and this is discussed in the Sub-Saharan African specific determinants.

Besides programs in donor countries, investments can be made more attractive to participate in multilateral treaties and organizations. The World Trade Organization (WTO) has some entry requirements for instance, and membership can give an indication for investors that the country has arranged his economic affairs well and that the country has a liberalized economic system. Other treaties, often established in major African cities supervise the safety situation in Africa and are supported by all the major developed countries, what means assistance in the case of breaking the rules. For companies, agreements among important economic powers and small economies is an indication of overall stability of the country.

Finally, also intra-regional treaties can really stimulate investments. The East African Community, largely supported by the developed countries, aims to ease transportation of labor, capital and goods inside East Africa and maybe regulates monetary affairs in the future (East African Community, 2012). For investors it means a larger market and more transportation possibilities. Also the European Union is an example of a positive initiative for trade and investment and there are more examples worldwide. Cooperation generally stimulates stability and a better investment climate.

- ✓ **Trade agreements and organizations**

2.5.3 Macroeconomic factors

In a globalizing and liberalizing world, there is more and more attention for the macroeconomic factors of foreign direct investment. These factors are more difficult to improve than policies of governments. To change macroeconomic factors, macroeconomic policies are important indirectly, but it can still take decennia to improve. At least good policies can be a sign for investors that things are changing in the wright direction for them, especially significant in developing countries. Most important macroeconomic factors are human capital/labor market quality, quantity and infrastructure (Velde, 2006), especially important for resource-seeking and efficiency-seeking FDI. Kyrkilis (2003) added technology to important factors, while Barthel (2008) stressed the importance of GDP growth for FDI in several respects.

On the demand side market size and market potential are important factors for market-seeking FDI. Barthel (2008) considered also the neighboring markets as important factor. More and more scholars argue that FDI location decisions will increasingly depend on (macro) economic factors and not on general or FDI policy interventions, which are mostly temporary, short-term and unstable. Education is often regarded as the most important factor, because it is the source of potential growth in the economy and wealth in the future (Velde, 2006).

2.5.3.1 Supply side

Human capital plays an important role in the location decision of foreign investors. Usually FDI is viewed as a channel of spreading knowledge and technology into host countries which contributes economic growth positively (Varum, 2011). However, the current state of human capital in a country is a very important factor depending on the sector and investment motive. For efficiency-seeking FDI in R&D a very high quality human capital is needed, but for production plants sometimes the human capital size is more important. In that case low labor costs are often a reason to go abroad. On the other hand, a small labor market can be negative for foreign investors, because employees will ventilate more labor rights and requirements.

Human capital and FDI are both drivers of economic growth, but little evidence has shown about the effect of human capital on FDI. This relationship is decisive as human capital is a determinant of FDI. Majeed (2008) argues that higher quality human capital improves the investment climate and attracts FDI. Also other scholars (Noorbaksh et al, 2001; Nunnenkamp, 2002) argued the increased importance of human capital, especially among efficiency-seeking firms (Noorbaksh, 2001).

Important to note is that only recent studies have found evidence for this relationship. In the 1960s and 1970s, when FDI inflows were concentrated on market- and resource-seeking motives, no relationship was found (Majeed, 2008). This does not necessarily mean that human capital quality does not have its influence on market- and resource-seeking FDI. Indirectly, increased human capital improves liberty, political stability, health and crime/corruption rates. All of them are considered to be a key determinant for FDI. The tendency of FDI is towards skill-intensive production and services. For this reason human capital quality is an increasingly important factor for FDI (Majeed, 2008). However, an important aspect of human capital is that there is a threshold, before the country can benefit from FDI. If companies only come to the countries to use the worst educated people for their production and pay them a paltry amount, the country will not profit from the FDI (Varum, 2011).

- ✓ **Human capital**

Important is the balance between the quality and costs of labor. Generally there is a balance and in developing countries it means that low skilled labor causes low labor costs. Wang and Swain (1995) concluded that low cost labor is an important factor for FDI inflow. They stressed that not the quality of human capital matters, but the labor costs. Cheap labor can be a resource in resource-seeking FDI. This is not only the case for developing countries, also developed countries with high labor costs have more and more difficulties to attract FDI, largely depending on the motive of foreign direct investment. Labor costs is the main reason for many multinational companies to replace their production plants in low labor countries in Asia. Also in Africa this reason plays a major role in almost every investment on the continent. Labor costs is mostly mentioned as unit labor costs; the costs of labor as ratio with the productivity of the people.

- ✓ **Labor costs**

Beside human capital, also physical infrastructure is a major macroeconomic factor that heavily influences doing business in a country. Physical infrastructural elements are roads, airports, office space, hotels, telecommunication, internet, etc. For doing business in a foreign country it is important that the infrastructural level is high enough to run the company efficiently. Poor infrastructure increase the costs for firms, often it makes the operation unprofitable. What about an export company without decent roads and air connections? What about an ICT company without fast internet? Physical infrastructure is a key component for all kinds of companies, where important elements heavily depend on the sector and FDI motive. Organizational infrastructure is proved to be more important in developed countries and is already discussed in the policy chapters (Velde, 2006).

Several scholars have proven the importance of a reasonable physical infrastructure (Velde, 2006; Tran, 2009; Chakrabarti, 2012; Khadaroo, 2009). In the economic development of countries, there was always a dichotomous development with physical infrastructure, for example in the developing phase of Vietnam (1986-2006), where infrastructure before the economic rise was a major constraint in attracting FDI (Tran, 2009). There is a general consensus about that physical infrastructure increases FDI inflows, but this is only the case for developing countries and there is a threshold before the level of infrastructure does not have a positive relationship with FDI. Only for recently developed countries it is possible to prove this, because FDI is a relatively new phenomenon. An example is India in a study of Chakrabarti (2012). After the threshold the level of physical infrastructure becomes significant. Only small increments in infrastructure are unlikely to yield a proportional rise in FDI inflows. Governments have to invest heavily in infrastructure to boost FDI inflows, like China and India, which became very attractive for investors (Chakrabarti, 2012).

FDI in developing countries is characterized in producing and export-orientated investments. Transport infrastructure often is a bottleneck for those producers. The other side of lower labor costs means that transportation costs can be very high in an underdeveloped economy. To come back to China, its attractiveness is a result of lower labor costs that still exist and good infrastructure. Khadaroo (2009) found in his study in Africa that mainly infrastructural developed countries in Africa attract FDI. However, with the fact that in a lot of developing countries the transport infrastructure is still very poor, resulting in too high costs, FDI to Africa in general is limited. A way-out for developing countries is the self-reinforcing effect what FDI can generate, because also investors are willing to improve the infrastructure after their establishment in the country (Khadaroo, 2009).

- ✓ **Physical infrastructure**

GDP and GDP growth is also a factor for foreign investors, however, it does not influence the business process. GDP is probably more an image of a country. Many investors are scared for doing business in poor countries and GDP is a measure in that case. It is also an indication of the amount of foreign investors already active in the country or the availability of natural resources. Barthel (2008) emphasized the high GDP of Nigeria. This does not mean that Nigeria is an attractive country to do business, but at least it has business opportunities, in this case in the oil sector. Chien (2012) has proven the strong bidirectional relationship between GDP and FDI in the developing country of Vietnam, but a relationship does not necessarily mean that it is an important determinant of FDI. Investors will take a look at the economic performance of a country, but it is not decisive.

One more factor on the supply side which mostly is a result of solid FDI inflow, but where also its current level has its influence on the attractiveness and FDI inflows of a country, is technology. Kyrkilis (2003) stressed the importance of technology, especially with efficiency- and resource-seeking motives. However, only in the 1980s there was extensive theoretical and empirical support. Companies tried to use the advantages of Asian technologies. Nowadays other factors receive more attention, because it is relatively easy to transfer the technology to another location. Other characteristics of countries are playing a more important role in that, such as skills, market structure, government policies and incentives. The direction of the relationship is discussable, because many firms also see the potential to upgrade low levels of technology (in developing countries) and establish a much more productive business with a higher turnover with still the same costs. Also development cooperation projects focus on this technology gap, more about this in specific Sub-Saharan Africa chapter. Kyrkilis (2003) stressed the importance of the technology level of the home country. Host countries can be complementary in the business process in efficiency-seeking foreign direct investment.

- ✓ **Level of technology**

2.5.3.2 Demand side

The demand side factors are probably less important, because fewer firms have market-seeking motives. However, with a tendency for more strategic asset-seeking FDI market size and potential in the region can become increasingly important. Developing countries can be increasingly attractive for market-seeking firms, because generally the market size will develop itself in line with the growth of the economy. Firms with other motives do not have any direct advantages of market size and market potential. Small firms often have market-seeking motives and for them demand side macroeconomic factors as market size will be treated with distinction (Barthel, 2008).

The most important opportunities of a big market size are scale economies. Banga (2009) found a relationship between FDI and market size for both developed and developing countries and it is also an important determinant for the strategy of market-seeking firms. This pattern is found in FDI flows from developed countries into developing countries in particular. Also for strategic asset-seeking firms, market size plays an important role and will be part of the acquiring strategies of MNEs (Banga, 2009). Market size is not only the market of the host country, but also the regional market. Surrounding countries can increase the market size substantially and sometimes countries can even be concerned to be the same market if they share economic policies. The East African community is an example for that, with a possibly more integrated market if a monetary union is installed.

- ✓ **Market size**

Not only the current size is important, also the development of this market size: market potential. It is not only the market growth, but also the development of the market structure, for example the percentage of rich people and middle class, which will have another demand than poorer people. Also the neighboring market developments play a role, because products can also be sold in other countries in the area. Especially unique or technologic products can be distributed in a larger area (Barthel, 2008). Scale economies can also be achieved with the future in mind and therefore market development is an important determinant:

- ✓ **Market development**

2.5.4 Firm specific factors

Firm specific factors are the last type of determinants, which can mostly be divided into the other categories. However, for certain sectors are firm specific factors very important and of course these factors are the reason for sectoral clustering in certain areas. Clustering has a self-reinforcing effect, because these firm specific factors attract other related firms. Dunning (1993) argues that firm specific factors are important because 'they compensate for the extra costs in terms of local knowledge that a foreign firm must incur to operate in foreign markets'. It is called ownership advantage and it is often related to some specific technology or knowledge of the production process. Countries which attract specific firms or sectors have a locational advantage (Velde, 2006).

Some scholars suggest that firm specific assets are the main reason for FDI. Firm specific factors are also called microeconomic factors. Firms mostly have in their production process some specific important factors. It is difficult to sum up these factors, because they vary significantly among sectors. The specific factors in the floricultural sector will be summed up in chapter 4. Technology is a factor that is important for many firms, especially because many firms invest in foreign countries for the available technologies. This is the case for developed countries in particular (Velde, 2006). Developing countries offer other factors and attract other sectors. The agricultural sector for instance; firms can experience a much better growing climate and more fertile soil in countries around the equator. Or some countries have a very strategic location, which is attractive for export companies. Those factors are attractive depending on the firm and sector.

Also on the demand side firm specific factors are important. Some countries have specific gaps in the markets, which can be filled by foreign companies. It is also possible that some countries have specific problems resulting in specific demand. Dutch companies are working all over the world at water projects, but some countries do not have the firm specific factor, water in this case. They are not attractive for those companies to do business with. Summarizing, a cluster of related firms can be a reason for investing, because those locations will have the perfect circumstances. However, also areas where there is just a gap in the market can be attractive, because it offers a market for the product.

2.6 Conclusion: What are the general determinants foreign direct investment in the global economy?

In this chapter FDI in general is discussed with the final focus on the main determinants of foreign direct investment. However, since the determinants of FDI largely vary per investment motive, sector and region, there has been tried to give an overview of most influential factors to invest in the world economy. Many determinants will have a relationship with each other and sometimes there is a bit of overlap of determinants. Important to note is that the determinants of FDI differ from factors that have a significant relationship with FDI; GDP has a relationship with FDI flows, but is not a decisive factor for investors, because it does not influence the business process directly. In this sense this paper is from an investors perspective with a more rational background than statistical evidence.

The selection of determinants is always a choice; in this study the use of the determinant in the FDI literature is the basis of the choice whether or not to be a determinant in this study. The determinants in this chapter have to be valid all over the world in every sector. Velde (2006) has made a clear division of the determinants in four categories and the 14 general determinants are placed is this division for a better structure. There is no value of significance attached to the determinants:

General policy determinants	Governmental factors	Political stability
		Political relations
	Policy factors	Economic stability
		Liberalization
		Labor market flexibility
Specific FDI policies		FDI incentives
		Bureaucracy
		Trade Unions and Organizations
Macroeconomic determinants	Supply side	Human capital
		Labor costs
		Physical infrastructure
		Level of technology
	Demand side	Market size
		Market development

3 Sub-Saharan Africa

Africa, the black continent, is considered as outsider for centuries. However, times are changing; Africa with her low labor costs, increasing workforce and developing market is expected to become the new China. Africa will leave her image as poor and unproductive continent behind, but remains unstable and vulnerable in many senses. Investing in Africa has a high potential, but also remains difficult as not only the cultural differences, but also some important different determinants matter. First, there is an introduction about Africa as booming continent with history, facts and figures. Afterwards the African determinants of FDI will be discussed.

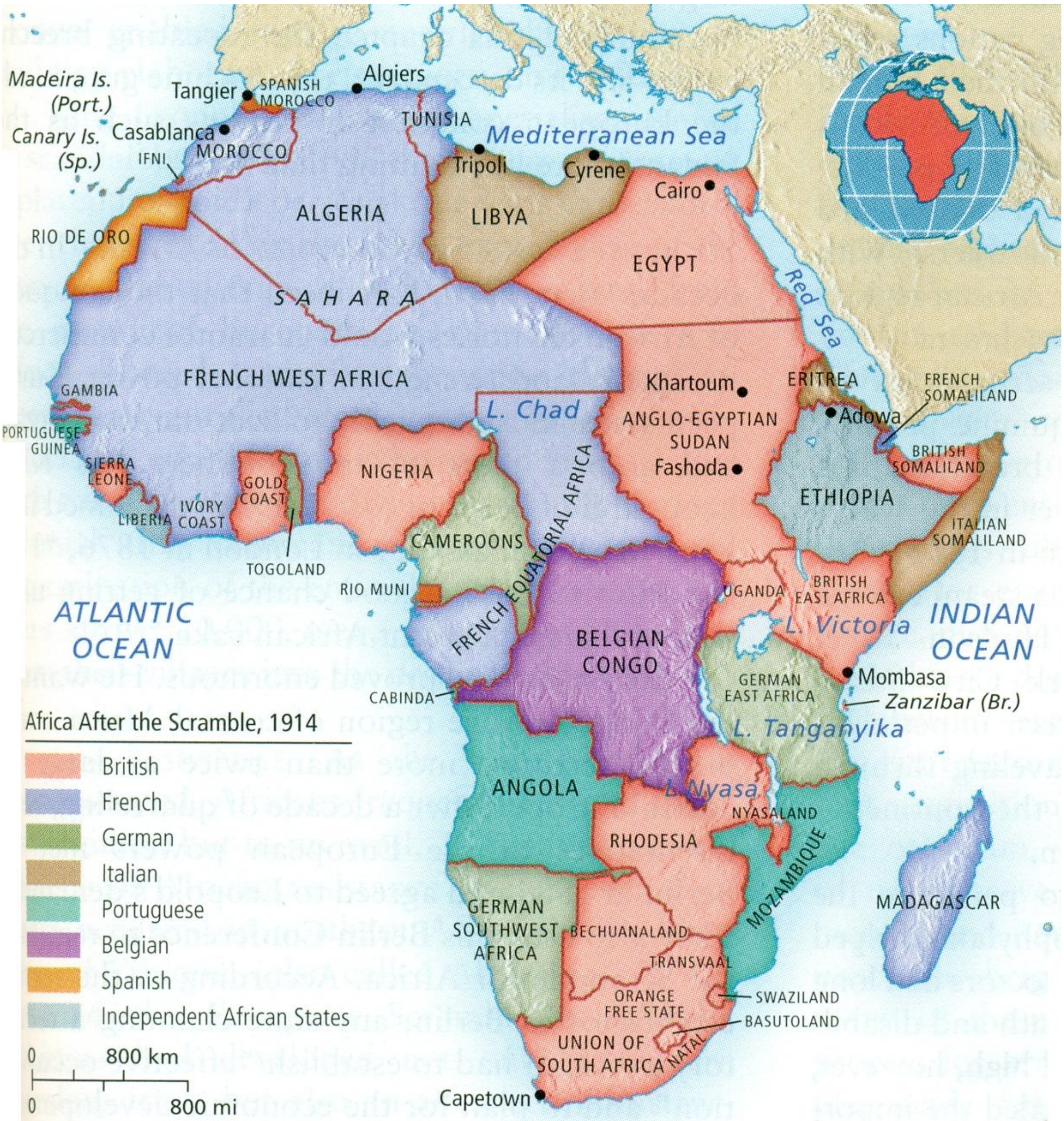
3.1 Sub-Sahara African history

Africa has the image of poor and undeveloped continent for ages. Already from the 15th century the more developed nations tried to expand their territory and colonialized the world. The western nations exploit their overseas territories by stocking up on spices and slaves. Their aim was not ruling their territory, but just development for settlement or commercial intentions (Shirlow, 2009). Colonialism and imperialism, which started around the 1870s, caused a spread of Africans over the world, especially the Americas. More than 73% of the population of the Caribbean islands, almost 30% of South America and almost 10% of North America, of whom 42 million in the USA has African roots (CIA, 2011). Often also in their home country they belong to the most poor population group of the country. The past plays an important role of the underdevelopment in Africa.

The imperialistic period from the 1870s means the expansion of Western rule of almost all developing countries of the world. Rivalry among the big powers caused the scramble for the world. Not only resources were the main aim of the imperials anymore, colonies were considered as strategic important areas and expression of their power. The imperialistic period was more influential than the colonial period, because of the rule of the imperial country. However, these influences differ per country and per region in the world. Sometimes they constructed infrastructure or education systems, mostly to develop their colonies in order to receive more takings (Adas, 2008).

From the 1870s till the First World War, the African countries became a colony of Western powers. During the Berlin conference the European political leaders agreed about the political division of Africa. Those borders exist in Africa today. France and Britain had the most unbroken territories in Africa, while Germany and Portugal had some large countries. Spain and Italy had some unfavorable remote countries, while Belgium had one of the largest countries of Africa: the Congo (figure 3.1). Only two independent states were left: Ethiopia and Liberia. In almost every colony there were problems, because Africans are keen on their freedom. Most well-known are probably the wars in South Africa, where the British had to strain every nerve to occupy Orange Free State and Zulu country. The British tried to rule by identifying local power holders and forcing these to administer for the British Empire, where other colonizers had the direct rule. Only the French regarded Africans as French if they were willing to adopt the French ways of living. However, in their main aim was the same; rob Africa's raw materials for the European industry for as less as possible trouble (Khapoya, 1997). That's doesn't alter the fact that the colonizers left their colonies behind differently regarding to economic condition, wealth and overall development.

Figure 3.1: the scramble for Africa



Source: Histories (2012)

After the two World Wars, the African colonies wanted their independence. They saw the vulnerability of their colonizers and groups of elites, which were often educated in Europe, created a strategy to claim independence. After the Second World War, Libya was the first African country which became independent, from Italy in 1951. In the start 1960s almost all the countries became independent, including the East African countries. Often independence was a result of independence wars, especially in the Portuguese colonies. However, also after independence it was often turbulent in the new nations. Almost in every corner of the continent there were wars, especially civil wars as a result of the many conflicting tribes in the same country. Most well-known wars were in Ethiopia, Nigeria, Congo, Angola, Mozambique, Uganda, Rwanda, Sierra Leone and Sudan, where South-Sudan separates itself in 2011, however, it doesn't seems to be the end of the conflict (Birmingham, 1995).

The European powers generally supported stable politics in their former colonies since independence and in more and more countries the government has control over the country. Politic ties among countries even improve this situation, but Africa remains vulnerable. Many rebellion groups see chances to rule their own territory and many tribes try to achieve independence. Carey (2007) sees the lack of democracy as a problem, although almost all African countries have elections. Often they only have the choice for one party. Country and history related factors determine the chance of violence in Africa, in the next chapter there is an overview of this about Kenya and Uganda.

3.2 East African history

East Africa has some other important historical events than discussed earlier, because also the Arab Slave Trade is an important event in the history of East Africa. In the 10^{th} century Arabs began to trade with East-Africa, especially the Indian coast of Kenya and Tanzania. The traders mainly came from Persia and the interaction among Arabs, Persians and Bantu people (indigenous African population groups) created a new culture what we now call the Swahili culture. It is also influenced by cultures from the Far East as a consequence of the trading routes that crossed the Indian Ocean. It introduced the Muslim culture in East-Africa, but also the trading culture, which still exists. The Arab Trade was characterized by slaves, ebony, gold, ivory, sandalwood and spices (Hooker, 1997). Nowadays, most traders in East-Kenya still have an Asian background and the economic activity is still in hands of Muslim traders, also from Somalia.

The Portuguese showed their commercial interest in the Indian Ocean trade at the end of the 15^{th} century and conquered almost the whole east coast of Africa. They constructed forts to show their hegemony, in Mombasa for instance. However, in the 17^{th} century the Arabs fought back and also the British and Dutch sailed on the Indian Ocean. Portugal was already losing their profit from the Swahili trade and retreated to Mozambique. The Omani Arabs reclaimed the coast and set up spice plantations and slave trade (Hooker, 1997).

British rule during the Imperialistic period before the First World War changed everything, because they brought what they called civilization. They ended the slave trade and created a wage-labor system. The Arab rule only continued on Pemba and Zanzibar, but they had no chance at the Swahili coast against the strong British army. However, the Swahili coast kept her Asian trading culture till nowadays, because the British were more interested in the interior of East Africa; the promising farmlands of Kenya and Uganda (Stock, 2004), the focus countries in this paper.

Kenya became a British colony in 1890, Uganda a British protectorate in 1894. A remarkable event was the construction of the Kenya-Uganda railway line, which had to connect the two countries with the port of Mombasa. Many Indian workers provided the manpower for this project. This Indian population formed a minority in the Kenyan and Ugandan society. As a result of the indirect colonial rule of Britain in Kenya also European settlers came to grow coffee and tea. Britain chose local chiefs to rule their area, which became very wealthy by exploiting the African reserves and labor. They chased away the local tribes to obtain the best farmland. Traditional leaders with resistance were ruthlessly crushed. However, the Africans paid the taxes while they were banned to grow profitable crops. Many people left to the cities, but this 'apartheid' caused resistance. People tried to push back European privilege, leading to the Mau Mau rebellion after the Second World War. The aim of British rule was to have as much as possible profit in the form of crash crops for the export, no matter what the consequences were for the country. The colonial government with their army and police force gave settlers more rights than the Africans (Ochieng, 2007).

Uganda has a complete other history. The kingdom of Buganda, which compromises the central area of Uganda, has played an important role in the Ugandan history and still exists. It started in the early 15th century when the first king (*kabaka*) Kimera, unified the kingdom. In the 19th century the Buganda kingdom expanded and became a dominant state in the region with a lot of influence on the other regions. However, until the mid-19th century Buganda was relatively isolated with internal trading systems compared with the international trade in Kenya (Byrnes, 1990).

The Arab trade caravans arrived at Lake Victoria in 1844 for the first time. They tried to convince the Buganda king the advantages of foreign trade and already some years later the Buganda royal family was dressed in *mericani* from Massachusetts and were guns introduced in Uganda. The Arab traders came to the interior of Africa for ivory trade, not to create settlements as in Kenya. Also from the North Egyptian traders were looking for ivory, but they encountered Bunyoro and Acholi people on their way along the Nile to the south, with varying responses to international trade (Byrnes, 1990).

Then Uganda's colonial history started with the entry of British explorers as Stanley and Speke, which were looking for the source of the Nile. They reported about the Baganda positively, but also tried to transfer their ideologies to the Baganda. Also the French and the Arabs showed their interest, ending up in a tumultuous period with civil wars where the British showed their strength. In cooperation with the Protestant Baganda chiefs, the British expanded the kingdom with some other kingdoms, sometimes by bloody wars and sometimes in the form of treaties leading to the Protectorate of Uganda (Byrnes, 1990).

While the British ruled the region indirectly, they granted the Buganda kingdom a large measure of autonomy and self-government. However, there was a reason for the costly construction of the railway from Mombasa, so the British wanted cash crops and taxes. In contrary to Kenya, in Uganda many Africans took care for the agricultural production, mainly cotton, which was very successful. Britain could even end its subsidies to Uganda, unthinkable in Kenya. All the earnings caused a relatively developed Buganda society. After the First World War, the British preserved the role of the 'more efficient' Asians and other migrants in growing other crops, like sugar (Byrnes, 1990).

After the Second World War it slowly became clear that the colonialists would give the colonies back their independence. However, in both countries there was still a lot of violence from the Africans to their British rulers. In Kenya the rebellion group Mau Mau started a very bloody fight for independence. In Uganda smaller riots arose, both against the small white minority. In Kenya Britain planned elections, but the white, Asian and Arab minority feared a loss of control in the country, they got 20 of 53 seats in parliament, but this was abandoned quickly. White and Asian citizens left the country, mostly for Britain and Jomo Kenyatta became the first president as national hero. As in many other countries Kenya transformed into a one-party state. Only two presidents filled the period from independence till 2002 (despite the re-entry of the multi-party system is 1992) and their ethnical minorities got a preferred position without a lot of tumult, although conflicts with the Asian population occurred. In 2002 a new political party, the NaRC with Mwai Kibaki as leader won the elections, but his regime tended to be linked with the discredited Moi (2nd president) forces. Every regime had their own preferred tribe, so there was no political stability. Five years later Raila Odinga and his ODM won the elections with regionalism as main aim, where every tribe could rule their own region. But now tumult arose about the tribal division of regions (History of Nations, 2004).

The groups that were blamed for the independence violence in Uganda were banned by the British. But the British already removed the colonial rules and obstacles for Africans, but the big question was if they should give back the rule to the Buganda kingdom, because they were still a minority. The British let decide the population through elections, but a 'responsible government' was unavoidable, the Buganda kingdom got their internal autonomy in cooperation with Obote's UPC. However, this coalition was a collection of different interest groups and Obote slowly drew itself all the power, by abolishing the regional autonomies and declaring himself president of Uganda in 1966 by suspending the constitution. All his political opponents, but also Asian traders were terrorized harassed and tortured, while corruption and high food prices became more and more common. Uganda was now a absolute state (Mutibwa, 1992).

More and more resistance arose and Obote relied on the army with Idi Amin as leader. He turned out not be loyal to his leader, because Amin and his army overthrew the regime of Obote, who fled to Tanzania. The regime of Amin immediately began with mass executions of pro-Obote Acholi and Langi troops and also the Asian minority and other subversives were expelled. Seven years after his coup, Amin's circle of close associates had shrunk significantly, which was the result of defections and executions. However, his distrust also meant his end, as he regarded Tanzanian president Nyerere as the roof of his troubles, like the economic crisis and continuing threat of Obote. He began the war against Tanzania with Arab support but lost, and fled to Jeddah, Saudi Arabia, spring 1979. Uganda was economically and psychologically devastated and lost 300.000 citizens to Amin's murderous regime (Byrnes, 1990).

The UPC of Obote won the first elections in 18 years (1980), but the opposition claimed fraud and started a guerilla war with Yoweri Museveni as leader. Approximately 100.000 people died during 'the war in the bush' and time repeated itself by the coup of his army in 1985. A few months later Museveni claimed the rule of Uganda and Obote never came back. Obote has been sensitive to its international image and economic situation, but detentions and disappearances of people recurred, leading to an overall death toll of 500.000. Museveni needed to avoid all the mistakes of his predecessor and the NRM established a an interim government and claimed the support of every Ugandan. At least he got international support with his new government (Byrnes, 1990).

The most difficult aim of Museveni was to reunite Uganda and in large parts of the country he got the support. However, the northern part of the country (Amin regions) bordering Sudan remained a problem and rebels groups with Sudan as safe heaven started to rule the north, they formed the Lord's Resistance Army (LRA). Gross human rights violations were reported from the north where the LRA burned down homes and moved people. Museveni has tried to defeat the LRA for 20 years and only since a couple of years the LRA left Uganda, but is still active in the Congo, Central African Republic and South-Sudan. Museveni slowly ensured his power and achieved economic growth, wealth, safety and stability (Byrnes, 1990). Uganda, once more wealthy than Kenya (during the imperialism) could completely rebuild itself after 23 years of destruction and turmoil.

3.3 The rise of Sub-Saharan Africa

The image of Africa from outside is that the continent suffered hard economic times, however, this perception is performance based, an approach of developed countries. In Africa economic performance is not the key word, they probably more belief in a gross domestic luck than gross domestic product, attach more value at family life and generally don't consider possession of products to be important. In the production process it will cause problems, more later on. However, in this thesis the economic performance is important and in this sense Africa has made progress and will develop itself more than the imperialists ever would have thought in the past. Africa is booming!

The basis for the rise of Sub-Saharan Africa is the massive growth of the population. In Uganda the average number of children per woman is almost 7! Sub-Saharan Africa will overtake India and China in 2040 in workforce (figure 3.2) and with improvements in the health and education SSA has the potential to become an important player in the world economy. The technology gap is narrowing and FDI brings more business knowledge to the continent. The advantage of the abundance of available natural resources will still exist in the future and can cause the availability of capital, which is needed to invest in the African economies.

Figure 3.2: Work force of Sub-Saharan Africa

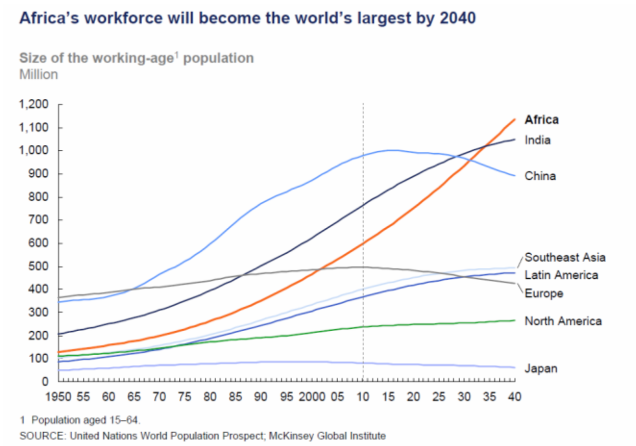
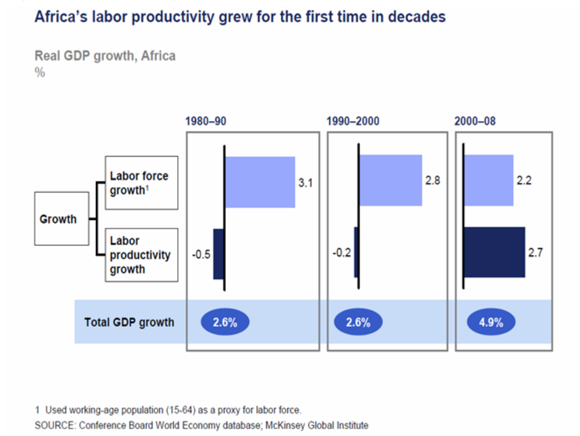


Figure 3.3: Labor productivity in Sub-Saharan Africa



The combination of an increasing workforce and a higher productivity (figure 3.3) will cause the boom of Africa. However, crucial is political stability, which has always been a problem in Africa. Violence and wars can quickly destroy the construction of a country. A good example is Zimbabwe, once one of the most developed countries in Africa, but after 25 years of Mugabe as president completely destructed with hyperinflation resulted to the introduction of the US dollar. Conversely, in Uganda things go well since Museveni brought stability in 1986.

Figure 3.4: Fastest growing countries

RANK EXPECTED GDP GROWTH	REGIONAL RANK EXPECTED GDP GROWTH	COUNTRY NAME	ISO CODE	EXPECTED GDP GROWTH 2009-2020
1	1/26	UGANDA	UGA	6.41%
2	2/26	KENYA	KEN	6.10%
3	3/26	TANZANIA	TZA	6.07%
4	4/26	ZIMBABWE	ZWE	5.93%
5	5/26	MADAGASCAR	MDG	5.85%
6	6/26	SENEGAL	SEN	5.82%
7	7/26	MALAWI	MWI	5.60%
8	1/4	INDIA	IND	5.51%

Source: Hausmann et al. (2011)

According to the Atlas of Economic Complexity of Hausmann et al. (2011), Uganda has the highest expected GDP growth of all the countries in the world from 2008 till 2020 (figure 3.4). Population growth is one explanation for this. The other key explanation is the very low income level. East Africa makes up the top 3 and many other African countries appear in the top probably caused by their low start level. The top of the list for GDP per capita are made up by China, India and Thailand.

3.4 Sub-Saharan African determinants of FDI

The history of African countries in general has formed a negative image for investors (Bartels, 2012), which is a direct influence on FDI flows. Unstable situations in the countries do not stimulate the investment climate. Indirectly the history of Africa has shaped the determinants of FDI, such as productivity, infrastructure, human capital, economic stability, etc. The history has also caused some specific determinants of FDI for Africa. Investors are aware for poverty, unsafety, low productivity and risks. This comes back in the general policy factors. However, countries try with FDI policies to stimulate investments and also some macroeconomic factors can influence FDI inflow positively , for example the abundant resources of Africa.

To outline the specific Sub-Saharan African context, some important studies about the determinants of Africa are discussed at first. Asiedu (2002; 2006) has made some important attributions to the field of the African determinants of FDI and also Onyeimu (2004), Jenkins (2002) and Naudé (2007) have studied the difference of the FDI determinants in Africa. Afterwards, every important determinant that is characteristic for Africa is discussed in the African context.

An influential study about the difference of Africa in FDI is published by Asiedu (2002). She wondered why Africa does not profit from the worldwide rise of FDI, while FDI can bring the much-needed capital to the continent. Notable fact is that the return of foreign direct investment in Africa in the period 1991-1996 was 30%, against 21% for Asia and 14% for Latin America. However, Africa has an adverse regional effect. Asiedu (2002) has two explanations for this; Africa is perceived as inherently risky, supported by other scholars and risk-rating agencies or there is lack of knowledge about the countries in Africa. A combination of both explanation is plausible.

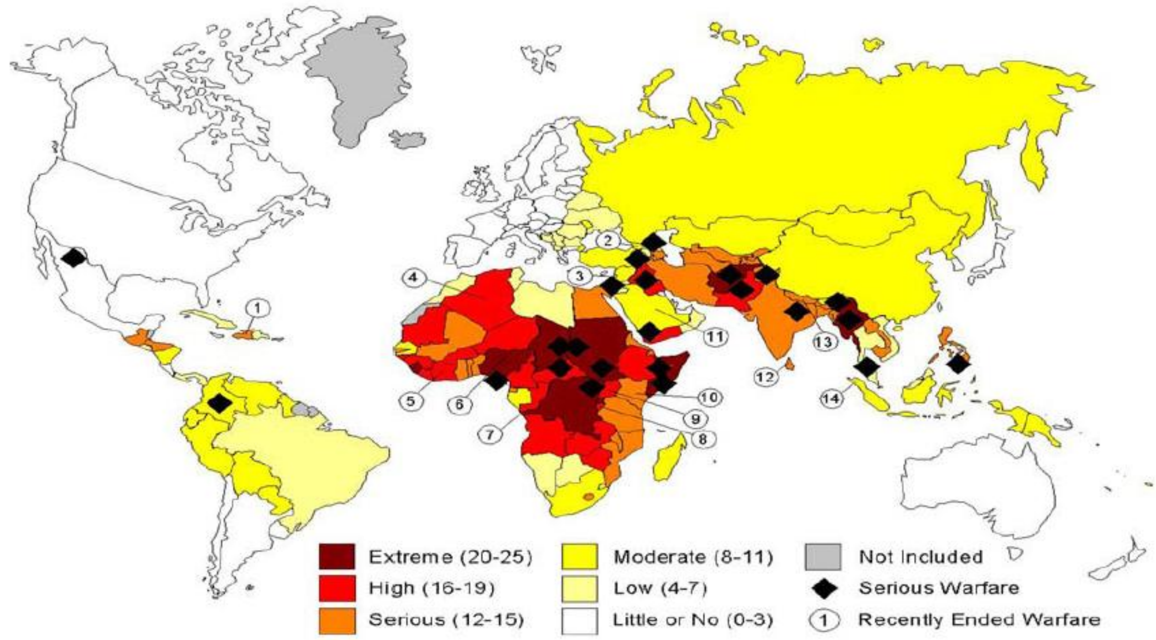
The risky environment in Africa is the reason that higher returns not induce more investments. Asiedu (2002) argues that policy reversal for FDI is the most important risk. In this study policy risk is classified in the policy factors and political stability. It is not only a factor in Africa, but for Africa a decisive factor, because of the significant more instable politics in countries in Africa. The openness or liberalization is related to that. As the degree of liberalization is part of governmental policies, investors perceive liberalization as subject to reversal. The more resource-seeking nature of FDI in Africa does not attach very much value at infrastructure. Those sectors are characterized by remote product locations where infrastructure has always lower standards.

In 2006 Asiedu studied the determinants of FDI in Africa on a more broad way. She found that general FDI determinants are important, such as market size, human capital, macroeconomic instability, FDI policies, but she also found typical African determinants. Rule of law, corruption and safety in the form of coups, riots and assassinations play a role as well (Asiedu, 2006). This is largely confirmed by Onyeimu (2004). He also argued the importance of economic stability for Africa in particular. Jenkins (2002) emphasizes economic instability and governmental weakness as main barriers for FDI. In his study specific African determinants do not play a major role. Finally, also Naudé (2007) does not find that African determinants are significant. He even concludes that geography does not have a direct influence on FDI flows to Africa. Africa has just problems with the standards of general determinants.

3.4.1 General policy factors

In Sub-Saharan Africa governmental factors are concerned to be crucial. Often, investors cannot rely on the bad organized governments and the related political instability. Policy factors can be a result of weak governments, but are not specific African problems. However, Asiedu (2006) already argued that Africa in particular has problems with policy determinants. In this paragraph there is attention for the way the government is organized, not the policies itself. Many scholars studied the role of unstable governments for FDI and there is consensus about a relationship, however, the extent of the fact that an unstable government is a barrier for FDI is not as high as expected (Asiedu, 2006). Figure 3.5 shows that factors related to state fragility (e.g. rule of law, safety) are particularly important in SSA compared with the rest of the world.

Figure 3.5: State fragility over the world



Marshall & Cole (2011)

Alemu (2011) stressed the difference between government legitimacy and government effectiveness. To what extent is the legitimacy and effectiveness of the government crucial for attracting FDI? Multinationals generally attach value at the effectiveness, while the legitimacy doesn't have a relationship with FDI for multinationals. Also Hewko (2003) stressed that business opportunities are more important than the government constraints. He explained that entrepreneurs are prepared to accept that the legal systems in developing countries are inadequate and take their precautions against risks. However, for small entrepreneurs this might be different, but there is no evidence in the literature. It means that negative consequences as a result of governmental constraints have to be prevented and therefore it is an important determinant.

Important policies for FDI tend to be equalized by more and more countries in the world to liberalized standards. Therefore, Asiedu (2006) did not stress the weakness of policies in Africa, but the stability of policies with regard to the reversal of policies. This factor can be regarded as governmental factor, because the content of the policies is generally not the problem, but the sustainability. Africa has a serious problem with the sustainability of rules and according to Asiedu (2006) is that the aspect of the governments which has the need for improvement.

Rule of law is an important governmental factor which indicates to what extent the law is decisive in entrepreneurship or even in the whole society. Kinda (2010) concludes that especially in Sub-Saharan Africa institutional quality is an important determinant for foreign direct investment and has a lot of influence on the investment climate of a country. Rule of law is a societal phenomenon, it is part of a culture and has influence on individuals, companies and government. However, the determinant rule of law for investors is meant as direct factor, not the how rule of law influences the way governments operates. The direct influence of a weak rule of law in a country is a more difficult bureaucracy and more complex way on doing business on company level.

- ✓ **Rule of law**

A good example of relatively strong rule of law has proven by Barthel (2008) in a study about Ghana, where abundant natural resources are attractive for foreign investors, and the political stability has been key to attracting sustainable investment. They attach value to market size and growth, resources, but political environment in particular. In this study there has also been proved that small entrepreneurs attach more value at political stability and protection than large entrepreneurs like NGOs. However, NGO's are more often the topic of studies (Barthel, 2008).

Corruption is the highest constraint for foreign investors according to some scholars. The direct relationship between corruption and FDI is studied by Habib (2002) and he proved that entrepreneurs try to avoid corruption. The reasons are both ethnically and economically. Foreign investors are not used to corruption and experience it as morally wrong. Economically it creates inefficiencies. Especially if the difference in corruption between home country and host country is high, high negative effects were found. Habib (2002) also stressed the different impact of corruption depending on the size of the company. Especially small sized companies have difficulties to overcome corruption. Asiedu (2006) emphasized the role of corruption in Africa as major constraint for FDI and therefore is a determinant of FDI in Sub-Saharan Africa.

- ✓ **Corruption**

Last but not least, the safety situation in a country is regarded to be an determinant. Africa is generally perceived not being safe, no matter if it corresponds to the facts. However, during unrest, the safety of people and physical properties of the company can be an issue in Africa. Responses to awful events can be accompanied with more emotional behavior. In the past there were many examples of violence against elites after humanitarian disasters. Also this category has some overlap with political stability, since political stability has a positive influence on the safety level of the country. Asiedu (2006) even classifies assassinations under political risk, while countries like Mexico and Colombia have many more assassinations under a more stable political system than many African countries. The safety of individuals and properties has to be split with the unsafe situations as a result of government decisions, or external situations where the government is involved to a large extent. With the factors of Asiedu (2006) as example, riots and coups are classified in political stability and are assassinations classified in the determinant of FDI safety:

- ✓ **Safety**

3.4.2 Specific FDI policies

As already discussed, almost every country in the world sees the importance of FDI and tries to attract it with specific policies, however, in the economic science there is no distinction made between Sub-Saharan Africa and the rest of the world in the way they attract FDI. The big differences are caused by the multilateral organizations as the World Bank or the IMF or bilateral incentives to invest in developing countries. In these examples the most attention is for Sub-Saharan Africa as this region generally contains the most least developed countries.

The World Bank and the International Monetary Fund both have as aim poverty reduction. The IMF has more goals, like financial stability, stable economic growth, more trade and high employment. The role of the IMF for FDI stimulation is indirect, as they only support governments with surveillance, technical assistance and loans (IMF, 2012). The World Bank's only focus is poverty reduction. It identifies the country's priorities to reduce poverty and gives interest-free loans to the poorest countries.

Indirectly the World Bank has some instruments for poverty reduction. Its 'training wings' are aimed to connect knowledge around the world. However, for investors the most important 'wing' of the World Bank is the International Finance Cooperation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Both subsidiaries improve the investment climate in developing countries and Sub-Saharan Africa (World Bank, 2012).

The IFC provides loans, equity and technical assistance to stimulate private sector investments. In Sub-Saharan Africa they three pillars; improving the investment climate, enhancing support to SME's and supporting projects in infrastructure and agribusiness. For investors this support is very welcome to make their business easier or more profitable. Directly they can profit from financial support for their (innovative) project and indirectly they improve the investment climate (IFC, 2012).

The mission of the MIGA is to promote FDI in developing countries and therefore is an important player. It provides a very important guarantee fund for foreign investors in developing countries, which could take away some of the many non-commercial risks they encounter. They also provide access to funding. Finally they conduct research and share knowledge about FDI in developing markets and can prepare foreign investors for the Sub-Saharan investment context (MIGA, 2012).

Multilateral organizations provide support in many ways to enhance the investments in developing countries. In order to reduce poverty and achieve a healthy economy all over the world they invest in the private sector of developing countries. It is not expected to be a decisive determinant for foreign investment, but there is no evidence about the influence of this factor. Since multilateral aid incentives are for African countries in particular, it is regarded as one of the Sub-Saharan African determinants:

- ✓ **Multilateral aid incentives**

Also single countries provide incentives for their investors on foreign market, and often they established companies which support foreign investors, not only to their country, but also into developing countries. As the Netherlands is the developed focus country in this thesis, the role of NL Agency is a very important one for investors from the Netherlands intro Sub-Saharan Africa. NL

Agency has a department for developing countries, where it provides incentives for investors, like the matchmaking facility (MMF), where it gives support in the quest for a business partner in the Netherlands or the developing country. The Development Fund for Infrastructure (ORIO) gives financial support for infrastructural projects and the Private Sector Investment programme (PSI) a decisive instrument for investors as it gives financial support up to 50% of the investment for innovative projects in cooperation with a local partner (NL Agency, 2012). On this way the Netherlands government endorses the view of many scholars that private sector support is a good and efficient way of development cooperation. NL Agency and other governments have more programmes to stimulate investing in developing countries. Not only the Netherlands has bilateral investment programmes for cooperation with developing countries and these incentives can help these small economies significantly. For investors it can be a substantial in order to set up a partnership in the developing country and also these incentives are limited to developing countries:

- ✓ **Bilateral aid incentives**

3.4.3 Macro-economic factors

Many macroeconomic factors are already discussed with major importance in Sub-Saharan Africa as well. Asiedu (2006) stressed in her study the importance of a large market, natural resources and good infrastructure as important macroeconomic factors, where other scholar also emphasized the importance of the labor costs for investing in Africa. Important for macroeconomic factors is the motive of investment. Asiedu (2006) stresses the dominance of resource-seeking FDI in Africa. Why receive Nigeria and Angola such high inflows of FDI? Natural resources is the reason and natural resources is something were Africa is not underdeveloped in. Maybe therefore it is not surprising that this is the main reason to invest in Sub-Saharan Africa. However, since economic growing countries also have growing market, market-seeking FDI in increasingly important in Africa (Asiedu, 2006).

There are also some specific factors identified for Sub-Saharan Africa; level of education and health. Also the lack of good infrastructure has been stressed by almost all scholars that studied the determinants of Sub-Saharan Africa. Khadaroo (2009) stressed the importance of physical infrastructure in Africa, resulting from the poor infrastructure in many countries. Much has to be done in infrastructural respect (Khadaroo, 2009). Not only roads are in very bad condition, also border procedures can take ages compared with border procedures in developed countries. However, the findings of Onyeiwu (2004) put the role of physical infrastructure in perspective. He recognizes the dominance of resource-seeking FDI and explains that this type of investment does not rely on infrastructure, because the resources are often located in remote areas where the infrastructure is poor anyway. For market-seeking FDI, infrastructure is more important, but not more in Africa than other continents.

An important view on the macroeconomic determinants of Africa is the view of Azémar (2009). She argues that the most important factors are the ones that contribute most to the FDI deficit of Sub-Saharan Africa. In her view market size, education and health are the main determinants. Human capital and education is a problem in Sub-Saharan Africa indeed. The low level of education and the low labor costs are the reason that producing industries are attracted by Africa, but not knowledge-based industries. Fact is that the producing part of the supply chain always earns the lowest part of the production process. Sub-Saharan Africa does not really profit from the investors, because they only spend a limited amount in their country. However, labor costs is a reason to come to Africa in particular, but is a general determinant since it has importance everywhere on earth.

The lack of human capital is also the reason that Sub-Saharan Africa has to import many products and services and pays more money for that than they benefit from the producing industry. The only way to develop itself is to upgrade the education. A higher educated an skilled population will attract more foreign investment and add more value to the economy of the country. Also the market will grow and will have a multiplier effect. However, at the moment human capital is a constraint for many investors. Only investors that are in favor of the low costs of labor will come to Africa for their business, but also this can change over time.

Azémar (2009) gives many reasons for the importance of public health for FDI. It lets increase both labor productivity and employee compensation. Healthier workers are more productive physically and mentally. Bloom (2004) explains that a one year increase life expectancy will increase the labor productivity by 4%. In Sub-Saharan Africa often firms have to pay the medical costs for their workers, because costs to recruit and train new people are very high, especially with higher skilled labor. Diseases in this part of the world are common, like malaria and HIV/AISD and make the people more vulnerable for other infectious diseases. Research has proven that entrepreneurs are very concerned about the health situation in Sub-Saharan African (Azémar, 2009).

- ✓ **Health**

Another factor that is not significant everywhere is poverty. Quite related to health, poverty can also cause problems for firms. The relationship between poverty and FDI is mainly discussed in the way that FDI can alleviate poverty by stimulating the economic growth. However, there is no evidence from the other side. Poverty can affect the safety, health, human capital, market size, etc., so the indirect relationship with foreign direct investment is concerned to be enormous. There is little known about the direct relationship.

Entrepreneurs in Africa report that the difference in wealth among employees and directors can lead to misunderstandings, stealing and negative images from outside. Probably the biggest problem is the cultural differences as a result of poverty, better defined as wealth difference. The contact with poverty can cause some moralistic problems: not all the managers can handle the low salaries compared with the profits of the company. Also in general, people are afraid to see poverty and therefore this a determinant in Sub-Saharan Africa for FDI. In a case study like this, it is interesting to involve the direct relationship of poverty on FDI, even if this relation has never proved to exist. The reason is that this psychological factor is very difficult to put a quantitative study about FDI, which dominates the literature.

- ✓ **Poverty**

3.4.4 Firm specific factors

As we reached the natural greenhouse of the world, Sub-Saharan Africa, the link with the agricultural sector is easily made. Firm specific factors make Sub-Saharan Africa attractive for farmers from Europe, however, these patterns in agriculture and flower sector is discussed in the next chapter.

3.5 Conclusion: Which determinants are important and unique to Sub-Saharan African in relation with its turbulent history?

From the centuries of the explorative expeditions, Africa has been a dependent continent. Already in the 15th century domination of more developed nations over many parts of Africa started, with the apotheosis during the imperialism, where Africa was divided into British, French, Portuguese, Spanish, German, Italian and Belgian colonial territories. Kenya and Uganda came under British rule, however, with a very different structure. The aim of the British was the same in both countries; take as much as possible cash crops for the export, but where in Kenya the colonial status caused a colonial government and white chiefs with western reforms, Uganda remained more autonomous under her protectoral status.

After independence, more structured governed Kenya started to develop slowly and remained relatively stable with support of the strong ties with Britain. In Uganda independence meant the start of 25 years of civil war, with the complete collapse of the economy, massacres of hundred thousand Ugandans and distrust among the many tribes. This period formed a very negative image of Uganda and only since 2006 the whole country is safe. Museveni slowly brought stability, trust, safety and economic growth, what is regarded as the fastest growth from 2008 till 2020 of the whole world with Kenya on a second place (Haussman et al., 2011).

Despite the stable governmental period from 1986 under Museveni, Uganda still has the economic instability and macroeconomic problems. As least developed country determinants as rule of law, corruption, safety, health and poverty are perceived as very negative by investors. Kenya is more developed in this sense and has already left the club of least developed countries. Specific FDI incentives are undertaken to stimulate the investments in developing countries multilaterally and bilaterally. These determinants are concerned to be characteristic for Africa in particular:

General policy determinants	Rule of law
	Corruption
	Safety
Specific FDI policies	Multilateral aid incentives
	Bilateral aid incentives
Macroeconomic determinants	Health
	Poverty

However, despite the presence of the Sub-Saharan African determinants, the general determinants play the most important role also in Africa. Asiedu (2002; 2006) mainly stresses the importance of policy factors. Governments in Africa do not guarantee investors a consistent policy framework with an inherent risky investment climate as result. Also the lack of information about African countries will maintain the image as 'dark continent'. The resource-seeking FDI doesn't concern the poor macroeconomic circumstances as a major constraint, so maybe Africa is not so far away from FDI inflows and an economic boom.

Box 1: World Bank's Doing business index

As treated in the last chapter, FDI also relies on the ease of doing business in countries. Not only policies, macroeconomic factors and firm specific factors rule the business opportunities in a country, important is also the ease of establishing the investment. The World Bank (2012b) makes up a ranking of the countries in the world (183) and their ease of doing business. The overall ranking is the mean of 10 indicators and for every indicator the details are described. Often those indicators also have sub indicators. Scientific research for the more complicated ones has done by Djankov (2012):

- **Starting a business**: obtaining licenses and permits in time and money
- **Dealing with Construction Permits**: building a warehouse in time and money
- **Getting electricity**: obtain a permanent electricity connection in time and money
- **Registering property**: purchasing and registering a property in time and money
- **Getting credit**: information and legal facilitation of credit
- **Protecting investors**: minority shareholder rights, information and liability of director(s)
- **Paying taxes**: tax compliance in time and money
- **Trading across Borders**: import and export procedures in time and money
- **Enforcing contracts**: efficiency in resolving a commercial dispute in time and money
- **Resolving insolvency**: insolvency proceedings in time and money

In 2011 Singapore was the country where establishing the investment was the easiest. The Netherlands was only ranked 31. For Sub-Saharan Africa it is not fair to compare them with developed countries. For this reason the list below contains only Sub-Saharan countries in or near East Africa:

Country	Doing business ranking	Starting business	Construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Rwanda	**45**	8	84	50	61	8	29	19	155	39	165
Botswana	**54**	90	132	91	50	48	46	22	150	65	28
Zambia	**84**	69	148	118	96	8	79	47	153	85	96
Kenya	**109**	132	37	115	133	8	97	166	141	127	92
Ethiopia	**111**	99	56	93	113	150	122	40	157	57	89
Uganda	**123**	143	109	129	127	48	133	93	158	116	63
Tanzania	**127**	123	176	78	158	98	97	129	92	36	122
Mozambique	**139**	70	126	172	156	150	46	107	136	131	143
Malawi	**145**	139	167	177	95	126	79	23	164	121	132
Zimbabwe	**171**	144	166	167	85	126	122	127	172	112	153

World Bank (2012b)

Things become very clear in the Doing Business raking. The major problem is trade, where all the African countries have difficulties to provide good trading facilities. There isn't a country in the list which provides investors stable quality facilities in all the indicators. Generally all the countries have bad performances in some specific indicators. Uganda scores as expected as least developed country and behind in Kenya in most indicators, but the gap doesn't seem like that big. Especially contact with government institutions is a problem in Uganda. Rwanda has developed itself in several years into an investor friendly country and proves that doing business in Africa can be quite easy.

4 Floriculture

Flowers make our life more colorful and are already playing an important role in our society for ages. In the Greek mythology flowers were present regularly and on the portraits of Greek lords flowers had an important function. Also the Romans imported flowers from Egypt for parties and ceremonies. Nowadays the floriculture is a worldwide industry which is represented in all the continents, from New Zealand to Colombia and from South Africa to Malaysia. However, the center of the floral industry is still where everything started; the Netherlands. Where at the start of the floricultural industry the Netherlands was a relative big producer, now the flower capital of the world Aalsmeer has the function of distribution and knowledge center. Also the floricultural industry sees chances in countries where low wages are common, but there are more determinants to invest abroad.

4.1 Introduction to the floriculture

The floricultural sector is part of the horticultural sector and the agriculture sector, with a distinction made by product. There is the cultivation of flowers or bulbs. Bulbs can be divided in the cultivation for forcing sales, which have the function to grow cut and potted plants, and dry sales for the retail. The Netherlands is the main producer of bulbs; 65% of the bulbs on the world have been produced in the Netherlands. One-third is used to grow bulb flowers and is forcing sale, often resulting in the well-known tulips from Holland (LTO, 2012).

Sometimes the difference in the horticultural industry between floriculture in the form of root vegetables and olericulture is difficult. While roots of plants can be used as food, some flowers of tuberous plants can also be used, such as the Dahlia. Cassava is an example for a very important root vegetable in Africa and South America. However, this is not concerned as horticulture, since the flower is not used. The focus in this paper is not root vegetables, neither bulb cultivation, only flower cultivation. Also this type is divided in cut flowers, houseplants, garden plants and perennial plants. However, the demand for cut flowers is dominant. Roses, carnations and chrysanthemums are three principle types. They have large families with many subtypes (Bonarriva, 2003).

Cut flowers are flowers for decorative use, mainly sold in floristries or flower markets. The name refers to the cut of the flower from the plant bearing it before use, resulting in a limited period of use. The most cut flowers can be used for several days until a week. Because of their limited use, there is a lot demand for cut flowers and are these relatively expansive. It also means that they have to be marketed quickly (Adams, 2008).

The history of the flower cultivation started in the Netherlands in 1571 with the production of tulips and Iris and Hyacinth later on. The most flowers were discovered in other regions of the world in nature before being cultivated in Europe. The tulip became extremely popular in the Dutch Gold Age (17th century), where it was one of the trading goods, with extremely high prices as result. Also the most well-known flower, the rose, was introduced in European flower cultivation in the 16th century. Since that time there is a stable growth of cut flower cultivation as a result of a growing demand. However, with a more and more globalized economy, it became cheaper to grow cut flowers in other countries than Europe in many respects. This is the case for the already mentioned most popular cut flowers, because they can be grown whole year round on other locations (Adams, 2008).

4.2 Cut flower value chain

The production process of cut flowers is very important for the overview of the cut flower value chain. More and more often the production process is split for efficiency-seeking motives. In this chapter all the important elements of growing cut flowers are discussed, with the production process at first and afterwards how this process and the sales are distributed geographically. In the meantime important determinants as a result of the production process are discussed, leading to a conclusion.

4.2.1 Production process

Soil preparation is the first step in the production process; the soil is prepared for growing flowers by sterilization with steam or the application of chemicals. The aim of soil preparation is to kill weeds and pathogens. Afterwards the seeds or bulbs are planted in the benches of the field, mostly covered by a greenhouse. During the growing process of the cut flower, plastic meshes are often used to support a long straight stem and drip irrigation to reduce the chance of damaging the flower. The water is prepared with fertilizers and will be filtered to remove certain substances (Bonnariva, 2003).

However, before producing flowers, companies have to obtain land to cultivate the flowers and the land accessibility largely differs per country. Obviously, in developed countries land is more expensive. The costs of land can be an important reason to go abroad. Njoroge (2011) called land as one of the two cheap foreign production factors in the floricultural sector, with labor as other factor. However, labor is not important for the floricultural sector in particular. Since the floricultural industry is a surface intensive sector, land is an important factor for investors. In the Netherland there is a lack of space with very high prices as result. Companies are forced to run business extremely efficient, however, companies are allowed to purchase land and the procedure is rather liberal. One might think in developing countries the space is unlimited, but difficulties in land access are common. Governments try to avoid civil unrest by giving rights of millions of poor people who have lived and worked on rural lands for centuries. In the past land issues triggered civil wars in Africa (Sirica, 2012). Nowadays land access is difficult and restricted for foreign investors.

- ✓ **Land accessibility**

The preparation process of the lands in order to grow cut flowers is not very advanced. More advanced is climate regulation. Climate regulation is an essential factor to grow cut flowers efficiently. At the start of the 20th century scholars found that plant growth responds to daylight. That resulted in supplemental lighting during the night. Air condition is the most important factor; greenhouses now form completely controlled environments, where heating, cooling, irrigation, fertilization, carbon dioxide and ceiling shade are adjusted, mostly by computers (Bonnariva, 2003). However, in countries with a more moderate climate, substantial savings on these installations can be realized by growing flowers in the fresh air. Ngige (2009) stresses the advantage of Kenya in growing flowers because of its climate circumstances and position on the equator where days and nights are equal year-round. The specific climate advantages are the consistent temperatures between the day and night. The altitude is the main reason for the temped temperatures, the altitude in the interior of Kenya varies from 900 till 2.450 meters above sea level. A wide variety of products can be grown with these climate circumstances in Kenya. 73,2% of the participants in the study of Njoroge (2011) about Kenya’s horticultural industry agreed that climate is a key determinant. No evidence has been showed in Uganda, but the climate is also moderate:

- ✓ **Climate**

With respect to the production process of flowers, important local needs for the growing process are water and electricity. It doesn't matter if the climate is perfect for growing cut-flowers, dosered water needs as in the floricultural industry is not available everywhere on earth. Especially if the water has to be prepared with fertilizers, like producers do in the Netherlands. Moderate equatorial climates are characterized by uneven precipitation patterns and therefore open air production is not an option. A greenhouse for the flowers is always necessary for the water supply. In arid climates the water supply can be a problem, because of water shortage. Ngige (2009) reported about 'ample precipitation' giving enough water for the agricultural industries in Kenya, however, this is always subject to change.

Woodhouse (2011) has another opinion about the water management in Sub-Saharan Africa, mainly covered with savanna ecosystems, where rainfall is always an uncertain character. He emphasizes the importance of water issues and compares it to land-grabbing issues and also sees the relationship with land-grabbing. More foreign agricultural production means more water use. This can increasingly cause damage and the interruption of water flows, which can lead to more environmental discussions and water policies.

Bues' (2011) paper about water rights in Ethiopia emphasizes the field of tension between local farmers and investment farms, both using the same water. This is common in whole Africa. The importance of foreign direct investment caused an institutional shift 'towards a setting containing rules that distributionally favored the investment farms' (Bues, 2011, pp. 20). The specific characteristics in Ethiopia can be argued since the government doesn't support local farmers and even intimidates them, according to Bues as result of the difference in bargaining power.

Water and Africa will remain part of a debate and the role of foreign direct investment is impending for locals. Due to the significant volume of water needed for the production as natural growth substance of flowers (Bonnariva, 2003), the water management represented by the ease of accessing and costs of water in a country is an determinant as well:

- ✓ **Water management**

Also the electricity supply has to be good and reliable. Electricity is needed for the control inside the greenhouse. Even if there is no need for climate regulation, supplemental lightning is needed to give the flowers more hours of daylight. Despite the fact that everywhere on earth there are more or less the same amount of daylight hours annually, the sunshine hours differ significantly and also the power of the sun varies according to the distance from the equator. The light intensity randomly varies on earth. Anyway, there is a stable supply of electricity needed for the production of cut flowers. For some activities in the floricultural industry diesel can be necessary and also the supply and price of fuel can largely differ.

Besides water, power is also a problem for Africa. Karekezi (2002) stressed the underdevelopment of the African continent in power supply. He expects an acceleration of power demand in the next decennia. Kenya and Uganda have the lowest electrification levels in whole Africa. However, since the countries are developing quickly, problems in the power supply are expected, also for investors. Karekezi (2002) called the energy service inadequate and the energy supply in the future a challenge. Since power supply is important for the floricultural industry, it is a determinant for FDI in this sector.

- ✓ **Power supply**

The floricultural sector is a labor intensive sector and labor is an important need in the harvest activities; approximately 50 percent of all direct labor. It is a careful process where inspection is needed; the flower must have a proper stem length and inflorescence required for sale. When the flower just opened the optimal stage for harvesting is reached. The flower stem is cut by hand with an appropriate length. Both stem length and harvest time is a precise calculation per flower type. As the flower condition will not improve after harvesting, the flower should be in optimal condition and reach its prime when entering the market (Bonnariva, 2003). However, labor quality and costs are already regarded as general determinants and doesn't have importance in particular.

Packing methods may vary per sort of flower. Sorting machines can sort the flowers on quality and stem length. Cut flowers are often packed in plastic sleeves to preserve the humidity where the flowers can still develop during transportation. 'Wet packs' can be used to pack boxes of flowers with water, but this is for national destinations in particular. Intercontinental flower transport is under high humidity and cool air, mostly by air transport (Bonnariva, 2003). Infrastructure is also already regarded as an important general determinant. The floricultural industry doesn't differ in that sense, only the very limited transportation time is a point of attention.

Since the establishment of flower farms in more remote countries, the transportation deserves more attention. In many flower exporting countries, export associations are established to bring together the several actors in the floricultural industry. Associations generally provide support and services to its members and lobby for better government policies. By forming a block the several flower exporters have more power and cooperation generally benefits the efficiency. The presence of a floricultural association can be a positive factor for foreign investors.

Njoroge (2011) stresses the importance of floricultural associations in the context of transferring skills. Kenya's associations with European investors has caused that the country has benefitted immensely from the knowledge of developed countries. The knowledge of the Dutch investors is spread out though the Kenyan floricultural sector (Njorge, 2011). With help of the Dutch investors Kenya has become a relatively experienced flower-producing country. The country has also learnt marketing and management skills, a condition for global competitiveness (Njorge, 2011). For investors it is a sign of a developed and experienced sector, where they will not encounter huge starting and operating costs and -problems.

- ✓ **Floricultural associations**

Associations can have substantial influence on governmental policies. However, also without associations countries can have specific policies to attract and protect or keep away companies in the floricultural industry. Policies are as general determinant already regarded as important, but not a key determinant, but maybe policies for the floriculture in particular have more influence. Specific sectorial policies are possible in the case the sector has an important share of the economic performance. It also depends on the macroeconomic strategy of the country. With an increased attention for FDI, sectoral policies are more and more regular, also in developing countries. Examples for policies are a network of price information, export licenses and problem solving. Negative influences are experienced to be restructuration of the sector, public funds for development and coordination, a meddlesome government. Producers generally prefer a hands-off policy which provides the opportunity to run the business independently (Opondo, 2001).

- ✓ **Floricultural policies**

4.2.2 Globalization

Globalization has also its influence on the agricultural sector. More and more companies see the huge potential of a year-round production without climate control in greenhouses and fertilizers. The climate is often the main reason for agricultural companies to go abroad (Barrett, 1998). The globalization of the agriculture and its flower sector has changed the cut flower value chain. The pivot of the cut flower value chain has always been the auction. The Dutch auctions have historically been the channel where flowers were distributed. However, in this pattern nothing has changed; the auctions still remain the pivot for the flower market, although there is more import to Europe, before export it to the market. There is also an increase in direct import by large retailers (Riisgaard, 2008).

Those retailers are looking for closely governed value chains where they can obtain more influence in pricing terms, conditions and just-in-time orders. In the past producers had their own producing strategy and retailers could choose which flowers they bought at the auction. However, with this new pattern, they order directly at the flower company, resulting in a need for flexibility and an increase of work pressure for the flower companies. They have to tailor their operations in order to supply the retailers. Partly, the floral market has changed from a sell-driven chain to a buyer-driven chain (Riisgaard, 2008). Subramanian (2007) argues that this development is very good for the African cut flower industry. It resulted in a much longer vase life of African flowers, but even more important, they can sell large quantities at fixed prices. Kenya as largest supplier and Japan as largest consumer of roses only have to find each other directly to ‘cut out the Dutch middleman’ (Subramanian, 2007), but there are more changes in the cut flower value chain.

Before the 1960s there was almost no foreign direct investment in the floriculture in Sub-Saharan Africa, but this changed after independence of the nations. The Dansk Chrysanthemum Kultur (DCK) invested in the Kenyan flower industry in the 1960s. This type of foreign direct investment stimulated knowledge spillovers and therefore got very favorable investment terms from the Kenyan government. Also the Danish aid agency supported financially. Expansion of the other European flower companies were comparable and more and more foreign firms followed the example of DCK. It resulted in a dominance of foreign firms in the cut flower sector of developing countries, including a lot of Dutch firms, market leaders of the world wide floricultural industry (Whitaker, 2006).

The two main reasons for DCK to invest in the floricultural industry in a country like Kenya are low labor costs and perfect grow conditions. East Africa has not only enough sun hours and fertile soil; the climate has stable temperatures because of relatively high altitude. For these reasons resource-seeking FDI is attracted to Africa in the agriculture. The majority of foreign direct investment in Africa comes for those reasons. Despite the fact that Sub-Saharan Africa is developing with an increasing demand for a wide scale of products, there is still no FDI that comes to Sub-Saharan Africa for market-seeking motives in the flower sector. Mostly, the products are too expensive and only affordable for the rich population, which is not enough to serve a complete market. For other agricultural sectors, the manufacturing and service sector the situation is different, because here market-seeking FDI dominates (Kinuthia, 2010). In some cases in the cut flower industry companies see substantial savings only in the starting phase of the production, efficiency-seeking FDI (Ngugi, 2005). However, almost every product has to be exported to other locations in the world, no matter if it is a fully grown flower or only a cutting. Therefore the distance to the market is an important determinant as it influences the total production costs of cut flowers.

- ✓ **Distance to market**

4.3 Global floral market

As flowers are luxurious products, there is a unilateral demand from Western countries like Japan, USA and European countries. For certain ceremonies flowers are necessary and this results in a small demand from whole over the world. FDI in the floricultural industry mostly has always export-seeking or resource-seeking motives, only limited market-seeking motives. The big flower exporting developing countries Kenya, Ecuador and Colombia do not have a flower market. They mainly produce for the developed world.

4.3.1 Worldwide demand for cut-flowers

The world market for cut flowers grew consistently since the 1980s, however, from 2000 there is a decline in the demand, especially from Europe. Flowers are not a necessity of life and in times of recessions, the demand declines. An increase of the production of cut flowers, especially in developing countries, has led to a downward of the market price. There is another reason why flowers are often regarded as luxurious products; cut flowers are highly perishable, demanding a high productive value chain (Riisgaard, 2008).

The consumer markets for flowers are mainly based in Europe with 56% of the global market (Swedish Chambers, 2011). The highest volumes are going to Germany, followed by the United States, France, the United Kingdom, The Netherlands, Japan, Italy and Switzerland. The Swiss are the most flower demanding people. They spend the highest amount of money per capita, followed by Japan, the Netherlands, United Kingdom and Denmark. Other European countries complete the list. The United States and Russia are a big markets because of the many residents.

Despite the already high floricultural consumption of Europe, the market is expected to grow again from €18 billion in 2011 to €22 billion in 2016. The main reason is the development of Eastern Europe in the flower market. For this reason the audients in the Netherlands stay positive, because despite of the direct supply of many producers, Eastern European retailer will buy the flowers at the Dutch audients in the first phase. In general there can be said that the more developed the country is, the more flower demanding the country is on the world floral market (Swedish Chambers, 2011).

The auctions in the Netherlands are mainly used for flowers from developing countries, which do not have the facilities to trade the flowers by themselves. However, more and more flower producers and retailers find each other directly, without the intervention of an audient. A good example are the flowers going to the United States. They are exporting directly without the intervention of an auction. Also within Europe this is common. The auction still has the function of price setting institution in Europe, and as Europe is the biggest floricultural market in Europe, they set the price for the world (Swedish Chambers, 2011).

As already discussed also personal products are the trend on the market. Flowers have to be sustainable, organic, diverse, affordable and well textured. Especially in Western Europe, where the market is not growing anymore, there is demand for personalized products. According to the life cycle of floral markets countries in the maturity, saturation and decline phase have more personal demand, while introducing and emerging countries (in Eastern Europe) need ‘mass production’ flowers at first (Swedish Chambers, 2011).

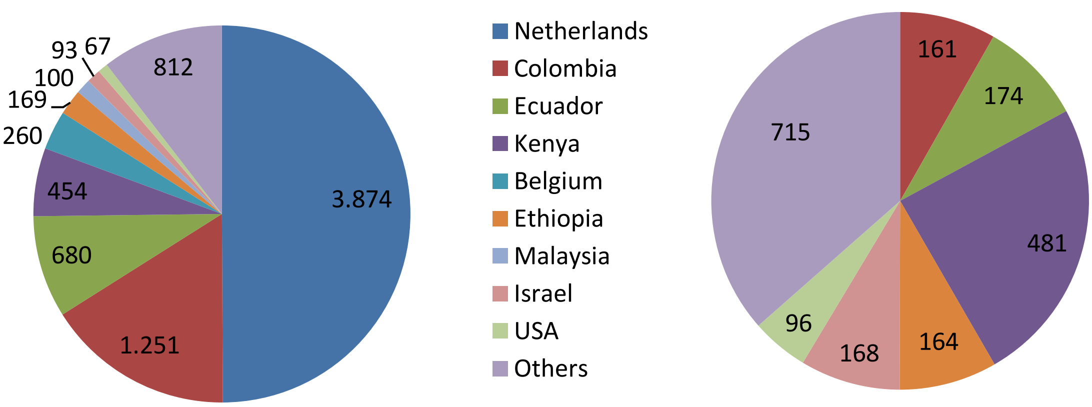
4.3.2 Worldwide supply of cut flowers

The Netherlands has been the flower center of the world from the beginning. However, cut flowers generally grow better in warmer climates and also other factors have caused a shift of the production from Europe to the south. Roses and Chrysanthemums, accounting for 61% of the cut flowers on Dutch auctions, have these preferences for warmer climates. In Europe the Netherlands is still the largest producer of cut flowers, with a share of 30%, followed by Italy, Germany, France and Spain (Swedish Chambers, 2011).

The production of cut flowers in the 1970s came up in southern Europe, still close to the markets and price advantages compared with the traditional flower region in the Netherlands. Italy and Spain are still important players on the flower market, but more Mediterranean countries saw their chance. Israel is the best example; they have a price advantage compared with Italy and Spain. They even don't need greenhouses. However, transportation costs and water shortage became a problem, but Israel studied for solutions and marketed their products in the USA successfully (Wernett, 1998).

Developing countries, however, have taken over the lead of the production of cut flowers world-wide. Big flower farms with economies of scale, established closer to the equator, need less substances and devices for growing and with the generally cheaper labor, flower production has a price advantage. Higher transport costs cannot challenge the benefits of developing countries near the equator. Also demanding countries have established a floricultural industry to supply the home market, like The United States (NCSU, 2012) and Japan.

Figure 4.1: Cut flower exporting countries worldwide in 2011 and overall floral exports into Europe in 2010 ($ million)



ITC, 2011 *European Commission, 2010*

The Netherlands is still by far the largest exporter of cut flowers in the world, $ 3.874 million in 2011. However, the floricultural production in developing countries is growing significantly and especially Colombia and Ecuador are already one of the largest producers in the world (figure 4.1). 20 flights daily between Colombia and Miami for the American market means one of the biggest trade flows in the world. They are not the biggest producers for Europe (figure 4.1), Kenya is the biggest producer for Europe and also Ethiopia and Israel are important producing countries. In the 1960s flowers replaced traditional small-scale agricultural production in Colombia, where low labor costs only account for 30% of the total costs. Available land and good climate conditions gave Colombia a price advantage over US producers. Ecuador offered even lower labor costs than Colombia, but in Ecuador investment in production facilities were needed to follow the success of Colombia (Bonnariva, 2003).

The African countries have the biggest grow rates with 10 to 15 percent per year as a result of improved logistics, skills and flower quality. Roses are the dominant type, but African countries are increasingly trying to diversify their floricultural production. However, Africa is characterized by political instability and for that reason Zimbabwe lost her position in Africa. South Africa is producing flowers for the domestic market, while Uganda and Tanzania are flower countries on the rise. An important policy for developing countries is the Cotonou agreement from 2000, where developing countries got duty-free access into the European Union and stimulates the flower production and trade from developing countries. Revisions of the Cotonou agreement has the aim to reduce the competitive disadvantage of Kenya and Zimbabwe compared with Ethiopia, Uganda and Tanzania as Kenya and Zimbabwe are not considered as least developed country. This part of the Cotonou agreement has still the intention to involve developing countries in the world trade by providing them advantages over more developed countries and it is an important incentive for companies to invest in the floricultural sector in developing countries (Bonnariva, 2003).

4.3.3 The Netherlands as floricultural supplier

As figure 4.1 indicates, the Netherlands is still by far the largest exporter of cut flowers of the world, despite the development of other countries. The cut flower production in the Netherlands is characterized by a very high productivity with many devices and substances in a specific region in the country: the Westland region. With the increased competition from developing countries the Dutch flower farmers have increased their production on larger farms to take advantage of economies of scale. The specialization in the floriculture means that only four percent of the horticultural land used for flowers generates 50 percent of the total production value. For this reason, the extremely high productivity, floriculture remains a profitable business in the Netherlands (Bonnariva, 2003).

There are more reasons for the stable position of the Netherlands in the floricultural world market and one is the presence of the Dutch auction system. Since early 1900s it serves as a sort of growers' co-operative. Members are obliged to sell their production here, but there are important advantages for growers to become a member. There is always demand on the auctions and they will sell their products without the need of cooperation with consumers. Growers can concentrate itself only on the growing process. For this reason Dutch auctions play also a role as intermediaries, as 15 percent of the flowers consist of imports from growing countries without market, such as Kenya, Israel and Colombia. Auctions are also important institutions for the price setting of the flowers and the distribution is arranged via the auctions (Bonnariva, 2003).

The Netherlands has also the lead in the knowledge of flowers. The Wageningen University has an agricultural focus and investigates in productivity improvements continuously. The Netherlands has no choice, because space is limited. Important drivers are technical applications, high quality propagation materials and highly trained workforce. With a lack of space a lot of farmers choose to go abroad and exploit their knowledge and connections elsewhere. They disappear in the Dutch figures. For that reason there can be said that the Dutch are probably more dominant on the world market than the figures indicate. Another important element is branding. The Dutch flowers are well-known all over the world. Flowers from developing countries do not have the same image and consumers generally prefer Dutch flowers. However, people also know that flowers in the Netherlands have been produced with many substances and fertilizers and they become more and more sensitive for fair trade and supporting development in the third world (Bonnariva, 2003).

4.3.4 Kenyan development and floricultural attractiveness

Kenya is an upcoming flower grower and surpassed many countries in the last decennia. It is now the largest flower exporter to the European Union from outside (figure 4.1) and still increasing their market share significantly. From 2001 the cut flower sector is Kenya's fastest growing sector. The last years Tanzania, Uganda & Ethiopia joined Kenya in their growth, but what is the reason that Kenya has been the first FDI location in the horticulture in the East African region? A possible reason is the overall investment climate of Kenya, explained by the Investment Development Path (IDP) theory of Dunning (1981).

The Investment Development Path is a framework which explains the relationship between the level of development of the country and the inward and outward FDI flows. Dunning (1981) sees a pattern of five stages of development before the outward FDI is at the same level of the inward FDI which is similar to the development of the country's economy. The least developed countries are characterized by no FDI flows, while developed countries have both inward and outward FDI flows:

1. No existence of inward or outward FDI
2. Emergence of inward FDI, low degree of outward FDI
3. Slowing growth of inward FDI, expansion of outward FDI
4. Outward FDI exceeds inward FDI
5. Inward and outward FDI continue to approximately the same level

Many country studies about investment development have been carried out, also about Sub-Saharan Africa. And while almost all the Sub-Saharan African countries are in stage 2, Kenya is more located in stage 3, with an increase in outward FDI. Also South Africa is an outlier, going to stage 4, which characterizes the BRIC countries. However, the Investment Development Path theory is an old one, scholars have found many more factors in the meantime. It is still a useful tool to compare countries:

Table 4.1: GNI per capita in US$, FDI flows & stock in millions US$ in 2011 & Exports in billions US$ in 2011

Country	GNI per capita	Inward FDI flow	Outward FDI flow	Inward FDI stock	Export volume
Kenya	$ 740	96	44	2.618	9,08
Uganda	$ 420	728	0	6.367	4,03
Tanzania	$ 460	679	0	7.825	7,11
Ethiopia	$ 290	184	0	4.412	3,81
Zambia	$ 970	939	0	12.932	3,65
Zimbabwe	$ 340	52	8	2.201	4,85
Rwanda	$ 340	103	0	535	0,70

Source: OECD, 2011; World Bank, 2012c; UNCTAD, 2012c

The Investment Development Path theory implies that the current development phase of the country is the most important determinant. Indirectly the development of the country can make policies, infrastructure and the market more attractive to invest. An important implication of the development of Kenya is the fact that the country is not regarded anymore as least developed country (UN, 2012b). Njorogi (2011) identified positive factors of Kenya in the development context such as technological competences, but also external factors. The proximity to the European market is an important one in this category. Njorogi (2011) enumerates the determinants of FDI of Kenya, which is an impressive list of factors. However, he is one of the scholars who wonder themselves why Kenya's performance stays behind in this respect, because the inward FDI figures are shocking.

In the late 1990s, the floricultural sector in Kenya grew with 10 to 15 percent per year. Kenya had a good infrastructure, excellent climate and good postharvest handling conditions. That time Kenya could meet international standards of safety, wage rates, environmental awareness and water management, while the labor costs were still low (Bonnariva, 2003). The advantage of Kenya compared with other Sub-Saharan African countries is the more developed policy towards FDI. Also specific policies for the horticultural sector were successful. They attracted knowledge from outside, provided floricultural services like export facilities, research services and horticultural promotion, modernized the port of Mombasa and introduced a liberal trading environment under WTO arrangements. Also tax incentives are offered in the form of reduced duties on floricultural materials (Njorogi, 2011).

Kenya is now the fourth largest producer of flowers in the world (figure x), but the reliance on the roses is huge. This makes Kenya vulnerable for external developments which could harm the roses. However, also the unstable political situation inside Kenya has hampered the FDI inflow and also the level of corruption is experienced as very high. Generally the FDI and floricultural policies are valued well, although the bad rule of law impedes these policies (Njorogi, 2011). Foreign investors always tend to be negative about the country to force improvements, but compared with other Sub-Saharan countries the investment climate in Kenya is good.

Compared with other Sub-Saharan countries, determinants are performing well in Kenya. Generally, people have had better education in Kenya, the overall living standards are better and more developed. Adaptation to foreign standards is easier. There are management skills, marketing experience, technology and still relatively low wages. Also transport standards and facilities are good, where it fulfilled the EU aviation safety regulations, which made direct flights possible. For the floricultural sector the climate is a very important determinant. For roses there isn't a better climate to grow, with a lot of sun, enough precipitation and moderate temperatures. The floricultural in Kenya now employs 100.000 people directly and is responsible for 70% of the horticultural export (Njorogi, 2011).

Safety has proved to be the most important negative determinant in Kenya according to Ksoll (2009). Besides the general high crime level, the post-election violence in 2009 has decreased the FDI inflow significantly and also flower farms have had troubles. In 2013 with new elections, new violence is expected and according to Ksoll (2009) there is a negative effect of 38% on flower exports in violent areas, mainly through displacing working. In other areas the behavior of firms changed with more security and less shipments. Ksoll confirms the importance of safety and political stability for FDI, because lower investment and growth figures were the results of the post-election violence in 2009.

4.3.5 Ugandan development and floricultural attractiveness

Uganda is a country without outward FDI, they only benefit from the inward FDI flows. For this reason they are situated in stage 2 of the Investment Development Path. However, in contrast with many other Sub-Saharan countries, Uganda is a stable country for 25 years, only the north of Uganda has been harmed by rebellions. Despite the stable political situation and the huge agricultural potential is Uganda still a least developed country and is it receiving large development aid flows. Langan (2011) argues that the main reason for this is the underdeveloped private sector. There is potential, production, but then the value chain stops; there is no private sector and little export (table 4.1). By developing the private sector the government hopes to boost the economy.

The establishment of the Ugandan Investment Authority in 1991 has been an important step into liberalization of country. After independence nationalization and political instability caused an impossible investment climate, even if investors were willing to invest despite the ongoing atrocities. The Investment Code was the finalization of the economic reform started after the NRM took the power. Foreign exchange reforms, simplification of administrative procedures, bilateral investment protection, promotion and multilateral treaties. The Ugandan Investment Authority got the tasks to facilitate investments in Uganda under the new regulations. This has made Uganda a more attractive to investors than many African countries (Obwona, 2001).

There are also some problems for investors in Uganda. Obwona (2001) identified the access to land as the most important one, followed by the difficulties in passing through the discouraging bureaucratic impediments. Foreign investors are not allowed to buy land; they have to rent it from locals and the procedure to start business is prolonged and intensive. Potential investors tend to look back to the history of the country, but also to the future and since Museveni is the key to Uganda's economic recovery, the future is uncertain. Uganda is as landlocked country located among some unstable countries, like South Sudan and the DRC, which is also a risk. Another disadvantage of its landlocked location are the bad transport connections with the rest of the world. Uganda is highly dependent on Kenya in that sense and also Kenya is not regarded as the most stable country. Compared with her Kenya, Uganda has a low labor productivity, high taxes on fuel and high costs of utility installation.

A vast part of foreign investors are Asians with experience in East Africa (they mostly fled in times of political instability) and therefore investment data can be misleading. However, Uganda has still experienced a stable increase of FDI in the last 25 years (UNCTAD, 2011). The sectors where foreign investment occurred is manufacturing, where investors can produce for the market where before the materials had to be imported, agriculture and construction, mainly for the tourism sector (Obwona, 2001). Foreign direct investment can be the solution for the underdeveloped private sector. The floriculture is one of the potential sectors of the country (Langan, 2011).

After 1991 floricultural exports from Uganda began to start with stable and impressive growth rates to $ 17 million in 2001. After that time absolute growth figures became even more impressive with its peak in 2005 with $ 44 million export. After 2005 the decline started, mainly caused by the roses production, to $ 37 million in 2009 (UFEA, 2012). No new investments are made since 2007 (Langan, 2011). Chrysanthemums and roses are the dominant flowers in Uganda, but there is a big difference between those flowers. Chrysanthemum growers in Uganda are only a small part of the production process. They are exported to the market during their growth, where they can develop into our definition of chrysanthemums. Officially the flower farms in Uganda only produce the cuttings for the chrysanthemums (USAID, 2006), and this results in a relative low export value of chrysanthemums compared with fully grown roses. However, the volume of chrysanthemums is impressive. Another result of this strategy is that the flower farms are fully owned by foreign companies (UFEA, 2012).

Uganda was not able to grow further to the flower export levels of Kenya and is currently overtaken by Ethiopia in the flower export. However, the floriculture has proven that FDI can employ many skilled and non-skilled people and give them a stable income and wealth. Also for investors the Lake Victoria climate in particular provides cost advantages in their production (Langan, 2011).

4.4 Conclusion: Which specific determinants play a role in the floricultural sector?

Flowers are luxurious products and only a limited number of countries have a serious demand for floricultural products. However, from the fast developing countries with a growing middle class, the demand for flowers has grown and the crisis in the traditional demanding countries for flowers has caused a decline; the demand is changing. The globalization of the economy also has replaced product locations to countries where year-round production is possible. Climate is an important factor, but there are more firm/sector specific determinants that have their influence:

Firm/sector specific determinants	Land accessibility
	Climate
	Water management
	Power supply
	Floricultural associations
	Floricultural policies
	Distance to market

These determinants are applicable for the floricultural sector in particular and not valid for the overall economy. On the other hand, the general determinants of FDI can still be very important for this sector. With the introduction of the floriculture in Africa there has to be a specific constellation of determinants responsible for the synergy between the sector and the continent. Specific Sub-Sahara African determinants or/and floricultural determinants.

The introduction of the floricultural sector started in South Africa, Zimbabwe and Kenya; Africa's more developed countries. However, at the moment the first two countries are passed by Ethiopia and also Uganda and Tanzania have (had) growing floricultural sectors. Investors favor Kenya's liberal and stable economy and relatively good infrastructure and labor productivity. Despite the fact that FDI inflows stagnate, the floricultural sector in Kenya is not declining. Also Uganda's floricultural sector has grown the last decennia. Uganda offers less developed circumstances, but a more moderate climate. Also the countries' political stability the last 25 years is a pre.

Firm specific determinants like climate, land, water and power play an important role in choice of the replacement of the floricultural production to developing countries on or near the equator. Colombia, Ecuador and Kenya have now big shares in the floricultural global value chain and other equatorial countries are on their way.

5 Methodology

In the previous chapters the several determinants of foreign direct investments have been discussed in relation with the global developments in the investment economy, the history of the East African region and the production process in the floricultural sector. In this chapter the methodology of a descriptive research design by using case studies is explained. This gives a solid 'soil' for the findings chapter of this study.

5.1 Research field

The division of the determinants is a result of the division made in the literature. There are different views on what are the most important factors of FDI and distinctions can be made per region in the world. The complex relationship of the specific countries Kenya and Uganda with FDI are subject of research, therefore determinants characteristic for Sub-Saharan Africa have been added. However, the distinction of determinants per economic sector has also been emphasized in the literature. In this study the floricultural sector is subject of research. By combining the regional aspect and the sectoral aspect, only a very specific field of research remains (figure x), namely the floricultural sector in East Africa, with the focus on Kenya and Uganda:

Figure 5.1: spatial and sectoral economic field

		Primary							Secondary				Tertiary				
		Agriculture															
		Livestock	Produce	Floriculture	Forestry	Fishing	Mining	Oil well	Textile	Chemical	Construction	Food	Tourism	Entertainment	Financial	Distribution	ICT
Western Europe																	
Eastern Europe																	
Middle East																	
Africa	West Africa																
	Central Africa																
	East Africa																
	North Africa																
	Southern Africa																
Asia																	
North America																	
Latin America																	
Oceania																	

The choice for the floricultural sector in East Africa is not a very complex one. The East African countries are the most rapid growing countries in the world, according Hausmann et al. (2011) in a study of the Development Center of the Harvard University. Uganda and Kenya are the leaders of this ranking and are characterized by a huge potential in the agriculture. Many scholars believe that they will take over the current role of China in the world economy as low labor country with an enormous workforce. However, these two countries still own the characteristics of African countries which make them so unstable and difficult to do business. This field of tension makes these countries very interesting cases. Especially because Kenya and Uganda have many elements in common, but are still very different. The history of the two countries is an important explanation for this.

The floricultural sector is the sector where the Netherlands has the biggest share in the world economy. The limited space caused an outflow of investment and people elsewhere, where growing conditions for flowers are better. East Africa is one of these regions which has a big potential for agriculture and growing flowers. The floricultural sector has developed itself substantially with the help of many Dutch investors. A big part of the Dutch investment in Kenya and Tanzania is in the flower industry, reason to study the floricultural relationship between the two countries and the Netherlands. It is an example of the involvement of developing countries in a sector where they are not familiar with, but where certain factors make producing flowers very profitable, a more and more encountered phenomenon in this globalizing world.

To conclude; the globalization of the floricultural value chain is a case study of the globalization of the whole economy and a very important development for the Netherlands most well-known industry. This study gives also important leads for the rise of Africa’s FDI inflows and overall economy. The reasons why investing in Africa can be profitable, but also very risky. This study gives some insights in the opportunities in a globalized world from a regional and sectoral perspective.

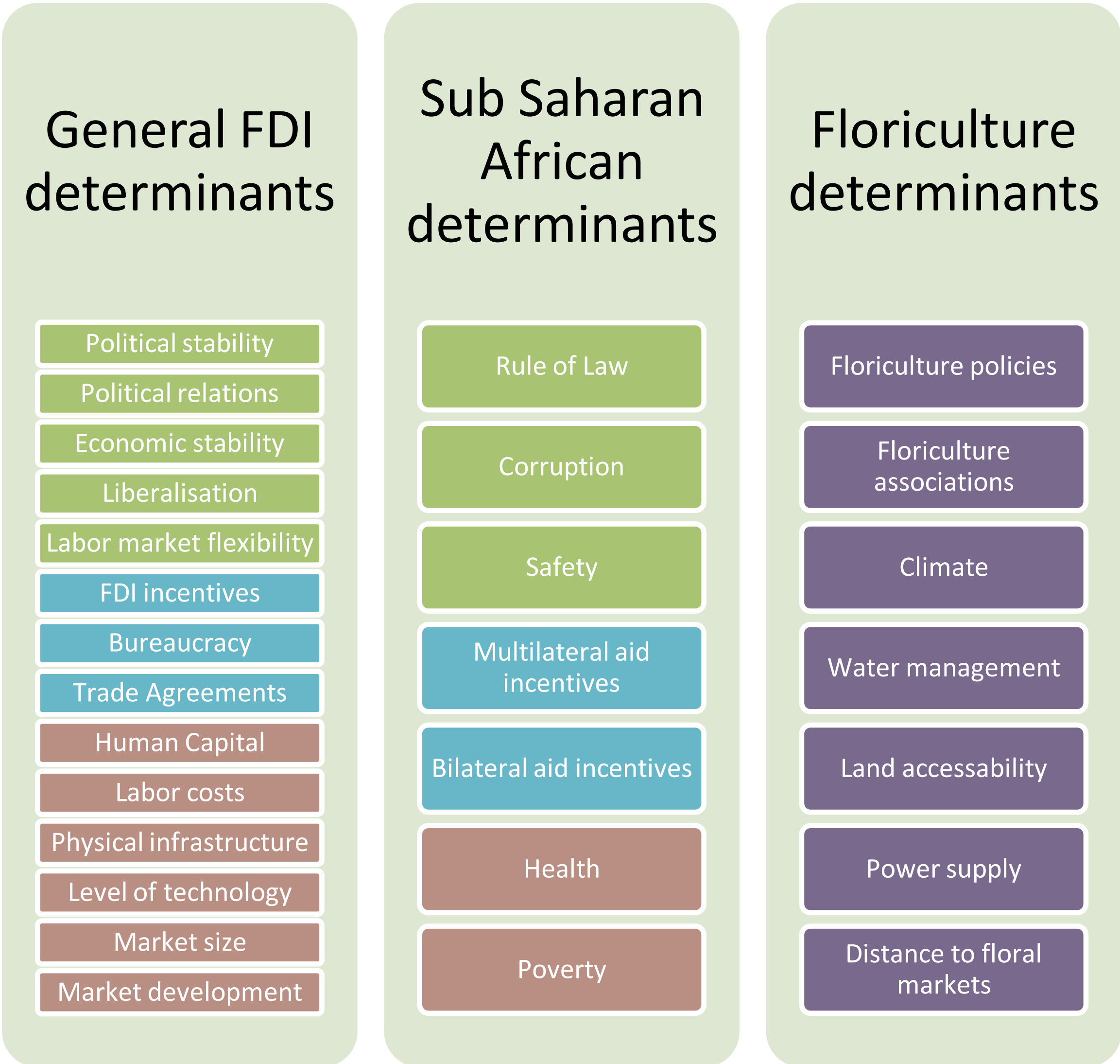
5.2 Conceptual framework

Despite the focus in Sub-Saharan Africa and the floricultural sector, some determinants of FDI can be applied in every region of the world and every sector of the economy. In the conceptual framework (figure x) the general determinants are those factors which are applicable generally. However, some determinants are more applicable on the region or economic sector. Those Sub-Saharan determinants and floricultural determinants have been discussed in chapter 3 & 4 in relation with the African history and the floricultural value chain respectively. By dividing the determinants, this study aims to find the exceptional position of the region and the sector in the world.

The conceptual framework (figure x) is the outcome of the theoretical chapters and the foundation for further research. The determinants are categorized into the four factor types as a result of the division made by Velde (2008); governmental factors (in green), specific FDI policy factors (in blue), macroeconomic factors (in red) and microeconomic/firm specific factors (in violet). The distinction made by Velde can help understand the character of the determinant and to what extent determinants can be affected by government(s) and external actors directly or via policies indirectly.

Important to emphasize is that relationships among all the determinants obviously will exist, although lies not in the field of this research. The additional phenomenon of endogeneity could have influence on this study. For example: economic stability could have a visa versa relationship with liberalization and labor costs are related to the quality of labor, in this study called human capital. Also institutional factors, economic factors and geographic factors can be interrelated, e.g. the poor physical infrastructure between Uganda and Kenya as result of the political relations. This study has its focus on the sectoral and regional aspect of FDI. Studies about the interrelatedness of institutional, economic and geographic factors are recommend for an overview of the interdependence of these determinants.

Figure 5.2: Conceptual framework



5.3 Research design

This study is carried out to research why these two East African countries participate in the global value chain of a sector where they are not familiar with. In the globalizing world more and more regions are involved in the economy because of specific determinants. In this game of the importance of a constellation of determinants, key is to dive into the specific reasons why determinants are important for a sector or not. This descriptive study aims to find these details and that is the reason why a multiple case study is considered as the best research design to answer the research question. Case studies are a qualitative way of carrying out a detailed analysis of a specific case, sometimes a critical case and unique case (Bryman, 2008). However, the opportunity of investigating specific and complex cases is not why this research design is chosen. The cases serve as representative case for the couple of Dutch firms in the floricultural sector in Kenya and Uganda. Quantitative research is not possible considering the limited Dutch owned flower firms in these countries, especially in Uganda.

Case studies have the characteristic that they cannot be generalized over the whole population. It is an in-depth design to discover patterns and difference between the cases. However, some remarks can be made with respect to the generalization over the population. The number of Dutch flower firms in Kenya and Uganda is limited and they all face a comparable situation in the sector. They share a comparable production strategy, location, employment conditions and situation in the value chain. There are not many floricultural associations, regulations and macroeconomic factors, which can largely let differ the situation for firms. For this reason the outcome of the case studies can in far-reaching extent be generalized over the whole population of Dutch flower firms established in these countries. This is also the opinion of the investors and the East African expert.

The transferability of the results to the other Dutch flower firms in the same country is considered to be high. However, this is restricted to the same place and time. The participation of an East African expert in the study using a structured interview is important to place the outcomes for the floricultural sector in the perspective of the overall economy in Kenya and Uganda. The expert can indicate to what extent the sector deviate from the overall economy in the sense of key determinants.

5.4 Research strategy

Existing theories about determinants of FDI are used in this study to test to what extent the floricultural sector in Kenya and Uganda differs from the other sectors and other regions. In essence this study is deductive. The difference between inductive and deductive strategies is mainly based on the relationship with the theory. In this study existing theories are the guide lines for the selection of the determinants. In far extent scholars have proved the importance of those determinants, however, those studies have also to be considered as case studies. Inductive studies aim to build new theories by using collective observations.

Existing theoretical considerations and concepts guide the formulation of the hypothesis in a deductive study. Afterwards, data will be collected, which results in the description of the finding. The testing of the deduced hypothesis is an important part of the study and can finally lead to a revision of the theory into a smaller micro theory. This final step of the a deductive strategy involves induction as scholars try to revise the theoretical considerations (Bryman, 2008). The deductive part of this study is important, but maybe more important is the in-depth analysis of the key determinants of floriculture in Kenya and Uganda. Why are these determinants so important particularly? This inductive part gives more information about the possible synergy between this particular sector and region.

Important to note is that no formal testing of the hypothesis can take place because this study uses a comparable case study design. The hypothesis will not be accepted or rejected formally, but since the floricultural sector in Kenya and Uganda can be considered as very small, informally a new micro theory can be formed.

5.5 Research methods

This study aims to collect the details of existing theories about determinants of FDI. It is a research which deepens the existing FDI literature on a specific economic and spatial field. It is such a small field that the importance of the determinants are more or less the same for the companies. Instead of generalizing the FDI determinants via quantitative ways, semi-structured interviews can give detailed information about why these determinants are important in particular. This qualitative type of research is one of the most often used methods since it can give the researcher more understanding of the context of the company by using follow-up questions when facing other new topics answered by the participant (Bryman, 2008). A better understanding of the respondent will also be achieved because of the fact that emotions and opinions can be revealed to the researcher (Bryman, 2008).

Important input before the semi-structured interview is the selection of the 5 key determinants by the companies. It gives the researcher the opportunity to use data during the interview and test the respondent about the actual facts. By staying close to the facts, the control over the semi-structured interview can be maintained. The respondent can place the facts in the perspective of the context of the company. Another strength of the use of data that the two countries, Kenya and Uganda, can be compared with each other. The research population is considered to be the companies in Kenya and Uganda, which are mainly active in a global value chain of the cut flower sector. The cut flower sector in East Africa is characterized by chrysanthemums and roses. To what extent they have a share in the global value chain of the cut flower doesn't matter.

As a result of the research population, one firm in the floricultural sector in each country has been chosen randomly. The selection is independent of knowledge about the company. A different situation is the selection of the East African expert. Marieke Janssen has been selected, because of her broad knowledge of the private sector of East Africa, not only the floricultural sector. As she has the Dutch nationality she is considered to be free of preferences about a certain country. Her cultural background is important for the ability to give a judgment about Sub-Saharan African determinants in this study. Local people could consider corruption or poverty as ordinary phenomena.

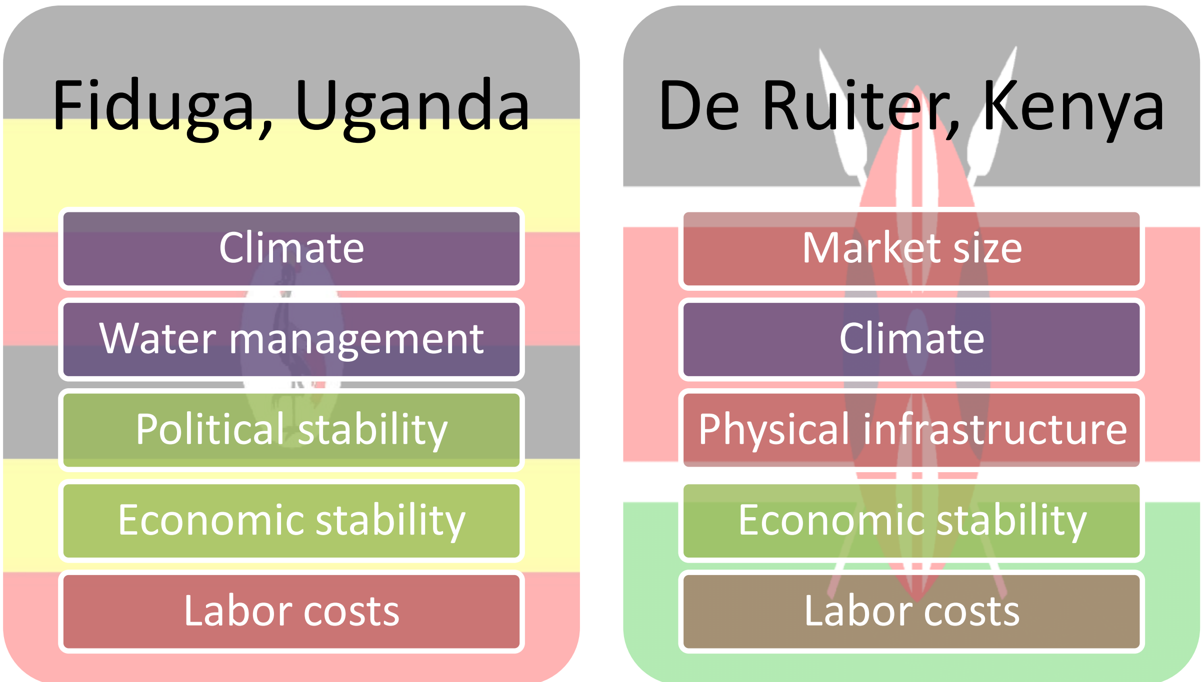
The East African expert was asked to verify the key determinants of the investors in the floricultural sector in Kenya and Uganda. She also had the task to place these specific determinants for the floricultural companies in the perspective of the whole economy, e.g. to what extent is the determinant climate important for the overall economy? The East African expert is also the respondent who has the best overview of the differences between Kenya and Uganda, also subject of research in this study.

6 Findings

The result chapter is divided in two parts. The first part presents the five most important determinants for investors from the Netherlands in the Ugandan and Kenyan floricultural industry. The second part is the explanation of why particularly these factors are so important. A deeper dive in the company profile and routine is necessary to answer the sub questions about why these determinants are more important in the floricultural industry in Kenya and Uganda.

6.1 Key determinants of the floricultural actors

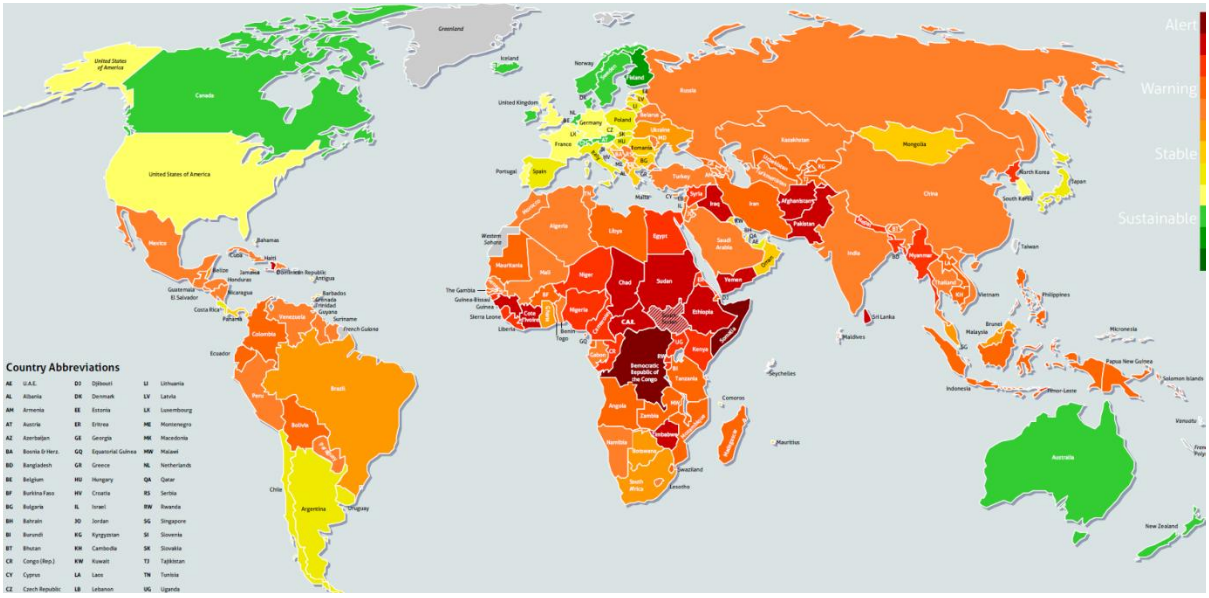
The first and important results of the question to the managing directors of the flower companies was what the five most important determinants are for them. They have chosen 5 out of the 28 determinants. The selection of the directors are listed below, with the colors corresponding to the division of Velde (2008) into four categories. First, an introduction with facts about the countries for these determinants, independently of their meaning for the floricultural sector, is needed to achieve an optimal understanding of the importance of the determinants for the directors.



6.1.1 Political stability

The political stability in Uganda has improved the last decades. The leadership of Museveni has brought stability after 25 years of turmoil. However, the present stability of Uganda related to the past is not important in this study. The political stability of Uganda has to be compared with the rest of the world or other countries with a floricultural sector. The Failed State Index of the Fund for Peace (FFP) is a ranking of countries based on their 'levels of stability and the pressures they face' (FFP, 2012). The calculation is made with 12 social, economic, political and military indicators which measures together the overall state stability. The higher the score the more unstable the country can be concerned. Those countries are colored darker red on the map (figure 6.1).

Figure 6.1:Failed State index 2012



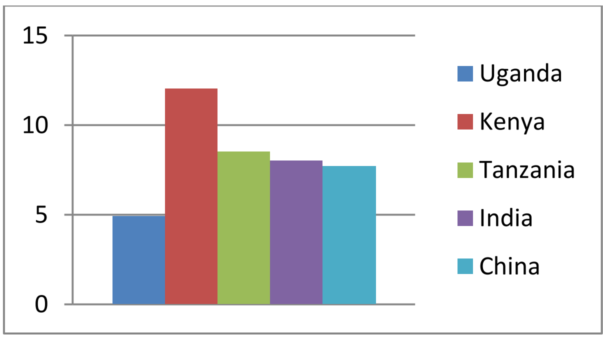
Source: Fund for Peace, 2012

Uganda scores an alert status with 96,5 points out of 120 and is number 20 of unstable countries of the world, but Kenya is doing even worse with 98,4 points and a 16th position on the ranking. Especially African countries have bad scores followed by Asian countries. Other flower producing countries as Colombia, Ecuador and Israel do not score well, however, they score better than Kenya and Uganda. The Netherlands can be regarded as most stable floricultural production country.

6.1.2 Economic stability

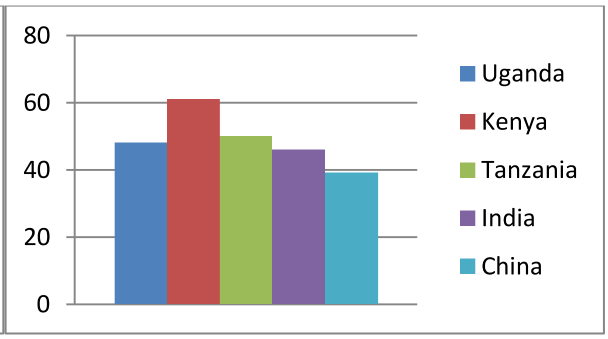
According to the literature inflation, exchange rate fluctuations (currency risk) and credit risk are the main indicators of economic stability. Inflation has always been a problem in Uganda, however, the rates for 2011 showed a massive improvement. The inflation rates of Kenya are higher with large fluctuations. Uganda has the best scores in 2011 compared with Kenya, Tanzania, India & China, but the future is uncertain. The Economist Intelligent Unit has published the currency risk of a country in their reports. The higher the currency risk, the more unstable the currency is. Uganda has a factor of 48, lower than Kenya and Tanzania, higher than China and India (figure 6.3). Exchange rate fluctuations that plagued the country for many years have not reappeared in 2011, but Uganda remains vulnerable to global economic woes and domestic political uncertainty. Also in Kenya the currency is stable. The overall country credit risk of the countries is expressed in the status characters where C is the most negative and AAA the most positive. Uganda scores a B and Kenya a CCC.

Figure 6.2: % inflation 2011



Source: World Bank, 2011

Figure 6.3: Currency risk June 2012

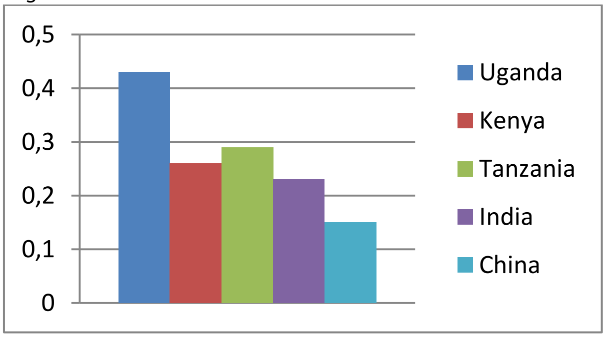


Source: Economic Intelligent Unit, 2012

6.1.3 Labor costs

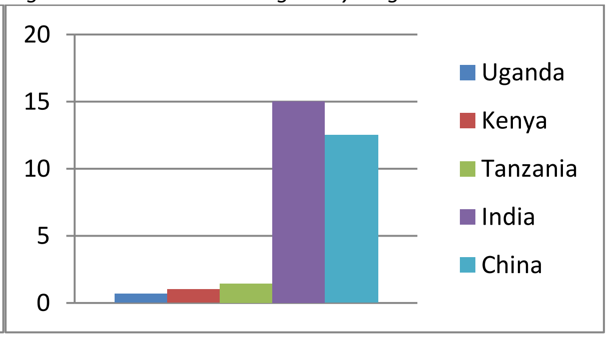
Salaries are low in African countries. However, unit labor costs are different from salaries and are the regular variable to compare the costs of labor for companies. Unit labor costs measure the ratio of labor costs per worker to the value added per worker (World Bank, 2008). In figure 6.4 Uganda has the highest labor costs of the five countries. The reason for this is the low productivity of the Ugandan workers according to the World Bank. This can be driven by differences in machinery and equipment of workers or their culture. The differences among the countries in the wage per day in USD is tremendous and in this sense Uganda has the cheapest labor (figure 6.5). To give an indication, the average daily wage in the United States is 70 USD and in the Netherlands 90 USD. The fact that people in Uganda not even earn 1 USD per day underpins the importance of labor costs.

Figure 6.4: Unit labor costs 2008



Source: World Bank, 2008

Figure 6.5: Estimated average daily wage 2000s



Source: UNBS, 2012

6.1.4 Physical infrastructure

The physical infrastructure is an important element for companies. They always have to transport their products. For infrastructure there is no suitable indicator available to compare the infrastructure among countries. However, all the World Bank indicators about infrastructure show the lead of Kenya against Uganda and other African countries. A couple of examples are the amount of internet users (26% against 12%), passenger cars (13 against 3 per 1000 people) and national carrier air departures (36.000 against 373).

All the figures confirm the more developed status of Kenya in Africa and support the investor path theory that Kenya is situated in a further stage than most of the other African countries. It can be explained historically by the influence of the British during the imperialism where Kenya was a priority colony.

Figure 6.6: Population development

6.1.5 Market size

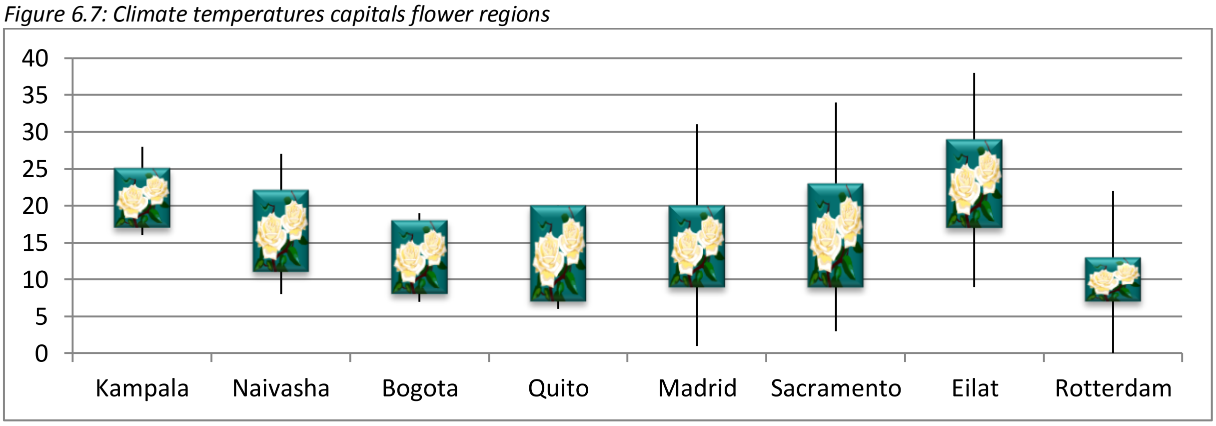
The market size for luxurious products in Africa is negligible. Africa is not a top consumer of luxurious products. Europe, North America and emerging countries in Asia are the top consumers. However, the population development until 2025 (figure 6.6) can change the demand of the people in Sub-Saharan Africa. The absolute and relative increase of the middle class (light blue) and the rich people (dark blue) can cause significant more demand for luxurious products. Foreign direct investment can increasingly become more market-seeking, because the market is expected to rise.

However, De Ruiter East Africa doesn't need a market of consumers, but a market of producers. A high population of producers is an important. The prediction of the development of market size of producers follows the prediction of the market size of consumers. However, there is no concrete evidence for this.

6.1.6 Climate

The climate is a firm specific determinant for the flower industry. Dependent on the type of flower different climate characteristics are important to grow cut flowers. Figure 6.7 shows the climate charts for the most important flower regions of the world with only the temperatures. Since cut flowers grow in the greenhouses, precipitation is not important anymore. Only indirectly it can have influence on the water management of the country. Also the hours of sunshine might be important as it has influence on the light intensity. However, there are no statistics about the light intensity of the important flower regions in the world. A low light intensity has to be compensated with additional lightning in the greenhouse, which will result in more operating costs. The best temperatures for chrysanthemums are moderate temperatures with a small difference between the day and night temperature, where roses need cold nights.

Figure 6.7: Climate temperatures capitals flower regions



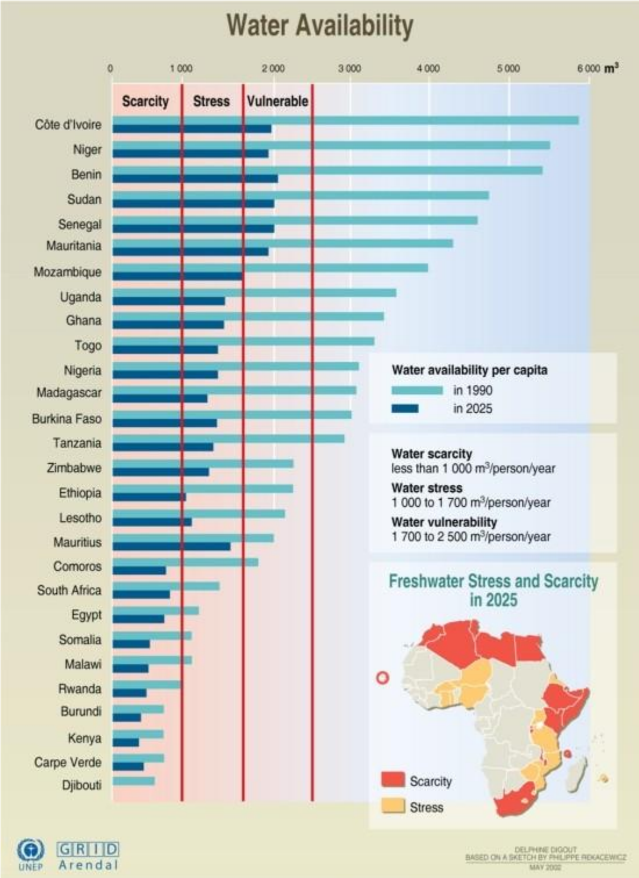
Source: Wheater2travel.com, 2012

The Ugandan climate is something very special in the world. The difference between the maximum and minimum temperatures is one of the smallest of the world. The temperate climate is influenced by the high altitude of the African continent. Also the farms in Ecuador and Colombia are established on high altitudes. Generally it gets very chilly at night at these locations, however, the water of Lake Victoria causes a lesser drop in temperature. Other locations on the chart have difficulties with their low extremes, like Sacramento in California and the Spanish interior. The Westland region in the Netherlands has a too cold climate anyway, not suitable for growing without climate regulation.

6.1.7 Water management

Water is an important resource for growing flowers and water is the subject of discussion in Africa for decennia. The image of Africa is drought, without rain and water. However, East-Africa is a region with rainy seasons and precipitation can even cause problems. However, the northernmost regions of Kenya and Uganda face the dessert, drought is common here and desertification is a major problem, especially in Kenya. These developments can cause problems for the water management of the countries. Developing countries already have problems in water management quite often; full recovery of the costs of the supply of water is not possible (Muhairwe, 2006). Water tariffs in Uganda should rise with 90% to recover the costs completely for the national water company.

Figure 6.8:Water Availability in Africa



Source: United Nations Economic Commission for Africa (UNECA), Addis Abeba ; Global Environment Outlook 2000 (GEO), UNEP, Earthscan, London, 1999.

Figure 6.8 gives an overview of the water availability in Africa. Kenya has scarcity and stress is expected for Uganda in 2025. It means that it is not only expensive to supply water, scarcity will make it more difficult and expensive to let flow the water.

Companies with a large consumption of water can let down citizens who cannot pay the water anymore. Governments are generally very concerned about these developments and can charge companies significantly.

In Kenya the problem is even bigger than in Uganda. People have low levels of access to drinking water and the water levels in the lakes are falling. Lake Turkana in the north is becoming a desert lake, while in Lake Naivasha resistance has arisen about the big water consumption of the flower companies which threatens the natural life in and around the lake. People are angry that flower companies use the lake water with a decline of the tourism sector as possible negative consequence.

6.1.8 Conclusion: What are the 5 key determinants of floricultural investment in Uganda and Kenya?

The main determinants for floricultural foreign direct investment are climate (both countries), market size (Kenya, not generalizable), water management (Uganda), political stability (both countries), physical infrastructure (Kenya), economic stability (Uganda) and labor costs (both countries).

The political stability in both countries is the worst of all the flower producing countries. Kenya is doing slightly worse than Uganda, but countries like Colombia, Ecuador and especially European countries are much more stable. Also the economic stability of the two countries is comparable. Both country have difficulties to tempt the inflation rate, but 2011 was a relative good year for them. Labor costs are low, much lower than developed countries. Unit labor costs are comparable with emerging countries like India and China. The market size is expected to increase the next years.

The firm/sector specific determinants climate and water management show a mixed image. Where the water management has difficulties, especially in the future, the climate offers extraordinary circumstances compared with other flower producing countries. The climate in Kenya is moderate with warm days and cold nights, comparable with Colombia and Ecuador. Uganda offers even more moderate temperatures with the lowest difference in air temperature between day and night of all the flower producing countries.

6.2 Characteristics of Uganda

Fiduga is the subsidiary company in Uganda of Fides, the number one producer of flower cuttings in the world from the Netherlands. Other product locations can be found in Guatemala, Kenya and Tanzania. They are producing cuttings for pot plants and flowers and exporting them over the whole world. Established in the Netherlands in 1967 and going abroad for the first time in 1975 to South-Africa, Fides has specialized itself in producing responsible and productive using the unique circumstances of the product locations on four continents. In 1998 Fiduga is established after testing the growing circumstances in Uganda. The product locations in Tanzania and Kenya already exist 5 and 20 years respectively.

Fiduga has two production parts; a small pot plant cutting production division for the European market and the large chrysanthemum division which produce cuttings for the world market. Fiduga is the only producer of chrysanthemum cuttings for Fides. The reason is the because of the perfect circumstances. 80% of the chrysanthemums of earth are coming from the Ugandan soil produced by four companies. Only one company is located in Tanzania. After the production of the cuttings by the mother plant, the cuttings are send to many locations worldwide where the cuttings are replanted and sold after a while. Fiduga employs 650 people and 3.250 people benefit from the salaries from Fiduga. Besides the salaries, the families of the employees receive free medical care and education.

Managing director Jacques Schrier can be regarded as an 'hands-on' expert in the floricultural sector in Uganda. With a horticultural background and without experience in the floricultural sector, he went abroad as managing director of Royal Van Zanten in Uganda in 2003 and switched to Fiduga in 2010. He was recruited because of his people managing skills. Since the floricultural sector is a very labor intensive sector, pleased employees can improve the productivity significantly. While the static part of the production process doesn't need a lot of attention, the dynamic part of the company, the human resource part costs a lot of time; organization, management, supervision and training of the employees. Floricultural techniques is not the cure business of Jacques Schrier, although he learnt a lot about flowers throughout the years.

The generalization of the two cases in Uganda and Kenya respectively are enforced by the verification of an East African expert, Marieke Janssen. Marieke Janssen has lived in Tanzania and Uganda for 12 years, where she worked in the water sector and for the Netherlands Embassy respectively. Especially during her second job in Kampala at the Netherlands Embassy of Uganda she has set up a big network and great experience. During eight years she has had many work fields, but trade and private sector development was her overall core business. Her task was the economic diplomacy; advice and assistance in the bilateral economic relation between the Netherlands and Uganda in the private sector. She informed companies about bilateral FDI incentives of NL Agency, the investment climate and opportunities in Uganda and assisted companies with a variety of questions about trade and investment in Uganda. In this work she also pickup up stories about Kenya and the comparison is made quite often, so as insider of East Africa she can place the results in perspective.

6.2.1 Climate

The climate is the most important determinant for the foreign direct investment in Uganda. The climate is a perfect example of a firm specific determinant of FDI and in this sector the decisive factor. Product locations of chrysanthemums in South Africa and Kenya are replaced to Uganda resulting in the presence of 80% of the chrysanthemum production of the world in Uganda. Nowhere in the world the same climatological circumstances can be found, according to Jacques Schrier and that finds support by East African expert Marieke Janssen. The temperature doesn't drop dramatically and doesn't rise to extreme temperatures, normally quite regular in Africa. The presence of Lake Victoria is an important factor. The constant lake temperature causes heat rays to and from the lake which reduces the temperature during the day heat and warms the temperature during cold nights. It can be called a micro climate with maritime characteristics. The high altitude of plus minus 1.2500 meters above sea level already reduces the high temperatures normally characterizing regions around the equator. Also the abundant rain fall let drop the temperatures during the rainy season. The story about the unique location of Uganda in climatological perspective is line the temperature statistics that already showed this comparable advantage.

It also confirms the arguments in the literature (Bonnariva, 2003; Ngige, 2009; Njoroge, 2011) about the importance of climate for the production process of cut flowers. However, the importance explained by the respondents is even higher than discussed in the literature. For the production process the Lake Victoria micro climate means natural growing circumstances, which have positive influence on the growth of the flower. New technologies are not able to reach natural circumstances. The importance of natural growing circumstances from the perspective of the quality of the flower are emphasized by Jacques Schrier. Climate regulation is never optimal like in nature. On the other hand technologies also mean higher investment and operating costs. It means mega investments in cooling and heating systems on other places. These investments can be saved by producing on the shores of Lake Victoria in Uganda. Often the energy costs in developing countries are high and will hugely press on the balance of the company. A doubling of the investment costs and a doubling of the operating costs are expected in the case of the need of climate regulation. In that case flower production is not profitable anymore in Uganda. All the respondents tend to confirm that.

In the past climate has been the key determinant to establish in Uganda. However, climate change is a worldwide discussion and is treating East-Africa the last decennium. Flower companies do not consider climate change as a treat, as the temperature and the total precipitation do not change, only the rainy seasons become shorter and more intense. On the long term it might become a problem, but on the long term there are more factors that can cause problems. The respondents are in line with regard to the risk of climate change in the future.

6.2.2 Water management

On a short distance from the climate, water management is the second most important determinant in Uganda. The drink water provision is becoming more and more a problem in Uganda according to the figures, but Schrier stresses that they don't use drink water, only water from lakes and swamps. The fresh water availability is almost unlimited. Uganda receives a lot of precipitation and the hilly landscape causes the existence of swamps and lakes. Lake Victoria and the Nile not only receive water from Uganda, but also from other countries (Tanzania & Rwanda) water flows into Uganda. It contrasts the theories about water problems in Africa (Bues, 2011; Woodhouse, 2011) and supports the arguments of Ngige (2009) about the abundance of water in the flower region. It doesn't alter the fact that flower companies use a lot water; Fiduga uses 1000 m³ per day, but the costs for the license to abstract water from the nature is not a substantial part of the operating costs. The National Environmental Management Authority (NEMA) Uganda accommodate the licenses, but they do not require a list of demands. Companies only have to pay a small amount of money per cubic meter. Companies without a location on the shore of Lake Victoria have their own swamp for the water supply, which almost guarantee the availability of water year-round. However, because water is a critical need for flowers, also own reservoirs have been built by flower companies. The water reservoir of Fiduga contains water for 3 months in the case that there is no water is the swamp. The last dry season they used the reservoir for a couple of weeks because of a longer dry season than usual. The significant importance of water availability is more urgent than the way how Bonnariva (2003) explains water as basic need for flower production.

The water from the nature in Uganda has to cleaned, because it contains a lot of bacteria. In contrast with other regions and other products there is no need to use supplements in the water. Only chlorine will be added to clean the water. All the cut flowers need the same volume of water to grow. The consumption of chrysanthemums and roses are more or less the same. Even pot plants need more or less the same volume of water. Water management can be a substantial part of the operating costs for a company, in the case the water is not widely available. This finds support by the East African expert. She recognizes the water shortage elsewhere in (East) Africa.

6.2.3 Political stability

The first 2 determinants are considered as the two main determinants for Uganda and put all the other determinants in perspective. They only play a supporting role. However, the political stability is only guaranteed as long as the current president, Museveni, has the control. After his death, he is already 68 years old, huge problems are expected. Investors are aware for riots and a decline of the safety situation in the country. On the other hand the positive location of flower company outside Kampala will cause a limited danger for the companies. Riots are not a direct risk. The flower companies in Uganda are located too far from the big cities, the places where riots could take place. However, indirectly riots can block the road to the airport or even close down the airport. Problems with the transportation is a major concern for the companies since they export everything they produce. This is a slightly other risk than pointed out in the literature (Kobrin, 1979), where the safety situation is considered to be a direct risk. Also the fact that Uganda is a democratic state does not improve this risk (Tsebelis, 2002).

Investors tend to look to the riots in Kenya for what might happen in Uganda after Museveni's death. The riots did not hit the flower sector, there was even a growth of the profits, and the expectations are that it will not hit the flower sector in Uganda either. On the other hand the government will not protect the flower sector in time of trouble by mobilizing the army, what happened in Kenya. The government of Uganda does not understand the importance of FDI and the private sector. In that sense Kenya is in a more developed country according to all the respondents. The chance that employees get involved in riots is fewer if the companies creates satisfaction widely over the farm.

In the literature political stability is discussed in two ways: the stability of the country as a result of how the government acts and the stability of policies, the direct consequences of the acts of the government. Investors distinguish these two factors in long term risks and short term risks. The stability of the country largely depends on how president Museveni will hand over his control. All the foreigners in Uganda expect that only the dead can Museveni let resign from the presidency. A political vacuum after his dead is considered as long term risk, since the situation before Museveni was very unstable. The reversal and uncertainty of policies (Asiedu, 2006) is considered as a short term risk in Uganda, especially by the East African expert. However, for floricultural investors most of the policies are not relevant for their company. Uganda is characterized by good plans and policies, but the realization leaves much to be desired. The political system is weak and typified by a weak rule of law and corruption. For investors especially the long term political risk is an determinant to keep an eye on. The dependency on one political leader in Uganda is unique in the world and confirms the poor state stability showed in the figures.

6.2.4 Economic stability

The economic stability is for floricultural investors the fourth important determinant. The uncertainty of the purchasing power with the Ugandan shilling is stressed by the respondents. Local expenses can rise substantially in a very short period. For employees food and travel expenses become more expensive and that creates unrest on the farm. Despite the inflation rate of 2011 was reasonable, also showed by the figures, the inflation in the first months of 2012 was shocking with 26%. For flower companies with a lot of employees this is a tragic situation and they tried to help the employees by using all the other means than the rise of the salaries to combat the inflation. Compensation of the inflation can lead to hyperinflation and is not the way to help the employees.

The economic stability is less important than suggested in the literature (Lewandowski, 1997). For the finances of the company it means that local expenses become more expensive, but the flower companies do not have to deal intensively with the local economy. The companies earn the money in other currencies such as the euro or dollar. That means that they buy more shillings for their foreign currencies and that compensates the brutal inflation rates partly. However, the operational costs will not fluctuate, only investments in the form of local expenses can cause a marginal deterioration of the balance. It is not possible to put it in percentages. In the future nothing can be said about a stabilizing inflation or currency. The balance of trade has always been very negative and it has always caused inflation, fluctuating from low rates to high rates depending on the import of Uganda.

The exploitation of the oil in the north west of Uganda in the future can possibly cause a balance of trade and maybe even bring more economic stability. However, insiders of Uganda paint the picture that the Ugandan people will not benefit from the extra earnings and certain people will grab all the money. For the companies a healthy economy is important, not only to bring certainty in the few local expenses, but especially to remain the rest and satisfaction on the work floor.

6.2.5 Labor costs

Labor costs are an important determinant for FDI everywhere on earth according to the theories. However, for flower companies in Uganda the labor costs are only on place 5 on a far distance from climate and water management. The labor costs are 20% of the total costs of Fiduga, employing 650 people on 18,5 acres. It has significant influence on the operational management. Investors in Uganda consider the number of employees as very high because their productivity is very low. This is in line with the figures about the unit labor costs. The labor costs are still very low as a result of the absolute labor costs and they realize that cheap labor is necessary to run profitable flower business.

The current labor costs are higher than the expected labor costs before establishment. Nobody realized that the labor productivity is so low in Uganda. For Fides the establishment in Uganda has the most expensive labor in East Africa. Flower companies need more employees per m² in Uganda than in Kenya. All the respondents share this argument. The reason is explained by Jacques Schrier as follows: 'Ugandan people are lazy people from origin. Everywhere food is widely available in the nature (banana's and cassava grow everywhere in the wild). They have never been forced to work hard'. Also the East African expert recognizes and confirms this image of Ugandan people, the problem appears in every labor intensive company. Not only lower labor productivity is caused by cultural differences, also the increase of the cases of theft at the company level. The significant higher labor costs would not be a decisive factor of not establishing the company in Uganda. Climate and water characteristics largely compensate for this and other factors which make Uganda an expensive low-wage country.

The salary of employees at Fiduga is plus minus 1 euro per day as a starter which can be increased to 2 euro per day for an employees with more skills and responsibility. For that salary, Fiduga also provide a varied lunch with higher standards than what a Ugandan normally eat at lunch time with chicken, meat and fish. Furthermore, employees have free access to medical care at the own clinic of Fiduga or even outside. Those reasons are decisive that Ugandans are willing to be an employee at foreign companies. Also the reliability of Fiduga as employer is important since the government and local companies struggle to pay the salaries on time. This finds support by the East African expert.

The development of the labor costs in Uganda is connected with the stability of the economy. With high inflation rates companies are forced to compensate their employees. This is a very uncertain factor for the balance of the company. A doubling of the salaries in Uganda will mean that the business is not profitable anymore. Labor costs are an important resource for the flower companies, but are not the decisive factor for floricultural FDI as explained by Wang and Swain (1995).

6.2.6 Conclusion: What is the specific reason for the importance of key determinants in Uganda?

Climate and water availability are the two decisive reasons for flower companies to come to Uganda given the other factors. Deterioration of one of the factors can lead to the conclusion that the business is not profitable anymore and the loss of the comparable advantage of Uganda. The importance of climate circumstances confirms the theories about the floriculture, however that 50% costs savings can be achieved without climate regulation, makes climate a more significant determinant, even as water, in the literature water only considered as basic need.

The other determinants also have their influence, but generally the influence is less than considered by scholars. This is especially the case for labor costs. Cheap labor is an important resource, but not the reason for establishment. Unit labor costs are relatively high in Uganda due to the low productivity. The political and economic situation has to remain stable to prevent riots, hyperinflation or drastic exchange rate fluctuations, which can heighten the operating costs. However, the importance of political and economic stability as pointed in the literature are not existing for flower farms in Uganda. It mainly has indirect influences.

6.3 Characteristics of Kenya

De Ruiter East Africa is an agency for De Ruiter Innovation bv established in Amstelveen, the Netherlands, in 1909. The company is an important innovator for the roses industry in the world. The headquarters in the Netherlands is the developing body of a new variety roses. These roses will be tested and marketed at the several production locations using flower shows and expositions. Ultimate goal is to sell the new products to the flower growing companies all over the world. The more than 90 years of experience gives the company an advantage compared with other companies. De Ruiter has offices in all the important roses production countries and markets, like Colombia, Ecuador and China. The development of new variety of roses is based on color, length and production method and is a success as soon as there is significant demand for the product. The research center in the Netherlands develops and the office in Kenya can test and market it.

Despite the core business of De Ruiter is the development of new varieties roses, the company is a partner for growers, marketers, propagators and agents in the whole roses value chain. De Ruiter has a broad knowledge about the total roses market and can support with the distribution for instance. De Ruiter East Africa is based in Kenya and the head quarter for whole Africa; Kenya, Uganda, Tanzania, Ethiopia, Zimbabwe and South Africa. Since Kenya is the center of the roses production in Africa, located centrally with a good infrastructure and also had a growing market, De Ruiter decided to establish in 2006. However, before 2006 another agent was representing De Ruiter already for 20 years. They experienced as pioneer investor the rise of the flower sector in Kenya from the beginning. De Ruiter East Africa has 140 contacts over whole Africa, with the majority in Kenya (80), 36 in Ethiopia, 10 in Uganda and 4 in Tanzania. The companies employs 70 people, 68 of them are local people from Kenya. 55 people are working on the testing place every day.

Managing director of De Ruiter East Africa, Sebastien Alix was born in France and enjoyed his education at agricultural schools in France and the Netherlands. He worked for a French company in Kenya before he joined De Ruiter East Africa in 2006. His main functions at the company are reporting the performances of the company to the shareholders and the day to day running of the company which includes the production or testing unit of 2,5 hectares and the overrule of the marketing and sales.

6.3.1 Market size

As De Ruiter East Africa has a slightly other company profile than Fiduga in Uganda, the main determinant is different. Market size is the main reason for this company to come to Kenya. According to Sebastien Alix the flower sector has been growing and growing the recent years. The market for De Ruiter East Africa can be defined as the flower producers in East Africa. They are interested in buying the new products of De Ruiter Innovation. The position of the company in the floricultural value chain is a position higher than the position of Fiduga. Where flower companies normally are the suppliers of products, for De Ruiter they are the demanders. Flower producers do not serve the local market, where De Ruiter precisely comes to the market to serve flower producers in East Africa. Since De Ruiter is dependent on other companies, indirectly the main determinants for flower producers are also important determinants for De Ruiter. In the case important determinants were not available in a certain region, the flower sector was not represented and De Ruiter neither.

Sebastien Alix stresses that market size is only important for his company and that it cannot be generalized over roses companies in Kenya. This finds support under the other respondents. The other four determinants are key determinants for all the roses companies in Kenya and are main input for this study, because they can be generalized over the whole population flower farms in Kenya. These flower farms mainly produce roses; there are no producers of chrysanthemums.

The market size is the main determinant for De Ruiter East Africa. Kenya is the major producer of roses in Africa, with Lake Naivasha as traditional area of 600 hectares where De Ruiter is located. Most flower growers started around the lake, but new growing areas are discovered in the meantime. 25% of the flower production is on the shores of Lake Naivasha of a total of 2.400 hectares. Sometimes Kenya is even considered as the largest producer of roses in the world, a perfect market for De Ruiter Innovations to sell their products.

In 2006 De Ruiter Innovations decided to come to Kenya with an own office. The minimum market size of roses was reached in Kenya and surrounding countries slowly got more involved in the global floricultural value chain. Uganda has only 100 hectares of roses, Tanzania 80 hectares and Ethiopia 800 hectares. The choice for Kenya was an easy one, since it is the main flower country in Africa. However, Sebastien Alix called the further development of the roses market in Kenya a bit of luck. Nobody could have predicted this boom of the roses in Kenya. The determinant market size for this specific Kenyan company is in line of what Banga (2009) argues as the most important determinant for market-seeking companies. Also for this market-seeking company, market size is the decisive factor, also because of the market in the region, which even increase the market size (Banga, 2009).

In the future Sebastien Alix expects that the market will still grow. The perfect mixture of factors which are suitable for floriculture will persuade many growers to come to Kenya, especially because the performances of the farmers are so good. The developed environment in the floricultural sectors is a very good place to invest. Kenya can become the center of the roses production of the world, although if Kenya isn't already the center of the roses production.

6.3.2 Climate

The other determinants of floricultural FDI in Kenya are more or less comparable with the Ugandan key determinants. The most important one is climate. Roses benefit from warm days, cold nights and a high daylight intensity. Roses grow to big sizes when the night is cold and the day warm. Warm nights as in Uganda stunt the optimal growth of a rose and the head size will stay minimal. The market is seeking for roses with large head sizes. There are more good locations to grow flowers, however, the key is year-round production and that can only be found in equatorial regions where winters do not exist. Low night temperatures are not common in equatorial atmospheres, with exception of elevated regions. Kenya offers a wide range of climates: from the moderate shores of Lake Victoria to the cool plain is the rift valley to the humid Indian Ocean coast.

Climate as main determinant confirms the view of scholars (Bonnariva, 2003; Ngige, 2009; Njoroge, 2011) in the literature. They regard climate as very important element in the production process of the flower and important determinant for floricultural FDI. However, Kenya does not own unique climatological circumstances. Other countries like Colombia and Ecuador are characterized by the same climate, also shown by the figures about climate. Therefore, for floricultural FDI in Kenya climate is not the decisive determinant of floricultural FDI as in Uganda.

Elevated equatorial regions in the world are East Africa and Latin America. More and more roses production takes places in these specific regions of the world. Lake Naivasha lies on an altitude of 1.900 meters, while other Kenyan regions even offer an elevation of 2.400 meters. Those more deserted regions to the north are widely available for roses production. For roses also the temperature is very important. Other climate characteristics like sun and precipitation can be controlled by using greenhouses. The rainfall in Kenya is characterized by unregular periods, with the most rain in the long and short rainy season in March/April/May and November/December respectively. Despite the use of greenhouses the roses in Kenya grow under natural circumstances, which improves the quality of the flower. Also for Kenya the costs savings for heat and cooling systems are the reason to be located in the country. Roses have a slightly other climate preference, but the influence of the climate on the production process is the same.

6.3.3 Physical infrastructure

Where climate preferences already make a dramatic selection, the physical infrastructure is an important factor for flower companies to establish in Kenya. Kenya is the more developed country of the countries which are the most suitable for roses production, more developed than other East-African countries and more developed than Colombia and Ecuador. The roads are good and well maintained, while Jomo Kenyatta International Airport in Nairobi is a hub in Africa with many connection worldwide and 2 daily direct flights to Amsterdam, where the majority of the roses will be traded. The other infrastructural elements are not very important. For exporting flowers, rail and water connections are too slow. Roads and air connections matter in this sense. Generally Kenya has a better geographical location compared with Colombia and Ecuador, closer to Europe and also within reach of China and North America. Also the East African expert emphasizes the good infrastructure in Kenya compared with the rest of East Africa, which is a good basis for an exporting company like a flower company. The respondents can also confirm the better infrastructure of Kenya compared with Uganda, showed in the figures.

In the literature (Velde, 2006; Tran, 2009; Chakrabarti, 2012; Khadaroo, 2009) physical infrastructure as important determinant is explained with regard to the transportation costs and the efficiency of the company. The infrastructure in Kenya gives companies the possibility of save costs and produce efficient. In the threshold theory of Chakrabarti (2012) Kenya has passed the threshold; companies can profit from the good infrastructure. In Uganda small increments in infrastructure will not yield a proportional rise of FDI. In the floricultural sector the theory of Khadaroo (2009) is difficult applicable. Only countries with a good infrastructure could attract export-based companies. However, Uganda is the evidence that physical infrastructure does not have to be a key determinant.

In Kenya there is no need to establish the company near the airport, as in Uganda. Generally Kenya is covered with a high density of good infrastructure. Transport costs do not vary dramatically per region in Kenya. De Ruiter delivers their product at the companies located in Kenya directly, but flower exporting firms, the majority in the sector, mainly export their flowers in trucks to the airport where they will be send to Amsterdam by air. The handling on the airports in Nairobi and Amsterdam is professional and efficient, which is needed for a product like the rose. Every infrastructural element what flower companies need is available and doesn’t cause problems. Flower companies do not have to build their own infrastructure either.

6.3.4 Economic stability

Economic stability is an important determinant for the flower sector in Kenya. The country has one of the most stable economies of Africa. During the political instable periods, the economy has never been threatened. The stable exchange rate of the Kenyan shilling has been stressed in this sense. Although everything is imported from Europe and there is almost no touch with the local economy, dramatic exchange rate fluctuations will cause unrest under entrepreneurs in the country. However, the employees can be hit by the high inflation rates. The inflation rates are 'quite high', according to Sebastien Alix, although he is not directly affected by this instability. The employees get an 10-11% increase of their salary every year, partly as compensation for the inflation. Also the figures indicate the high inflation in Kenya.

Compared with other African and flower producing countries Kenya is developed and stable. There are no reasons that things will change and the government knows the importance of the export sectors like the floricultural sector, but also the tourism sector. They will protect these sectors in times of peril. The East African expert considers that as important difference between Uganda and Kenya. In economic sense Kenya is in far extent liberalized as the Western countries, and has adopted many regulations and strategies. The British rule has brought economic structure and knowledge of being an entrepreneur, while the Asian people brought the spirit of commerce. Other countries with less influence still have a more traditional African business culture. However, Kenya is also to some extent characterized by African characteristics as corruption, but generally the capitalistic thinking dominates. They have learnt that they can earn more money because of a hard working spirit. All the respondents regard Kenya as a country with more developed economic standards, which is a big difference with Uganda, where people are more busy with the traditional way of getting by. Developed economic standards cause stability in the economic system of Kenya. Kenya is a good example in Africa of the argument of the importance of a macroeconomic strategy (Lewandowski, 1997), however because of the limited touch of the company the local company, not a decisive determinant of FDI, as suggested by Lewandowski (1997).

6.3.5 Labor costs

The production of roses is also a labor intensive business, more or less 20 people per hectare are needed. Therefore the low labor costs are an important determinant for flower farmers. Despite the fact that labor in Kenya is more expensive than in Uganda, the labor costs are lower, because the productivity is much higher. Also the statistics about the unit labor costs show that. Where in Uganda employees were characterized as lazy, in Kenya the personnel is defined as hard working people. Another explanation of the higher productivity of the Kenyans is the experience in the flower sector for many years. Kenya is already more familiar with growing flowers. Investors in the floricultural sector in Kenya can easily employ very good and trained people for still a low salary. The labor force, what is experienced to be high, and the specific flower clusters cause a regional specialization of the people. The average salaries at De Ruiter East Africa for local employees is 3 euro per day. This is more than the country's average and the flower people are experienced and well trained personnel. The combination of labor productivity, experience in the flower sector and the relatively low wages makes the labor costs in Kenya very profitable, however, it is not the decisive determinant. The high inflation rates forces De Ruiter to give the employees 10-11% increase of their salary per year. However, with the increase of the amount of contractors in East Africa this is permitted to remain profitable business.

According to Wang and Swain (1995), labor costs are the decisive determinant for resource-seeking FDI most of the times. The case of the floricultural sector in Kenya increasingly confirms this theory, however climate stays the key determinant. More than in Uganda, in Kenya other determinants than the climate are the reason of investment of foreigners, because the climate is not unique in the world. Labor costs are a an important determinant after the selection made by the climate. Competitive countries are Colombia, Ecuador and Ethiopia. An increase of labor costs can worsen the comparative advantage of the country compared with these other countries.

Although De Ruiter does not need a lot of employees, surrounding flower farms employ a lot people in the Lake Naivasha area. It has led to villages, schools and hospitals for the employees of the flower farms, where employees are pick up before their working day and dropped off after their work. The wealth in the region has risen significantly; whole communities benefit from the projects of the flower companies, although it is for them mainly a strategy to maintain the control over their employees.

6.3.6 Conclusion: What is the specific reason for the importance of key determinants in Kenya?

The climate is the main reason to invest in the floricultural sector in Kenya. Without the specific climate circumstances flower companies will not be profitable. Also in Kenya the climate plays a more important role than the theories about FDI and the floricultural sector in particular suggest. Almost all the roses come from equatorial countries for this specific reason.

After climate three determinants positively influence the choice for Kenya compared with other equatorial countries. The relatively good physical infrastructure is a pre, although flower farms are less dependent on physical infrastructure than scholars about FDI stress in the literature. Costs savings for transport can be achieved because of the good an well maintained roads, but especially the frequent, rapid and reliable flight connections with Amsterdam and the rest of the world.

Kenya is also an economic stable country without dramatic exchange rate fluctuations and inflation that doesn't hit the sector directly. The economic landscape is liberalized without protection against foreign companies and the with the importance of FDI in mind by the government. The importance of economic stability is not in line with the literature, where the influence on the production process is considered to be higher. The reason is that flower companies do not have to deal with the local economy intensively.

Finally, the labor costs in combination with the relatively high productivity is important. Substantive costs savings can be achieved due to the labor intensive character of the sector, although it is not the main reason for investment, as generally considered for resource-seeking FDI by scholars. Low labor costs are generally a condition to replace the production far from the market and also in the floricultural sector this is the case. The long experience of Kenya in the floricultural sector even means an increase of the productivity in the sector.

6.4 Uganda vs. Kenya

Despite the geographically comparable location of Uganda and Kenya, many differences have been discussed, mainly in historical perspective. Both countries have a history with many conflicts and troubles, but in Kenya the influence on the economic development was less, with more economic development as result. From the beginning Kenya has been a more liberalized country with more developed rules and regulations, because of the British colonial rule. Kenya isn't regarded anymore as least developed country by the United Nations, while Uganda is still a least developed country. Their protectoral status has not resulted in much influence from the developed United Kingdom.

The investment climate in Kenya is considered to be better, Kenya appears in a further stage of the investor development path and that is shown by the development of the determinants, also for the determinants of floricultural investment. The differences are discussed in relation with their category of Velde (2008). At first, climate circumstances are firm/sector specific determinants which cannot be influenced. Both countries offer world class conditions for the floricultural sector and therefore climate is the most important key determinant. The importance of the climate is bigger in both countries than suggested in the literature. The water management is important for the sector and quite similar; both Kenya and Uganda have had high volumes of rain the last years, which simplifies the water management. However, Lake Naivasha remains vulnerable for water shortage, in times of El Nino for instance, when warm ocean temperatures cause limited rainy seasons around the equator. The national discussion about the water management around is not an issue for the flower farmers, although not at the moment. Water management is considered as basic need in the literature, which could be true for Kenya, but in Uganda is water a key determinant for investors.

The governmental factors economic stability (both countries) and political stability (Uganda only) are considered to be important. Both countries have problems with inflation, which can cause problems for the companies only indirectly. The touch with the local economy is limited, only the salaries of the employees is a transaction with the local economy. The exchange rate of Kenya is stable, because of the trade balance of the country, where Uganda cannot prevent drastic exchange rate fluctuations by a trade balance. The inflation has significant influence on the exchange rate. Macro economically Kenya is much more stable country. This is not the factor for political stability, at least till Uganda's president Museveni dies. It is considered as a long term risk in Uganda only and the role of political stability is limited with regard to the attention it gets in the literature. Already for 25 years Uganda is a political stable country, where in Kenya elections cause riots every time. The destruction of the faith of investors in Kenya as a result of election violence in the country is stressed by the East African expert. Despite the generally developed society the violence is inevitable and a big threat for investors, although generally the violence only lasts a couple of weeks. Important fact for the sector is that flower farms on the countryside are not hit by riots and other violence in the cities. The influence is limited. However, where the government of Kenya will protect the floricultural industry in times of tragedy, in Uganda the government will not protect investors. Policies in Uganda are generally inconsistent, a constraint for investors with political dependency as result. It is a short term risk for companies already established in Uganda. Flower farms are generally not very dependent on government policies. The government of Kenya generally has a strong rule and policy consistence.

However, the recent years Kenya has limited the FDI incentives, which made the country less attractive for FDI. This is another possible reason for the decline in foreign direct investment flows into Kenya, according to Marieke Janssen.

Macroeconomic key determinants of FDI in the floricultural sector are labor costs in both countries and the physical infrastructure in Kenya. Labor costs in both countries are low. The lower salaries in Uganda are combined with a low productivity. Therefore the unit labor costs in Kenya are lower than in Uganda. This is characteristic for more developed countries. The physical infrastructure in Kenya is considered to be a pre. It is even an important determinant compared with countries with the same climate characteristics, and the lead over Uganda is huge. Uganda has a poor physical infrastructure and only a location close by the airport is profitable. Some scholars argue that macroeconomic determinants are the main reasons for the development in Kenya compared with Uganda, however, also the geographical location plays a role and is an external factor. Investors in Uganda have to build their own infrastructure, where in Kenya the relatively good infrastructure satisfies the needs of investors. This is confirmed by all the respondents.

The East African expert introduced another important element for FDI in Uganda and that is Corporate Social Responsibility (CSR). Many companies come to Uganda to invest 'socially' to do something for the country, not because of the opportunities are optimal. Mostly it is related to people with a development cooperation background or multinationals with CSR motives. The CSR-trend in Europe can cause more 'social' investments in Uganda without a certain market opportunity.

Overall Uganda is not a country for large profitable investments. Investors even stress that Uganda is not a good country to do business in flowers, however, the specific climate advantages and the possibility of by-passing negative factors makes it possible to run profitable business. It does not cause a growth of sectors, since the companies are outward orientated. In Kenya there are many more possibilities in a wide scale of sectors to do business, even for market-seeking investors. In Uganda FDI is occasionally in the renewable energy and agribusiness.

6.4.1 Conclusion: What are the differences in key determinants between Kenya and Uganda?

The climate is the most important determinant for both countries. Without the specific climate circumstances floricultural companies will not think about investing in Kenya and Uganda. However, generally Kenya is country with many positive factors to invest in. The labor costs are low, the infrastructure is good, the policies are stable and the economy liberalized. Uganda does not have these positive factors, one of the reasons that the country is still a least developed country. This difference also turns out in the way the determinants are explained. For Uganda concerns in economical- and political stability are perceived for the future, where in Kenya possible developments in the future are more perceived positively.

For the floricultural sector Uganda has such unique climatological circumstances that flower companies in chrysanthemums invested in Uganda massively. Since Uganda is the only place in the world with this climate, companies try to avoid negative determinants of FDI or control them like the instable economy, bad physical infrastructure and low productivity. However, many investments in the big industries cannot be expected. In many sectors the negative factors cannot be by-passed. In Kenya the positive factors can set up sectors, while in Uganda only segments are established.

Box 2: Neglected determinant: the image of Africa

Empirical studies have increasingly showed the important determinants of FDI worldwide and in specific regions or countries. Concrete and measurable factors have been used to test the relationship with the specific region and the FDI flows in the region, like labor costs, transport costs or market size. However, a neglected determinant of investors is their image of a spatial unit. Location choice is not a calculation of the cheapest place in the world to produce, location choice is also a rational consideration with an important role for the feeling about the location.

The East African expert stresses the importance of the (negative) image of investors about African countries. An image of the region is also a determinant of FDI, although it is not generalizable, because of the variation of perception per investor. Despite the ignorance of this factor in studies, Marieke Janssen argues that it is an important determinant for Africa in particular. The fact that Uganda is completely stable only for 5 years, is something what investors do not know, and their image of Uganda is probably still poverty, war and Idi Amin. A feeling of fear is common for investors, when they think about investing in Africa. Besides the many negative determinants this is an extra barrier for investing in Africa.

However, perceptions can change. Most of the times it takes a long period, but the perception of Africa is changing. The perception generally varies per continent and country. Also in certain sectors the image of Africa or specific African countries is different. Kenya has already build a good reputation in the flower sector, which changes the perception of investors in the sector positively. Word of mouth advertising is an always important tool in the business world. Marieke Janssen also stresses the importance of role models. Success stories in Uganda have attracted a flow of FDI from the Netherlands. Also in other sectors investors are afraid to make the first move. An example of someone who invested can cause a movement to the sector or to a country. All these examples have been hidden in the determinant image. The media and important organizations play an important role in this sense, but that is very difficult to influence. Promotion is an instrument for countries to attract more FDI, however, only if it leads to a more positive or up-to-date image of African countries and Africa as continent. More research to the determinant of image is needed for a better understanding of this factor.

7 Conclusion

The aim of this paper is to research the key determinants of FDI in a very specific sector of the economy in a specific region in the world: the floricultural sector in Kenya and Uganda. Many studies have been carried out to present a better overview of important determinants for investors, however, a comparable study about two developing countries acting in the flower sector successfully is an addition to the literature. The research question is as follows:

What are the key determinants of FDI in the floricultural sector of Kenya and Uganda and why these determinants for the sector particularly?

The most important determinant for the floriculture turned out to be the climate. Cut flowers have the best growth process under specific climate circumstances year-round; roses prefer cold nights and warm days, while chrysanthemums flourish in moderate climates with a small difference in day and night temperature. By producing flowers in countries where these circumstances in air temperature is the climate, flowers can be grown in natural circumstances. It increases the quality of the flower and limits the investing and operating costs in the greenhouses. The savings on the operating costs measures 50%. There are a couple of key elements in the climatological uniqueness of Kenya and Uganda: the equatorial location of the countries are the reason that the air temperature is more or less the same year-round. The altitude of the African continent tempts the heat during the day. Warm days and cold nights are characteristic for equatorial highlands, perfect suitable for growing roses. However, chrysanthemums will not flourish during cold nights. Therefore, the chrysanthemum production on earth is clustered on the shores of Lake Victoria, mainly in Uganda, where the warm water of the lake causes relatively high night temperatures. Where Kenya is one of the several possible locations for growing roses (with Ethiopia, Colombia and Ecuador), Uganda is considered to be the only best location for growing chrysanthemums.

Climate is the key determinant of floricultural FDI in both countries and a decisive factor. More attention to this factor is justified than the current literature suggests. For the flower production the availability of water is considered as a basic need, however, also this firm/sector specific determinant is more important than discussed in the literature. In Uganda the hilly landscape causes swamps which eases the water access. Also Lake Victoria and Lake Naivasha (Kenya) provide enough water to grow flowers, but unlimited access to water is common in Africa.

Other determinants are less important than these two firm/sector specific determinants. However, they have had more attention in the literature. Political stability is an issue in Africa and a big constraint for investors. In Uganda the stable political situation is dependent on the rule of president Museveni. After his dead the political stability is highly uncertain. The political stability is a long term risk for investors in Uganda and therefore not a decisive factor. Despite the pre-election violence in Kenya, political stability is not considered as a key determinant. The stronger acting government will prevent long conflicts.

In Kenya the infrastructure is a positive determinant of FDI. The infrastructure is more developed than in other African countries or other roses producing countries. All the important producing regions are well connected by roads and the airport has frequent flights to many destinations worldwide, among of two daily flights to the center of floriculture: Amsterdam. In Uganda the poor infrastructure is not a big constraint, because of the location of the flower farms close to the airport.

The fourth and the fifth determinant in both countries are the same: economic stability and labor costs. The instability of African economies is another constraint for investors. However, the Kenyan economy is considered to be stable. It is a positive determinant. The exchange rate doesn't fluctuate dramatically. In Uganda an unbalanced trade causes exchange rate fluctuations and inflation. Both countries have difficulties with tempting the inflation, but the flower farms try to limit the touch with the local economy by import and export everything they need and produce. Only the salaries of the employees are subject of concerns, because their purchasing power declines as a result of the high inflation rates in both countries. Contrary to what has been discussed in the literature the economic stability does not have a direct influence on the balance of the flower companies and has therefore less influence.

Labor costs are a condition to invest in developing countries. They can compensate the more expensive transport costs to the market. The labor costs are very low in Kenya and Uganda, 1 and 0,75 euro per day respectively, although the flower firms provide a higher salary. However, the higher productivity of Kenyans causes lower unit labor costs than in Uganda. Labor costs are with 20% a substantial part of the operational costs and an increase of the labor costs can also bring the companies in trouble. Generally, labor costs are considered as a decisive factor for resource-seeking FDI by scholars, but for floricultural investors it is only a pre for the comparative advantage.

The flower sector in both countries shows similarities: the climate with enough access to water is the main determinant, while labor costs and stability in politics and economy should secure the current balance of the company. However, important to note is that Kenya is a much more developed country. Especially in the infrastructure they make a big difference. In Uganda flower farms avoid the poor infrastructure successfully and also the political stability is not guaranteed for a long period. Investors tend to look in the future with some concerns, while Kenya investors have less concerns. An important conclusion is that only very unique climate circumstances is the basis for flower farms to establish in Uganda. The negative factors can be passed-by without huge costs.

The character of the key determinants are as follows: firm/sector specific determinants are the most important factors, general determinants have an important influence and the Sub-Sahara African determinants have not been appeared in the list of the five most important determinants. They are constraints, but can be handled by the investor. These proportions indicate the special circumstances of the floriculture sector, which is climate based and therefore attach more value at sector/firm specific determinants than suggested in the literature about FDI and floriculture. The most important outcome of this study is that only unique climate circumstances in East-Africa guide floricultural investment to the region, because of the importance of sector/firm specific determinants in the floricultural sector. Other constraints, common in Africa, can be handled or by-passed. Also the increasing ease of transportation makes remote product locations more and more possible, even in the 'dark continent' of Africa!

8 Discussion

The outcome of this study could be an eye-opener for investors that firm/sector specific factors can bring firms to remote developing countries successfully. Not only general determinants should get attention in the FDI literature. Firm/sector specific determinants can be very important for certain sectors. The globalization makes remote product locations more and more possible and the rapid development of East Africa should make investing to an increased extent attracting. More investment even stimulates the development of the East African countries and some scholars believe that Africa and especially these countries can achieve the catalyzing effect of China in the '90. The big labor force, low wages and increasing productivity are the perfect conditions for this development. In that context also market-seeking FDI will have a chance in the future.

However, Africa has a problem: its image. Investors are generally afraid for doing business in Africa. Weak rule of law, corruption, poverty, war and diseases are the images of people about Africa. To a certain extent their image is realistic. Africa is special continent, with another business culture and a less developed investment climate. On the other hand, often the image of Africa is not up-to-date anymore. Many African countries have stable economies and politics and the safety situation can even be better than in developed countries.

An improvement of an image or reputation costs time. Promotion is a well-known tool, but Africa lacks the finances to advertise over the whole world. Word-of-mouth advertising is probably the best way to attract investors. However, a characteristic of word-of-mouth advertising among investors is that the information usually flows in a specific sector. When flower farmers pickup up the success of the chrysanthemum in Uganda, only this specific sector developed. It does not mean that there is no potential for the agricultural sector. It will take time before investors will stay objective against investing in Africa. From Asia the mind-set is already different: the Asian countries are the biggest investors in Africa from outside the continent and they really see opportunities in Africa.

An important element in the development of Sub-Saharan Africa will be the government. To what extent are they able to distribute the economic growth over the country and among the sectors? Only improvements in the determinants of FDI can realize a rise in FDI inflows. Africa can shake off her image of underdeveloped continent soon, but then they really have to rule the continent efficiently and also shake off their tradition of corruption and weak rule of law.

This study has showed that in a specific sector Africa is already an opportunity for a profitable business. Almost every region in the world offer special circumstances to create a synergy with a certain sector. And nobody knows what will happen with her attractiveness if Africa can make more steps to development.

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Annexure

Determinants of floricultural investment in Kenya & Uganda

Glossary of the definitions

1. Political stability

Stability of the political system, organization and power in order to secure the sovereignty of the state (e.g. no wars, rebellions or turmoil in the country).

2. Political relations

The diplomatic relationship of the host country with the home country and the other economic powers (e.g. no embargo's, disagreements between countries).

3. Economic stability

Stability of the economy as a result of inflation rates, exchange rate policies, credit risks and economic performance of a country.

4. Liberalization

The openness, accessibility and flexibility of the economy without trade barriers, protectionism and high costs for opening and closing business.

5. Labor market flexibility

The ease of hiring and firing employees in order to realize flexible business.

6. FDI incentives

Incentives of the government to attract foreign direct investment by offering financial or/and fiscal subsidies or grants.

7. Bureaucracy

The ease of entering the market by passing through the bureaucratic procedures (e.g. registration of property, fiscal administration)

8. Trade Agreements and Organizations

Participation in trade agreements and organizations like the WTO or East African Community, which improves the trade conditions and image of the country.

9. Human Capital

Availability and quality of employees.

10. Labor costs

Costs of labor in country of investment.

11. Physical infrastructure

Quality of roads, airports, offices, hotels, internet, etc

12. Level of technology

Availability of technology for business activities (e.g. ICT or renewable energy)

13. Market size

Current size of the market in floriculture products in the host country.

14. Market development
Growth or shrink of the demand on the floral market in the host country.

15. Rule of law
To what extent business actors in society observe the legal system.

16. Corruption
To what extent people misuse their power for other purposes.

17. Safety
Personal safety of employees and safety of physical properties of the company in the host country (e.g. no crime, plundering).

18. Multilateral aid incentives
Incentives of multilateral organizations to invest in developing countries.

19. Bilateral aid incentives
Incentives of the Dutch government/NL Agency to invest in developing countries.

20. Health
Problems caused by the possibly bad state of health of people/employees in the country (e.g. sickness, low life expectancy, own health)

21. Poverty
Problems caused by the possibly high degree of poverty of people/employees in the country (e.g. stealing, negative image)

22. Floriculture policies
Specific floriculture policies of the host country to attract/protect firms in the floriculture sector.

23. Floriculture associations
Existence of associations in the floriculture sector in the host country which could make it easier to do business in this sector.

24. Climate
Specific climate circumstances for the floriculture production.

25. Water management
The availability and costs of water, necessary in the floriculture sector.

26. Land accessibility
The costs, accessibility and ease of obtaining land for floriculture production.

27. Power supply
The costs and reliability of the supply of electricity, necessary in the floriculture sector.

28. Distance to market
The distance in kilometers to transport the floriculture products to the market.

Semi-structured interview schemes

Floricultural investor in Uganda

- What are 5 key determinants of your floricultural company in Uganda?

- Can you explain why exactly the 1st determinant is important for your company particularly?
- Follow-up questions

- Can you explain why exactly the 2nd determinant is important for your company particularly?
- Follow-up questions

- Can you explain why exactly the 3rd determinant is important for your company particularly?
- Follow-up questions

- Can you explain why exactly the 4th determinant is important for your company particularly?
- Follow-up questions

- Can you explain why exactly the 5th determinant is important for your company particularly?
- Follow-up questions

Floricultural investor in Kenya

- What are 5 key determinants of your floricultural company in Kenya?

- Can you explain why exactly the 1st determinant is important for your company particularly?
- Follow-up questions

- Can you explain why exactly the 2nd determinant is important for your company particularly?
- Follow-up questions

- Can you explain why exactly the 3rd determinant is important for your company particularly?
- Follow-up questions

- Can you explain why exactly the 4th determinant is important for your company particularly?
- Follow-up questions

- Can you explain why exactly the 5th determinant is important for your company particularly?
- Follow-up questions

East African expert

- Can you generalize the chosen key determinants for the floriculture sector in Uganda?
- Follow-up questions

- Can you generalize why exactly these determinants are important for the floriculture sector?
- Follow-up questions

- To what extent are these determinants generalizable for the overall FDI in Uganda?
- Follow-up questions

- Which determinants can be added if we look to the overall FDI?
- Follow-up questions

- Can you explain why exactly these determinants are important in general?
- Follow-up questions

- Can you generalize the chosen key determinants for the floriculture sector in Kenya?
- Follow-up questions

- Can you generalize why exactly these determinants are important for the floriculture sector?
- Follow-up questions

- To what extent are these determinants generalizable for the overall FDI in Kenya?
- Follow-up questions

- Which determinants can be added if we look to the overall FDI?
- Follow-up questions

- Can you explain why exactly these determinants are important in general?
- Follow-up questions

- What are the key differences between Uganda and Kenya in the floriculture sector?
- Follow-up questions

- What are the key differences between Uganda and Kenya in the overall economy?
- Follow-up questions