THE DETERMINANTS OF TRANSFER PRICING POLICIES BY MULTINATIONAL COMPANIES IN RWANDA

A CASE STUDY OF AGRI-BUSINESS, ALCOHOLIC & BEVERAGES, AND MOBILE PHONES COMPANIES

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DECLARATION

I, Edmund Jillani Sadi a student of University of Rwanda, College of Business and Economics, hereby, declare that the work presented in this thesis is original, and to the best of my knowledge it has never been submitted for the award of a degree in any university.

Sign: ……………………………………….. Date: ……/………/…………

EDMUND JILLANI SADI

CERTIFICATION

This is to certify that the thesis entitled ”Determinants of Transfer Pricing Policies by Multinational Companies in Rwanda” has been submitted for examination with my approval as university supervisor.

Sign: …………………………………… Date: ……/………/…………….

DR. CLEMENT BULA BASUAYI

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DEDICATION

This work is dedicated to my wife Agnes and my children Sadi, Mwamuye and Mbodze for their full support and patience for the period that I left them in Kenya to attend to my studies in Rwanda.

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First and foremost I thank God Almighty for having taken me this far in my struggle to quench the thirst for knowledge.

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May God Almighty pour unto them his unending blessings.

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ABBREVIATIONS AND ACRONYMS

ALP	Arm's Length Price
APAs	Advance Pricing Agreements
BEPS	Base Erosion and Profit Shifting
ETRs	Electronic Tax Registers
MNCs	Multinational Companies
MNEs	Multinational Enterprises
OECD	Organization for Economic Cooperation and Development
RRA	Rwanda Revenue Authority
TP	Transfer Pricing
TPP	Transfer Pricing Policy

ABSTRACT

Transfer pricing has gained a lot of attention within the multinationals, however, studies on what determines transfer pricing policies in developing countries are scarce. In that view, this study assessed the driver factors of transfer pricing policies by multinational companies in Rwanda. In order to achieve the above objective, quantitative approach was used with the study population of 32 registered multinational companies in Rwanda that was considered as a sample. The univariate analysis was done using frequency tables, means, and standard deviation while for multivariate analysis multiple regression model was applied. With the univariate analysis, as a test of the legal factors, high withholding taxes on out sourced services showed that it influences the non-usage of arm's length transfer pricing with a mean of 4.38 and standard deviation of 0.496, while heavy punishment to tax evaders showed the least influence with a mean score of 2.85 and standard deviation of 1.515. On the political factors, majority of the respondents indicated that the political environment influences transfer pricing (with a mean of 4.42 and standard deviation of 0.703) while under internal economic factors, most respondents indicated that efforts to have an increased market share of an affiliate positively impacts on the transfer pricing strategy (mean of 4.23, standard deviation 0.43). The external economic factors on the other hand showed that majority of the respondents stated that the existence of price controls in the country influenced transfer pricing policy as reflected by a mean score of 4.12 and standard deviation of 0.516, whereas on the informal cross-border trade many responded that the existence of informal cross-border trade had influence on transfer pricing with a mean of 4.27 and standard deviation of 0.452. The results from multiple linear regression using stepwise approach, showed that the internal economic factors of the firm, and the informal cross-border trade play a significant role in the selection of transfer pricing policies by the multinational companies in Rwanda. The study suggests to the Rwandan government to formulate legislative strategies or laws on transfer pricing so as to help the multinational corporations on their transfer pricing policies, which should also help the tax authorities to understand with ease the guiding principles behind the pricing policies taken by the multinational corporations operating in the country.

Definitions of Key Concepts

Double Taxation: This is a taxation principle that refers to income taxes paid twice from the same source of earned income (Paudice G. 2014).

Multinational Corporation: Is a business organisation whose activities are located in more than two countries and usually have a centralized head office where they coordinate global management (Dunning & Lundan, 2008).

Regulations: These are principles or rules (with or without the coercive power of law) employed in controlling, directing or managing an activity, organization, or procedure (Maither L. 2014)

Revenue Loss: Loss of profits/income or a company makes less from operations than expected due to external and internal factors (Mckinley & Owsley, 2013).

Transfer Pricing: Is the pricing of goods, services, and financial instruments when transferred between affiliates in various countries within an organization (Captain & Brown, 2014).

Informal cross-border Trade: This is trade between neighbouring countries conducted by vulnerable, small, unregistered traders (UNCTAD 2018).

CHAPTER ONE

1.0 INTRODUCTION

1.1. Introduction

This chapter comprises of the background of the study, statement of the problem, objectives of the study, the research hypothesis, and significance, scope and structure of the study.

1.2. Background of the Study

Multinational Enterprises (MNEs) originated back to the sixteenth centuries during the major colonising and imperialist ventures from Western Europe, notably England and Holland (Jed G. et al 2000). Organization of Economic Cooperation and Development (OECD) report states that almost 60% of world trade takes place amongst multinational companies (UN June 2001). Business within a multinational entity is referred to as intra-firm trade while the price related to intra-firm trade is the transfer price. A lot of focus in recent times has been given to the notion of transfer pricing and this can be explained by the following reasons. First is the on-going establishment of the production of final goods to appropriate and suitable territorial boundaries where infrastructure, costs of production, incentives to taxes, skilled labour force and other factors play a role. Secondly, the concentration of service functions within the MNEs where the parent company usually has sub-holdings and intermediary holdings in different countries. This is where for instance research services could be concentrated in centres serving the whole group or specific parts: financial companies may serve as internal banks, and the manufacture of the final goods may take place in various countries. Third, is the global phenomenon of having a 24 hours working day, transacting in financial instruments and commodities which has been facilitated by all forms of modern communication means.

Multinational enterprises can put a price for intra-firm trade, which we refer to as transfer price. Transfer price (TP) is therefore the process of setting up a price for a transaction of exchanging goods, services and financial instruments between affiliates in various countries within an organization (Captain & Brown, 2014). However, there are the determinants or the factors which drive the kind of transfer pricing strategy that an MNE would adopt, and that is what this study would like to establish.

With the globalization of the world economy, TP is becoming increasingly an issue of concern to revenue authorities in executing their mandate of collecting revenue through taxation. Transfer pricing has grown into a global issue because of the increase in international transactions which generate revenue for Multinational Enterprises (MNEs), and the realization by these businesses that through tactical management (manipulation) of the tax rules in different territorial jurisdictions, they can report higher profits than their competitors (OECD, 2009). Globalization is causing Multinational corporations (MNCs) to have an important role in the economy of most nations. It has been approximated that two-thirds of all trade transactions globally take place between related parties with developing countries being no exception (World Bank, 2011).

Transfer pricing is considered as a development financing issue by International organizations, as without sufficient tax revenues, a country's ability to mobilize domestic resources for development can be hampered (Sundam, 2012). Recent advancements have further expanded the attention of transfer pricing, including activities to extend review extensions and complexities, reclassify assessment positions, and uphold more severe TP documentation necessities. A case in point is the OECD's project on Base Erosion and Profit Shifting (BEPS) which aims at developing approaches to addressing concerns that multinational corporations are incorrectly avoiding taxes and reducing their tax liabilities through BEPS activities (Captain & Brown, 2014). Through a progression of fifteen (15) action plans, the OECD distinguishes activities expected to address BEPS, sets due dates to actualize the activities, recognizes the assets required and the technique to execute the activities. Along these lines, the OECD likewise issued a white paper that stresses straightforwardness in exchange estimating documentation to empower hazard appraisals all through the production network. These are two examples of the dynamic and ever-changing sphere of transfer pricing (Captain & Brown, 2014).

Sonja (2012) examined tax avoidance activities in the United States Multinational Corporations and noted that MNCs often use their foreign entities for income tax avoidance, and Electronic Tax Registers (ETRs) record this type of avoidance of tax. As an example, moving income from a high-tax territory to a jurisdiction with low-tax reduces a multinational corporation's worldwide ETR. While under relevant laws and regulations, prices for related-party transactions should be set according to comparable market prices similar to other arm's length transactions; in practice, MNCs treat international transfer pricing as a mechanism to maneuver funds internationally and to choose the countries in which they wish profits to be reported (Chan & Chow 1997). They strategically select transfer prices so as to maximize global tax savings, minimize operating risks and circumvent restrictions imposed by host governments.

Transfer pricing is generally used as a strategic tool by MNCs in decision making (Heimert, 1997: 12); for realisation of main activity goals and minimization of tax (Cooper,2000:13-16); and for the maximization of profits of their subsidiaries that operate in countries with lower rates of tax (Fraedrich and Bateman, 1996: 17).

1.3. Statement of the Problem

Captain & Brown (2014) and Silberztein (2010) note that transfer pricing is an enormous challenge globally, but that the challenge is more acute in developing countries. This is particularly so for developing countries as their economies have recently opened up or are in the process of opening up, thus attracting large amounts of foreign direct investment (FDI) from MNEs. However, this study did not precisely state the factors that influence the transfer pricing of multinational companies, which is the aim of this study. In contrast, Richard *et al*, (2013) study, looks at the major determinants of transfer pricing aggressiveness. The study used a sample size of 183 publicly-listed Australian firms for the year 2009, the results from regression showed that profitability, firm size, intangible assets, leverage and multi-nationality are significantly positively associated with transfer pricing aggressiveness after controlling for industry-sector effects. The extra regression results showed also that firms supplement their transfer pricing aggressiveness through the combined effects of intangible assets and multinationality.

Despite that the above mentioned studies recognized that the transfer pricing is still a challenge within developing countries and in Richard et al (2013) study identified determinants such as, profitability, the size of the firm, leverage, intangible assets and multinationality, however, few studies have been conducted within Rwandan context that use determinants such as size of the firm, profitability, leverage, intangible assets and multinationality.

Mohammad *et al*, (1990), examined the influence of legal factors, political factors, internal and external factors and firm size on the choice of international TP strategies of U.S multinationals. The sample study was 791 U.S multinationals, and the results showed that legal constraints and firm size were major determinants in the choice of international transfer pricing strategies by U.S multinationals. PWC, (2018) in their income tax alert document after Rwanda had gazzetted some changes to her income tax policies, stated that " the changes announced by the government of Rwanda regarding transfer pricing, requires that related parties involved in controlled business transactions to have justifying documents that their prices are applied according to arm's length principle. That is business entities are expected to have transfer pricing strategies and documentation, and failure to which will lead to the Rwanda Revenue Authority (RRA) to adjust transactions prices in accordance with the general rules on transfer pricing as issued by the order of minister of finance."

Furthermore, there are few studies in Rwanda that have assessed the roles that have been played by legal factors, political factors, size of the firm, internal factors, external factors, and the informal cross-border trade on transfer pricing policy of the multinational corporations. On top of the above mentioned variables, the role that is played by informal cross-border trade has never been well-known. This cross-border informal trade cannot be ignored as the products seem to pass in smaller quantities but they are much available within the third world countries and selling at lower prices than what is in the normal market provided by the multinational companies. Certainly this will have an effect on the MNEs as to the strategy that they will use in the transfer prices of goods dealt with. Informal cross-border trade is trade between neighbouring countries conducted by vulnerable, small, unregistered traders (UNCTAD 2018). According to UNCTAD (2018) the informality refers to the status of the trader (unregistered), not necessarily to the trade itself (captured or unrecorded by the official customs system).

It is in this context that this study looks into the roles of legal factors, political factors, internal economic factors, external economic factors and the informal cross-border trade on the TP policies of the multinational companies operating in Rwanda.

1.4. Objectives of the Study

The general objective was to assess the factors which influence transfer pricing policies of multinational companies in Rwanda.

1.4.1 Specific Objectives

The study was guided by the following specific objectives:

- To assess the relationship between the legal factors and transfer pricing policies by multinational companies in Rwanda.
- To assess the relationship between the political factors and transfer pricing policies by multinational companies in Rwanda.
- To assess the relationship between the internal factors of the firm and transfer pricing policies by multinational companies in Rwanda.
- To examine the relationship between firm's external factors and transfer pricing policies by multinational companies in Rwanda.
- To assess the relationship between informal cross-border trade and the transfer pricing policies by multinational companies in Rwanda.

1.5. Research Hypotheses

The main question for this study is 'What are the factors that contribute to the transfer pricing policies by multinationals in Rwanda?'

And following are the Sub-questions with their hypotheses:

- Are legal factors responsible for the transfer pricing policies of Multinational companies in Rwanda?

Ho: The legal factors are not responsible for the transfer pricing policies of Multinational companies in Rwanda.

- Are political factors responsible for the transfer pricing policies of Multinational companies in Rwanda?

Ho: Political factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

- Are internal economic factors responsible for transfer pricing policies by multinational companies in Rwanda?

Ho: Internal economic factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

- Are external economic factors responsible for transfer pricing policies by multinational companies in Rwanda?

Ho: External economic factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

- Is the informal cross-border trade responsible for transfer pricing policies by multinational companies in Rwanda?

Ho: The informal cross-border trade is not responsible for transfer pricing policies by multinational companies in Rwanda.

1.6. Significance of the Study

The study would be of importance to the following:

1.6.1 Personal Interest

This study will benefit the researcher, as he will understand the dynamics of transfer pricing strategies used by multinationals in Rwanda.

1.6.2 Researchers and Academicians

The study may also be of benefit to academicians and researchers through contributing towards closing the gap that exists in regard to transfer pricing in Rwanda as an emerging market as well as to bring forth issues of interest that require further redress by future scholars. By virtue that TP is a relatively globally evolving concept and locally, this study may contribute greatly to the existing literature and may be very useful to the academic fraternity and form a basis for further research on transfer pricing.

1.6.3. Government Agencies

The study may be of significance to government agencies such as the Rwanda Revenue Authority (RRA) through highlighting the determinants considered by the MNCs in coming up with their TP rules especially with regard to the loopholes that exist in the current legislation on transfer pricing. On the other hand, with increased revenue targets by RRA to meet developments and repaying of state debts, this study matters to the income tax authorities, and would understand how transfer pricing impacts on the taxes that it can charge upon corporate profits. The study might therefore enlighten the authorities to strike a balance on maximizing taxes collected and at the same time seeking to avoid any loss of revenue through the use of transfer pricing mechanisms that are likely to deprive them of their revenue. A clear understanding of the main determinants of the TP policies by the MNCs and the government agencies would ensure smooth flow of MNCs activities in Rwanda without any tax legal battles.

1.6.4 Potential Investors

This study may be of importance to a number of stakeholders, for instance the prospective investors who are willing to set up companies in Rwanda. Investors are inspired to invest in areas or regions that promise good returns for their investment. By highlighting the transfer pricing practice in Rwanda and the potential factors affecting transfer pricing policies among MNCs operating in Rwanda, the investors would make sound decisions on how to approach the Rwandan business environment.

1.6.5 Multinational Companies

The study might be of value to the multinational companies as it may enlighten the companies about transfer pricing and the factors affecting transfer pricing policies in among MNCs operating in Rwanda. The findings and recommendations made in this study may greatly help them to make sound decisions as they decide to implement transfer pricing policies in their companies in future. This may assist the company management team to implement the transfer pricing policies with some background knowledge of the factors to be considered in their transfer pricing policy formulation.

1.7 The Scope of the Study

This study was limited to Rwandan multinational companies that were registered in Rwanda and dealing in fast moving products specifically those in agri-business, beverages and alcoholic drinks, and mobile phones. The target population was constituted of 32 multinational companies and this study considered the universal sampling. The study period was from 2010 to 2018.

1.8 Limitations of the Study

During the process of carrying out this study, a few challenges were experienced by the researcher. As regards to methodology on data collection some respondents were reluctant in providing the necessary data as the research study dealt with internal business issues which raise suspicion on the use of the information. To overcome this challenge the researcher first obtained permission from the senior management to collect data from the organization. The respondents were also assured confidentiality of the information given which was used for study purposes only. The questionnaires used were not prompt to disclose the respondents' identity.

Another foreseen challenge was the problem of getting accurate data or information from the respondents. This was because the researcher did not have prior knowledge of the respondents on whether they could give adequate information on the matter under research. To overcome this problem, the researcher ensured that the right staff in the organization were targeted as respondents to the study. The researcher also personally administered the questionnaire to the respondents so that clarification and interpretation to the questions were made for the respondents to fully understand before they gave information.

With regards to geographical coverage, some of the multinationals were far out of Kigali and the researcher had to make advance arrangements so as to be able to honour the appointments as scheduled. There are instances where the researcher would be late due to logistical problems.

1. 9 Thesis Structure

This thesis is divided into five chapters:

Chapter one: This is the preliminary part which looks at the whole question of transfer pricing, how transfer pricing came into being, and defines the objectives of the research and the problem statement to be researched on. It also highlights the importance of the research to other researchers and to the policy makers.

Chapter two: This area looks at the literature which has already been done on the area of transfer pricing by different researchers in different countries and also in Rwanda. It consolidates the general view of the transfer pricing issues, the relevant theories and also tries to narrow down to the gap that exists in their research and what am trying to research on to fill part of the gaps.

Chapter three: This chapter addresses the methodology used in gathering the relevant data to help the researcher come up with relevant findings which can be used to make some sound conclusions and recommendations.

Chapter four: This looks into the data analysis and interpretation.

Chapter five: Deals with discussion of the findings, conclusion and recommendations.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter covers theoretical literature review, empirical literature review, and conceptual framework.

2.2 Theoretical Literature Review

The theoretical literature review looks at theories attributed by other authors and scholars that are relevant to determining transfer pricing policies. The study was guided by Theory of Optimal transfer prices, Institutional Theory, and Transactions Costs Theory. Hirshleifer (1956), in a study of the economic model, discussed that if the intermediate market is competitive, then the transfer price should be the market price. If the intermediate market is imperfectly competitive, he said, then the transfer price should be the marginal manufacturing cost. However, the economic model tend to ignore the human dimension in transfer pricing decisions. Behavioral models have been developed to take into cognisance the human aspect in the transfer pricing model. Rather than depending on cost structures and market forces for determining transfer price, the behavioral model advocates for the use of negotiated transfer pricing for attaining organizational goals. Watson and Baumler (1975) demonstrated that successful firms handle intra-departmental conflicts through negotiated transfer prices. Acklesburg and Yukl (1979) suggested that negotiated transfer prices can result in better relations and cooperation amongst divisions.

2.2.1 Theory of Optimal Transfer Prices

There is an extensive assortment of examination on ideal exchange costs that stems fundamentally from the microeconomics and book-keeping works. There are a few thorough review of this work for example Eccles (1985), and Eccles and White, (1988). In his fundamental article, Hirshleifer (1956) determines ideal exchange costs that lead autonomous profit centres to make decisions that make the best of firm profits. Accepting that the working expenses of every middle are free of the level of operations in different focuses (mechanical autonomy) and that extra outer deals by an inside don't decrease outside interest for the other focuses items (demand independence). Hirshleifer shows that the optimal transfer price is the marginal cost of producing the intermediate good or service. All the more by and large, the middle that delivers the moderate item ought to give a timetable of minimal expense connected with various yield levels so that the inside that creates the finished result can pick the ideal joint level of yield. The main situation under which this ideal value rises to the business sector cost for the halfway item is the point at which the outside business sector for the item is impeccably focused. Negligible exchange costs give the middle that creates the final result with the data important to deliver at the level that is ideal for the firm overall - the level that compares the minor expense of generation with minimal income.

Benke and Edwards (1980) have same views on coming up with transfer prices. They observed the transfer pricing practices of 19 firms to find principles that other organizations could use to implement transfer pricing policies that are appropriate for their individual circumstances. Their study led to a general rule: an internal transfer price should equal the product’s standard variable cost plus the opportunity cost associated with outside sales that were lost due to internal sales. When there is excess production capacity or there is no reliable external price for the product, this opportunity cost is zero. The authors explicitly exclude fixed costs from transfer prices because including them in the internal price transforms them into variable costs to the purchasing centre, thus distorting decision making in that centre. However, they suggest several ways to pay for these fixed costs without interfering with the evaluation of centres. One way is to leave them in the selling centre but not include them in profit calculations. Another is to transfer them to the corporate level. A third option is to transfer them to the purchasing centre through periodic charges that are unrelated to the volume of purchases (RAND Corporation, Undated).

Eccles interviewed 144 managers in 13 firms from the chemicals, electronics, heavy machinery, and machinery components industries to determine how transfer prices are determined and managed in practice. Eccles (1985 and 1991) and Eccles and White (1988) deliberate the three most common transfer pricing policies observed in the survey: authorised full-cost transfers, authorised market-based transfers, and exchange autonomy in which prices range between full cost and market. In addition to observing variety in policies across firms, the authors noticed multiple policies even within firms corresponding to different product strategies and environments. This discrepancy between theory and practice in particular, a lack of marginal cost pricing and frequent use of full-cost transfers led to a new theory to explain transfer pricing practices.

This theory is therefore critical in guiding this study as it helps analyse optimal transfer pricing, with optimal being defined as transfer pricing that maximises overall firm profits. Transfer pricing entails the setting, analysis, documentation, and adjustment of charges of goods and services within an organization with multi-divisions, particularly in regard to cross- border transactions. Intra-company transactions across borders are growing rapidly and are becoming much more complex. Compliance with the differing requirements of multiple overlapping tax jurisdictions is a complicated and time-consuming task. Based on the principle of this theory, firms must set the optimal transfer prices to maximize company profits.

2.2.2 Institutional Theory

Institutional theory is a "theory on the deeper and more resilient aspects of social structure which considers the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behavior" (Scott, W. Richard 2004). Different components of institutional theory explain how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse.

William R. Scott (1995, 235) defines institutions as "social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life". Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artifacts. Institutions operate at diverse levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition mean stability but are subject to change processes, both incremental and discontinuous. According to Kraft's Public Policy (2007): Institutional Theory is "Policy-making that emphasizes the formal and legal aspects of government structures."

Scott (1995) indicates that, in order to survive, organizations must conform to the rules and belief systems prevailing in the environment (DiMaggio and Powell, 1983; Meyer and Rowan, 1977), because institutional isomorphism, both structural and procedural, will earn the organization legitimacy (Dacin, 1997; Deephouse, 1996; Suchman, 1995). For instance, multinational corporations (MNCs) operating in different countries with varying institutional environments will face diverse pressures. Some of those pressures in host and home institutional environments are testified to exert fundamental influences on competitive strategy (Martinsons, 1993; Porter, 1990) and human resource management (HRM) practices (Rosenzweig and Singh, 1991, Zaheer, 1995). They argue that Corporations also face institutional pressures from their most important peers: peers in their industry and peers in their local (headquarters) community; for example, Marquis and Tilcsik (2016) show that corporate humanitarian donations are largely driven by isomorphic pressures that companies experience from their industry peers and local peers.

Raynard, Mia & Johnson, Gerry & Greenwood, Royston. (2015) state that Institutional Theory is based on an alternative set of assumptions that centre on the concept of social construction that is the internal and external world of organizations which is subjectively understood or perceived by people in those organizations. They have summarized the basic principles of institutional theory as follows:

1) Organizations are not autonomous agents seeking to maximize economic opportunities but are set within a social web of norms and expectations that constrain and shape managerial choice. These social rules or logics provide predominant frameworks for interpreting social situations and prescribe appropriate collective purposes and behaviours. A manager’s choice of strategies is thus not an autonomous act but a selection constrained by social prescriptions.
2) Social prescriptions are transmitted to organizations through such agencies as the state, professional institutes, consultants, analysts, the media, and other carriers of ideas and beliefs about appropriate managerial conduct.
3) By conforming to social prescriptions, organisations secure approval, support and public endorsement, thus increasing their “legitimacy.”
4) Social prescriptions may become “taken-for-granted”, i.e institutionalised, and thus very difficult to change or resist.

5) Conformity to the social prescriptions rather than attendance to the "risk environment" e.g markets, may adversely affect efficiency and other economic measures of performance, but may improve long term chances of survival. When an organization is faced with multiple, potentially conflicting, logics that prescribe different courses of action, it faces institutional complexity, a situation that can generate tension, conflict and organisational instability.
6) Because similar organisations experience similar social expectations and pressures of conformity, they tend to adopt similar strategies and managerial arrangements. This is the process of "isomorphism".

From the institutional theory, we are therefore learning that for the organizations to be able to survive and thrive, they must be able to conform to the rules and belief systems in their operating environment and that it is a policy making mechanism that is based on formal and legal structures. We can therefore use this theory to examine the determinants of the transfer pricing policy from the perspective of the multinational and from the governments in the host countries.

2.2.3 Transactions Cost Theory

This is a theory accounting for the actual cost of outsourcing production of products or services including transaction costs, contracting costs, coordination costs, and search costs. The inclusion of all costs is considered when making a decision and not just the market prices. This theory basically illustrates the make versus buy decision for the companies.

According to this theory, there will be transactions costs whenever dealing with another external party. Such costs will be:

1) Search and information costs:- to be able to find the supplier
2) Bargaining and decision costs :- to be able to buy the product/service
3) Policing and enforcement costs: - to be able to monitor the quality.

   The transactions costs can occur within a company, departments or business units and three variables have been identified to operate in an economic formula to determining behavior and thus decisions.

   a) Asset specificity – this looks into the amount the manager will personally gain.

b) Certainty or otherwise of being caught.
c) Frequency- the endemic nature of such action within the corporate culture.

The transaction cost economics looks into how partners in trade shield themselves from the hazards that go with exchange relationships. Williamson (1975, 1985, 1995), Klein, Crawford, and Alchian (1978), and Grossman and Hart (1986) and Hart and Moore (1990), developed that Transactions Cost Economics (TCE) maintains that in a complex world, contracts are typically incomplete and as a result of this incompleteness, parties who invest in relationship-specific assets expose themselves to a hazard: If conditions change, their trading partners may try to expropriate the rents accruing to the specific assets. One way to safeguard those rents is through integration, where the parties merge and eliminate adversarial interests.

This would partly explain why the MNEs would like to deal with each other within the same set up so as to maximize on the transactions costs.

There is consensus among researchers that transfer-pricing policies fall into two broad categories:

(i) Prices administered by headquarters and
(ii) Prices autonomously negotiated between divisions of a firm (Eccles, 1985; Kaplan and Atkinson, 1989; Edlin and Reichelstein, 1995).

There is less agreement about how firms choose between those centralized and decentralized approaches when setting prices for intra-firm transactions. Firm culture, management strategy, accounting measurement and marginal efficiency, among other factors, have all been suggested as either theoretical or empirically-observed principles. Economizing principles have been prescribed in theory (Hirshleifer, 1956), but their empirical importance has been questioned (Eccles and White, 1988).

Howard A. Shelanski (2004) established that transaction cost economics provides the framework for identifying important transaction-level variables whose impact on a firm's choice between negotiated and administered transfer pricing can be analysed using qualitative-choice methods. The results provided evidence that transaction cost economizing is a significant determinant of transfer pricing policy. The findings of that study complemented and supported theoretical work by Holmstrom and Tirole (1991).

Shelanski (2004) indicates that transfer pricing is one of the key components of how MNEs manage and structure all intra-firm transactions and how the costs of resources and profits are allocated among different business units and different geographies.

2.3 Conceptual Framework

Figure 2.1 presents the conceptual framework which illustrates the interaction between the independent and the dependent variable. The independent variables are political factors, legal factors, internal factors, external factors and informal cross-border trade while the dependent variable is transfer pricing policies. Under the transfer pricing policies we have the non-market based transfer pricing policies and the market based transfer pricing policies.

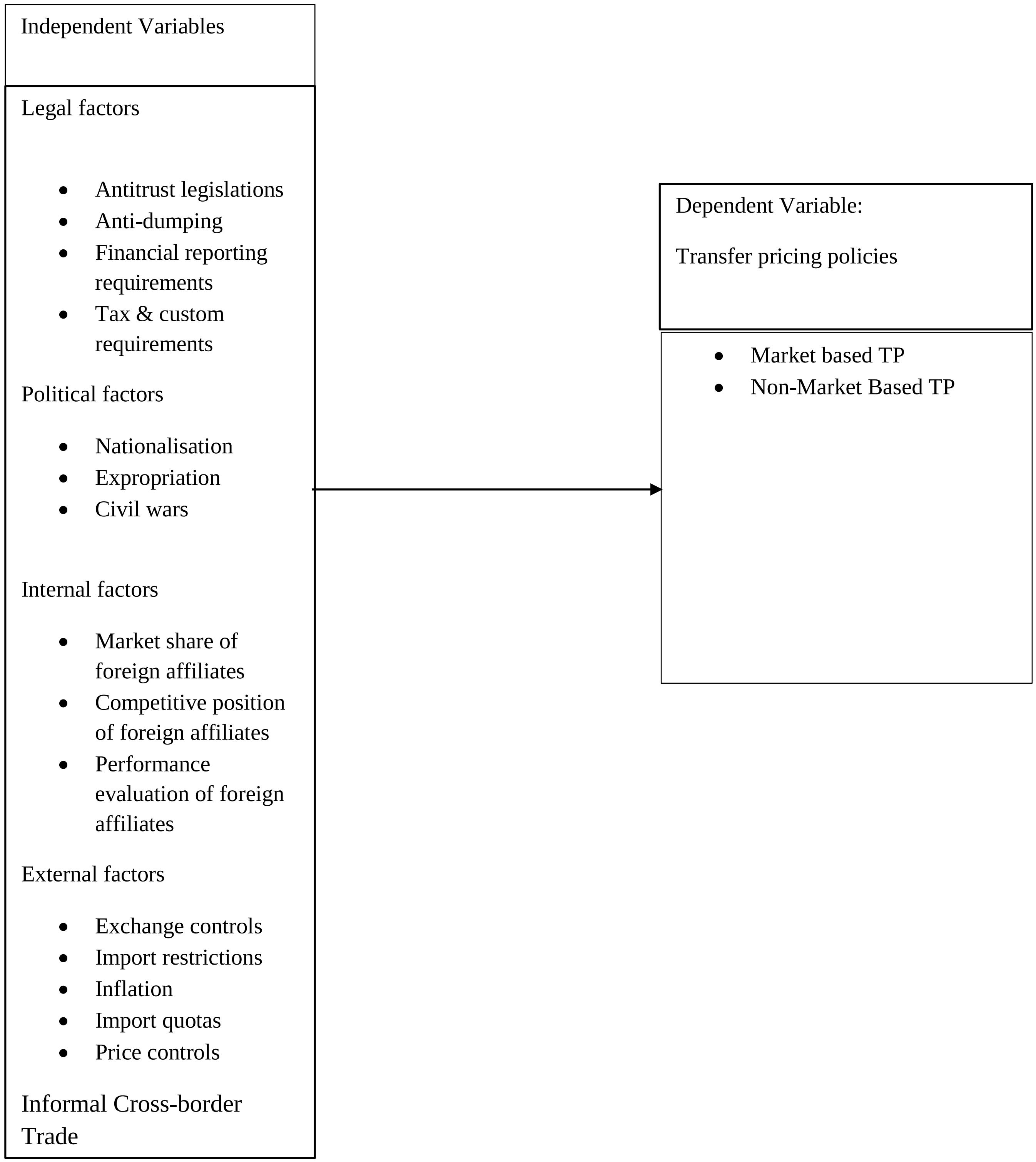

Figure 2 1: Conceptual Framework

2.4 Empirical Literature Review

This empirical literature review section discusses past studies by other author on the specific research objectives. It addresses the concept of transfer pricing, methods of transfer pricing, policies and challenges of transfer pricing.

2.4.1 Concept of Transfer Pricing

Transfer pricing is the pricing of goods, services, and financial instruments when transferred between affiliates in various countries within an organization (Captain & Brown, 2014). Ngumy et al. (2010) defines transfer pricing as the estimating game plans set by multi-national related entities in respect of transactions between them, for example, the offer of merchandise, arrangement of administrations, exchange of immaterial resources, loaning or acquiring of cash and any other transactions which may affect the profit or loss of the entities. A transfer price affects the distribution of total profits across entities in different tax jurisdictions and is along these lines an essential determinant of the total taxes paid by the MNC. From a worldwide point of view, the world economy is turning out to be more coordinated, and MNCs represent an expanding extent of the worldwide economy. Intercompany business transactions reflect a growing factor of cross-border trade and according to the Organization for Economic Cooperation and Development (OECD), approximately 60% of world trade takes place within multinational enterprises (Captain & Brown, 2014).

2.4.2 Reasons for Using Transfer Pricing

Manpreet K. (2013) states that there are four main reasons which motivates a company to use transfer pricing, and these are:-

2.4.2.1 Saving on taxes- The best known motivator to the use of transfer pricing is difference in taxes among different jurisdictions. If the profits tax rates are higher in country B than in country A and the parent company which is based in A supplies imports to the subsidiary in B, it would then pay the firm to overprice these transactions and transfer profits to A in so long as the difference in effective tax rates is more than the tariff in B on those imports.

2.4.2.2 Remittance of dividend, royalties, interest on loan, technical and management fees Transfer pricing is only one of the ways by which a multinational corporation can transfer funds. Other avenues to transfer funds that a transnational corporation may consider are dividends, royalties, interest on loans, technical and management fees, etc. Limits imposed on remittance of dividends etc. can be a contributing factor to the use of transfer pricing.

2.4.2.3 Changes in exchange rate- Transfer pricing may constitute a significant element of the monetary and financial management of a multinational corporation. For instance, when devaluation is believed to be inevitable, it is likely that a corporation will, to the extent possible, move profits and cash balances out of a country via transfer pricing mechanism.

2.4.2.4 Inducing goal congruent decision- It might not be economical for a company to produce a product internally. The purchasing division may be able to get a similar product for a lower cost than the transfer price, while the supplying division may be able to use the capacity to produce something which would be more profitable. However, there could be strategic reasons which force the two divisions to buy internally.

2.4.3 Transfer Pricing Methods

There are several different methods for determining transfer prices. The basic methods are market based pricing, negotiated transfer pricing and cost-based transfer pricing. The transfer pricing method used must be the one most beneficial to the enterprise. The following, interrelated criteria should be applied to assess appropriateness of the transfer pricing methods that are currently being used by profit or investment centres (Doupnik et al, 2007; Eccles, 1985).

a) **Market-based transfer pricing-** Market-Based Pricing occurs when a perfectly competitive market exists in the outside market. This implies that the transfer price and the market price for the commodity being transferred are equal. This type of market is very rare; prices are almost always influenced by producers. This approach is often used by the producers.
b) **Negotiated transfer pricing-** Under this, the company does not specify rules for the determination of transfer prices. Divisional managers are encouraged to negotiate a mutually agreeable transfer price. In some companies, negotiated transfer pricing is

usually combined with free sourcing, though, headquarters maintains the right to mediate the negotiation process and impose an "arbitrated" solution.

c) **Cost-based transfer pricing-** In the lack of an established market price most companies base the transfer price on the production cost of the supplying division. It is the simplest transfer pricing method. Under the cost-based transfer pricing the different methods to calculate transfer pricing are- Full Cost, Cost-plus and Variable Cost plus Lump Sum charge.

2.4.4 Policies of Transfer Pricing

Transfer pricing has become by far one of the most significant and contentious international tax issues facing multinational corporations, whatever their size (Ngumy *et al.*, 2010). The exceedingly complex nature of transfer pricing is at times misjudged as a plan by a MNC to move profits to affiliates in low-tax jurisdictions. In all actual sense, arm's-length transfer pricing in its present structure, when well-managed, is an effective system for both tax authorities and companies to reduce audit controversy while demonstrating to allocate income fairly among multiple taxing jurisdictions around the world. Conversely, if inadequately administered, transfer pricing can be costly for all stakeholders, leading to lengthy audits and litigation, transfer pricing adjustments, potential non-deductible penalties, and double taxation (Captain & Brown, 2014). With varying functions being performed by decentralised affiliates worldwide, MNCs face the challenge of establishing their transfer prices and defending them against tax authorities on both sides of each transaction, with all looking to maximize their own interests.

In Rwanda, the operative legal provision on investment incentives is contained under law number 06/2015 of 28/03/2015. Prior to the coming into force of the Income Tax (Transfer Pricing) Rules there were no guidelines to assist multinational companies to comply with the Rwanda Revenue Authority code, particularly with the method of determination of arm's-length pricing. Multinational companies had, in the absence of any such regulations, generally applied the universally recognized Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations issued by the Organization for Economic Cooperation and Development (OECD), which the Rwanda Revenue Authority had been reluctant to accept, a common feature with most developing countries. For example in 2005 the High Court of Kenya held, in the case of Unilever Kenya Limited v the Commissioner for Income Tax, that in absence of any guidelines on transfer pricing in Kenya, OECD guidelines were acceptable[eKenya Law Reforms(eKLR), 2005]. It was in this context that the minister of finance enacted the Income Tax (Transfer Pricing) Rules 2006.

Attiya Waris (2013) asserts that the Republic of Rwanda's constitution states that the constitution has the supremacy over all the laws in Rwanda. The constitution states that the laws on taxation are to be legislated. Rwanda has concluded 56 trade agreements and none of these have any fiscal provisions. It has also signed three comprehensive tax treaties Belgium (2007), Mauritius (2001) and South Africa (2002). All these tax treaties and the East African Community Tax Treaty (2010) include transfer pricing provisions in line with the OECD model.

According to PricewaterhouseCoopers (2012), the Rwandan Tax law clearly refers to the arm's length principle and offers tax authorities with a legal base to adjust transfer prices that they consider not to be at arm's length. Additional direction on application of the arm's length principle has been issued in separate TP legislation. Under this TP legislation, five methods can be used to determine the appropriate transfer prices between related parties. These methods are in accordance with the OECD standard and, in principle, apply equally, though preference is given to transaction-based methods. The current TP legislation does not contain any thresholds or materiality clauses. By and large, the TP legislation is viewed as lacking clarity and thus giving rise to uncertainty.

2.4.5 Challenges Affecting Implementation and determination of Transfer Pricing Policies

Transfer pricing (TP) is a challenge for developing countries. According to Silberztein (2010) while a lot of discussion about tax and developing countries nowadays tends to concentrate on how to minimise revenue loss through offshore tax havens; there is another issue called transfer pricing which developing countries have to take care of, particularly if they want to eliminate the risk of losing out on tax revenue from cross-border activities carried out by multinational enterprises. In the study done by PWC (2012) on transfer pricing and developing countries, it was noted that developing countries face specific problems when dealing with TP.

The study first highlighted that developing countries often lack the required legal framework to enforce TP and sanction non-compliance and misconduct. Secondly, local tax administrators are often inexperienced with regard to TP and lack basic understanding in the field. For example comparables are difficult to identify because there are fewer organized companies in any given sector in developing countries. In addition, there are no databanks which allow information extraction on comparable transactions or companies in order to verify TP between related parties. Further problems exist in taxpayer information gathering due to the absence of documentation requirements or the inability to enforce existing requirements. A case in point for example is the Kenyan Revenue Authority, which make use of non-publicly available information for validating TP, to the disadvantage of bona fide taxpayers that do not have access to such data and hence are not able to verify such comparisons (Wright, 2010). Wright, 2010 further states that this generates legal and economic uncertainty for taxpayers, which potentially precludes commitments with respect to investment decisions and business development.

Likewise, tax administrations sometimes lack the ability to process and evaluate such information, partly because of the lack of technical know-how or because they do not have the required resources at their disposal to process the data. There is now widespread recognition of the importance of domestic resource mobilization in developing countries, and one key area within that relates to the tax revenues raised from multinational companies. Key to debate in this is the challenge posed by transfer pricing, the mechanism by which profit is allocated between related subsidiaries of companies (Christian-aid, 2010).

Jansky (2013) argued that the low level of tax revenues raised in developing countries is as a result of a number of reasons. The massive informal sectors that exist, high levels of poverty and consequently the inability of citizens to pay taxes due to poverty, the abuse of tax holidays to attract foreign direct investment, and tax avoidance and evasion by corporations and individuals can be identified as the most relevant causes, coupled with the existence of weak institutional capacity to expand the tax base and enforce taxpayers' compliance. Transfer pricing continues to be, and will remain, the most important international tax issue facing MNEs claim business advisers. This is entirely plausible because transfer pricing enables corporations to minimize tax payments by enabling capital to be exported to more favorable locations. Multinational companies play a significant role in the economies of countries.

Waris (2013) in her article Taxing Intra-company Transfers: The Law and its application in Rwanda states that "in 2009, the Rwanda Revenue Authority (RRA) was unofficially advised that an MNE was misusing the tax laws by transfer mispricing. This was, however, not an MNE from a nation with which Rwanda has a tax treaty. An audit team of two members conducted a comprehensive audit. No single tax auditor or any other member of staff had, at this time, been trained in the application of transfer pricing. This was the first time that the transfer pricing provisions had been used in a tax audit of an MNE in Rwanda. As the RRA did not, and still does not, have a dedicated transfer pricing team, the auditors conducted the audit while undertaking other investigations and cases". The entire process of conducting the audit up to the time when the case was finally negotiated and resolved took approximately one year. The case was decided by the Commissioner General (CG) and the Appeals Committee within the RRA. The reason why the case did not go to court was that the law included gaps, which, as a result, limited the ability of the RRA to definitively collect the tax (Waris 2013).

The Kenya Revenue Authority for example has identified transfer pricing as a main area of tax revenue losses and has thus recently been conducting audits on transfer pricing of multinational companies with a view of curbing profit dumping in Kenya (Anjarwalla & Khanna, 2007).

2.4.6 Determinant factors

Muhammad *et a*l (1990) in their research with U.S firms suggested that legal constraints and firm size are the significant determinants in selecting of international transfer pricing strategies by U.S multinationals. Multinational corporations are faced with the complexities of tax regulations, cultural and political differences, import-export restrictions, funds transfer controls, and other restrictions from host countries which are designed to safeguard their national interests. The International Transfer pricing strategies could be grouped into two groups:

a) Market based – These use the prevailing market prices for the exchange of products and services within the group. These are considered to be objective as they are determined by the market forces and therefore cannot be easily manipulated by the selling unit or department. Thus this strategy motivates the selling unit to be very efficient in order to sell at the market price and therefore also minimises the conflicts between departments over the choice of a price which would be fair to all.

b) Non-market based – These include a wide range of transfer pricing methods such as negotiated prices, cost based prices, mathematically programmed prices, and dual prices. [Shulman (1967, 1969), Burns (1980)] advance the arguments for using non-market based transfer pricing policies or strategies to be based on tax differentials, restriction in repatriation of funds, import duties, price controls, and political instability.

In their findings, Muhammad et al (1990), saw that the determinants of the transfer pricing strategy were legal factors, the size of the firm, political stability, internal economic factors and external economic factors. This grouping was not only unique to Muhammad but was corroborated by other researchers (Dogan, Deran, & Koksal, 2013).

Legal factors: - this refers to the laws and regulations of the host country such as legislations on antitrust and anti-dumping, financial reporting requirements, and tax and custom requirements. These would affect the pricing of the intra-company transfers. For example a company may underprice an intermediate product to a foreign affiliate with the aim of driving out competitors. In order to prevent this, the host countries pass the antitrust legislations, to make predatory pricing, price discrimination, and dumping practices illegal. Therefore, to prevent from the accusations of transfer pricing manipulation and to avoid legal complications, the use of market-based transfer pricing strategy will be adopted.

The Size of the firm: - Most transfer pricing scholars indicate that large companies use various pricing strategies for intra-company exchanges. Previous research (Robbins and Stobaugh 1973) gave evidence to the extent that big companies use standard markups to achieve uniform policies. Likewise, Arpan (1972-1973) came up with an argument that the bigger the parent firm, the more likely it is to use cost-oriented (non-market) pricing approach. In contrast however, more recent research shows that larger firms use market-based transfer pricing policies. Yunker (1982) argued that large firms tend to use market-based transfer pricing policing because of environmental variability and world-wide sales. Same argument is supported by Benvignati (1985) who states that larger firms are more likely to use market based transfer pricing policies because their size makes them more visible to government authorities.

Political factors: - This includes both political factors (such as nationalization, political turmoil, expropriation, civil wars) and social factors such as class conflicts and ethnic conflicts. These can play a significant role in encouraging multinationals to engage in transfer pricing manipulations. Shulman (1967) stated that for U.S. multinationals operating in countries with political instability, place greater importance on the political and social environment of the host country and would therefore not use market-based transfer pricing methods so as to hedge themselves against political and social uncertainties.

Internal Economic Factors: - These relate to firm specific conditions such as market share of foreign affiliates, performance evaluation of foreign affiliates, and competitive position of foreign affiliates. Due to all these factors which could have different impact on the organization, some multinationals might underprice or use a non-market method to enlarge the market share of a foreign entity while others may use market based pricing so as to fairly assess the performance of the foreign subsidiary.

External Economic Factors: - These could be due to market imperfections caused by government regulations e.g. exchange controls, import restrictions, inflation, import quotas, and price controls. If there are stringent exchange controls then that makes it difficult for the repatriation of profits from the subsidiary to the home office, price controls on the other hand deter market forces from determining the transfer price, while import restrictions raise prices and inflation erodes real profits. All these will make the MNEs to use non-market based transfer pricing.

Most researchers are in agreement on the fact either parent corporations or subsidiaries must consider the factors that influence those prices in determining transfer prices. They all agree that the factors that influence the determination of the transfer pricing and the selection approaches in regards to parent corporations and subsidiaries could be grouped into four categories;

i) Legal factors

ii) Political and social factors

iii) Internal economic factors

iv) External economic factors.

Some of these researchers are: Saleh and Karima (2008), Li (2005), Chan and Lo (2004), Dorgan (2003), Elliot (1998), Choi and Mueller (1992), Doğan and Çürük, (2003). These researchers went down into breaking the components of each of those factors for a detailed analysis.

2.4.7 Further Scholarly Discussions

With respect to the determination of transfer prices, Business International Corporation (1965) reported that "U.S. multinationals mostly determined transfer prices based either on local production cost plus fixed markup, or production cost of the most efficient manufacturing unit in the corporate group plus fixed markup, without regard to individual plant costs". Another researcher Greene and Duerr (1970), however, established that most U.S. corporations set transfer prices based either on a cost plus or on a negotiated basis.

Regarding the behavior of corporations from different countries with regard to transfer pricing, Arpan (1971) found that non-U.S. multinationals generally used market pricing to price intra-company transfers. Tang (1979), however, found that production cost plus markup was the most popular international transfer pricing method among both U.S. and Japanese companies.

With reference to the examination of the influence of different factors on the selection of transfer pricing policies, a considerable body of literature exists. Shulman (1969), when discussing the influence of different environmental variables on transfer pricing strategies, suggested that companies could circumvent profit repatriation restrictions by charging a higher price for imports from the parent or related companies. Similarly, in order to circumvent high import duties in host countries, lower prices could be charged. Lecraw (1985) reported that multinationals systematically used non-market based transfer prices to reduce custom duties and taxes, and to circumvent government price and capital-profit remittance controls. Benvignati (1985) found that advertising expenditures, the magnitude of a company's foreign transfers, and the number of countries where a multinational operates were significant determinants of a non-market-based transfer pricing strategy. Nonetheless, she also found that large firms and those with a large number of foreign subsidiaries showed a greater preference for market-based transfer pricing. Prior research also suggests that governmental policies and regulations encourage multinationals to engage in transfer pricing manipulation more often in less developed countries than in more developed countries.

Plasschaert (1985) in Transfer Pricing and multinational corporations: an overview of concepts, mechanisms and regulations noted that transfer pricing manipulation is more widespread in less developed countries (LDCs) than in more developed countries (MDCs) because the governments of LDCs are poorly equipped, compared to MDCs, to understand or to monitor the intricacies of international transfer pricing. Brean (1979) also argued that LDCs are more vulnerable to transfer pricing manipulation because of the greater ignorance of LDCs on matters of international transfer pricing and the inadequacy of LDCs' institutions when dealing with multinationals on various international transfer pricing issues. The examination of the existing literature shows that, except for Benvignati (1985) and Lecraw (1985), none of the prior studies has directly addressed the issue of the determinants of market-based versus non-market based transfer pricing in a multivariate framework. Using mainly firm-specific variables, Benvignati reported a fairly high multi-collinearity among some of the independent variables used for regression analysis and obtained an R-square of only 0.077. Lecraw's sample was confined to subsidiaries of multinationals in only four Asian countries.

Richardson et al., (2013) study, examines the major determinants of transfer pricing aggressiveness. Based on a hand-collected sample of 183 publicly-listed Australian firms for the 2009 year, the regression results showed that firm size, profitability, leverage, intangible assets, and multinationality are significantly positively associated with transfer pricing aggressiveness after controlling for industry-sector effects. The additional regression results showed also that firms augment their transfer pricing aggressiveness through the joint effects of intangible assets and multinationality.

Maither (2014) analysed the OECD guidelines and their application in TP law in Canada. The study established that APAs are a recommended approach for dispute resolution under the OECD guidelines. On the other hand, Abdallah (2004) states that the conflicts between the determination of TPs between MNEs and the tax revenue authorities which seek to collect their share of profits has driven countries such as Canada, France, Germany, Japan, Mexico, Netherlands, the UK and the US to adopt the arms-length price(ALP).

Ndirangu (2013) in Kenya conducted a study to evaluate the transfer pricing law in Kenya. The study argued that taxpayers and the tax revenue authorities face challenges in securing compliance with the current Transfer Pricing Rules. The study recommended for the introduction of Advance Pricing Agreements (APAs) in Kenya to create certainty in the process of determining transfer prices in transactions between resident persons and multinational enterprises (MNEs). The author argues that through the use of APAs, Kenya's tax revenue authority would find it easier to ensure compliance with the TP Rules as the arm's length price (ALP) will be pre-agreed. In addition, it recommends the establishment of a pilot APA program to jumpstart efforts in efficient TP regulation.

The above findings are in agreement with those of Kebwaro (2014) who indicated that transfer pricing presents many tax, legal and operational challenges. To many taxpayers the magnitude of uncertainties – including the potential commitment of management time to successfully defend a transfer pricing examination, is not an acceptable business risk. The study recommended that Kenya Revenue Authority should focus more on various tax planning mechanisms adopted by Multinational companies to avoid the revenue leakages of the state. In general conclusion transfer pricing has an effect on tax planning of companies.

PWC (2013) report also indicated that the Kenya Revenue Authority (KRA) was requesting transfer pricing documentation from all taxpayers with cross-border-related party transactions with the intention of risk profiling them for the purpose of conducting transfer pricing audits. All multinationals are potential targets for a transfer pricing audit. They recommended that multinationals should take transfer pricing seriously and develop and maintain properly documented and defensible transfer pricing policies. Rwandans may be losing billions of dollars through well-connected dodgy tax deals involving multinational corporations. Through transfer pricing, the foreign firms avoid taxes, denying the country the much-needed revenues for development.

While examining the reasons for the importance of transfer pricing in goods and services done between the units of a corporation (Johri ve Charko, 1990: 12-17; Çelik, 2000: 104-105) stated that TP could be done within the units for the following reasons:

i) Could be used to increase the autonomy of each unit of the corporation.

ii) Provides a measure to measure, evaluate and compare the performance of the different units.

iii) Could be used to motivate managers to maximize revenues and profits

iv) Could be used as a tool to maintain goal congruence between a service unit and the organization in general.

v) Provides an opportunity to the units to compare between different options regarding sales and purchasing decisions.

On the other hand, (Cooper, 2000: 13-15; Dicle, 1995: 33-34; Dunning, 1993: 516-517; Kutay, 1996: 122; Kim and Swinnerton, 1997: 17) stated that the importance of transfer pricing in goods and services of multinational corporations are as follows:

i) MNCs may minimize negative effects brought by inflation, exchange rate fluctuations and restrictions.

ii) MNCs consider transfer pricing as a tool for attaining their objectives related to various activities for example taxation.

iii) TP has great importance in production, marketing and financing strategies of MNCs by manipulating their long-run objectives.

Adler (1996) while looking at transfer pricing, noted that transfer pricing decisions are fundamentally influenced by the characteristics of the internally transferred products. Thus the internal economic factors play a significant role in transfer pricing policy determination. As regards external economic factors, Dan Li (2008) in his study of "internal and external factors on firm's transfer pricing decisions: Insights from organization studies" found out that internal factors, external technological and social environment influence transfer pricing practices used by MNEs.

Informal cross-border trade is rampant in third world countries and thus cannot be ignored. The New Times – Rwanda's leading daily newspaper of July 16, 2019, carried an editorial article entitled "Inside the billion Franc alcohol smuggling ring". This article featured a multi-million illegal alcohol trade of the expensive brands of whiskeys and wines manufactured by multinational companies. These had found their way into the country through the informal cross-border trade. The article further stated that these products had found their way into Rwanda from the neighbouring countries and had an effect of destabilizing the liquor market in the country.

2.5 Knowledge Gap/ Conceptual Review

A review of the existing literature on transfer pricing policies shows that this study area has attracted many researchers in the recent past. From literature review, most studies have focused on legislation on transfer pricing, effects of transfer pricing on MNE's operations and use of transfer pricing as a tool of tax planning for MNE's.

Lu Gao *et a*l (2015) in their study " determining intra-company transfer pricing for multinational corporations, looked at the various costs at each level of the transfer process and argued that costs such as international transportation costs, holding costs, taxes , tariffs and exchange rates count to the transfer pricing of both intermediate and final goods. Johannes Becker and Clemens Fuest (2012) in their study –transfer pricing policy and the intensity of tax rate competition noted that a tightening of transfer pricing policies by a country may be counter-productive since low tax jurisdictions may react by further reductions of their tax rates. Grant Richardson, Grantely Taylor & Roman Lauis (2013) in their study of the determinants of transfer pricing aggressiveness: Empirical evidence from Australian firms examined the major determinants of transfer pricing aggressiveness. They sampled 183 publicly-listed Australian firms and their results showed that firm size, profitability, leverage, intangible assets and multinationality are positively associated with transfer pricing aggressiveness after controlling for industry-sector effects. Howard A. Shelanski (2004) in his study of transaction-level determinants of transfer-pricing policy: - evidence from the high-technology sector, examines how certain costs of intra-firm exchange affect transfer pricing. He used transaction cost economics to provide the framework for identifying important transaction-level variables whose impact on a firm's choice between negotiated and administered transfer pricing could be analysed using qualitative methods. His results found that transaction economizing is significant determinant of transfer pricing policy. The findings of this study completed and supported the theoretical work by Holmstrom and Tirole(1991).

Mohammad F. Al-Eryani *et al* (1990) examined the influence of environmental and firm-specific variables on the selection of international transfer pricing strategies. The primary data were obtained from 164 multinational entities through a questionnaire and the results were analyzed by performing a factor analysis and constructing a probit model. The results showed that legal constraints and firm size are significant determinants in the selection of international transfer pricing strategies by U.S multinationals. They looked at legal factors, political factors, internal factors and external factors with the firm size as the determinants of TP policy strategy.

In this study, the researcher is looking at the legal factors, political factors, the internal and external factors, and the informal cross-border trade which is prevalent in the developing nations and how all those factors would influence the strategy taken by the multinationals in their transfer pricing. Most researchers have used the firm size to look into the determinants of transfer pricing policies by MNEs in different economies, however, it was difficult to get the relevant figures in Rwanda to be able to compute the size or rate them and thus this study did not use the firm size. Informal cross-border trade market has not featured in the previous research works as they have been looking at the developed economies where the market structures are well developed and therefore the existence of the informal cross-border trade is minimal if not nil. Thus this study looked at the effects of the informal cross-border trade on the determinants of transfer pricing policies by multinationals in Rwanda- a third world economy.

From the various studies and publications reviewed, it is evident that the area of transfer pricing is and will remain a hot topic for both Multinational companies, revenue authorities and to the international tax experts. Moreover, locally there is limited literature on determinants of transfer pricing policies by MNE’s.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The chapter looks at the research methods that were employed in order to achieve the objectives of the study. This chapter covers the research design adopted, population of study, sample size and sampling technique, data collection instrument, and data analysis procedures.

3.2 Research Design

The study adopted a descriptive research design and inferential analysis. Robson (2002) points out that descriptive study portrays an accurate profile of persons, events or situation. Chandran (2004) also states that descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. Robson (2002) argued that descriptive research design is one of the best methods for conducting research in human contexts, because of portraying accurate current facts through data collection for testing hypothesis or answering questions to conclude the study. A descriptive study is concerned with finding out the what, where and how of a phenomenon.

The descriptive design was therefore appropriate for this study since it helped in guiding into the data collection in order to answer the questions as to what could be the factors affecting the transfer pricing policies by multinational companies in Rwanda.

3.3 Target Population

The population consists of all the multinational companies in Rwanda that deal in fast moving products specifically those in agri-business, beverages and alcoholic drinks and mobile phones. This selection was made based on the fact that they are the products mostly traded within the informal cross-border businesses. Table 3.1 shows the spread of the companies

Table 3. 1: Target population

Category	Total Population	Percentage
Beverages & Alcoholic Drinks	6	19
Agri-business	21	66
Mobile Phones	5	15
	32	100

3.4 Sampling Technique and Procedure

All the population for the companies identified under the category of fast moving products such as food and agricultural processing, beverages and alcoholic drinks, and mobile phone dealers was considered. There was universal sampling.

A list of 32 companies was compiled as per appendix 5.

3.5 Data Collection Methods

The study used primary data which was collected through a closed end questionnaire. The researcher sought permission and consent to collect the data from the companies under consideration. This was sought through a letter for data collection which was gotten from the University. After permission was granted, appointments were made with the respective respondents, and the researcher used the drop and pick later method where the respondents were not ready to fill the questionnaire immediately, and in other situations waited as the questionnaire was being filled, even assisting in clarifications of areas which needed such.

3.6 Data Collection Instruments

The questionnaire had closed ended questions which enabled the researcher to collect quantitative data. The questionnaire was divided into seven sections. The first section gathered information on the demographic data of the respondents, and the second covered questions to show the extent to which legal factors affect the transfer pricing policies by multinational companies in Rwanda. The third section, covered questions to show the extent to which political factors affect the transfer pricing policies by the multinational companies in Rwanda; section four dealt with questions which showed the extent of internal economic factors to the determination of the transfer pricing strategies by multinational companies; section five focused on questions that showed the extent of external economic factors towards the transfer pricing strategies by multinational corporations in Rwanda.

Section six covered questions to show the extent of the informal cross-border trade to the transfer pricing policies while section seven looked at the market based and non-market based factors to transfer pricing policies by multinational companies in Rwanda.

A 1-5 likert scale questions were contained in the questionnaire whereby 5 meant strongly agree or a strong agreement with the statement while 1 meant a strong disagreement with the statement.

The consideration of a questionnaire as the appropriate data collection instrument for this study was because it provides a high degree of data standardisation, it is relatively quick to collect information from people and cheap to administer. Questionnaires are also able to give a detailed answer to complex problems.

3.7 Validity and Reliability of the Instrument

The questionnaire was checked for its validity and reliability through a pilot test. This was done to detect weakness in design and instrumentation and to provide alternative data for selection of a probability sample. The study used the questionnaire to four (4) financial controllers of MNCs to participate in the pilot study. This represents 12.5% of the total universal sample. The four respondents' involved in the pilot study were exempted from the actual study. According to Connelly (2008), a pilot study sample should be 10% of the sample projected for the larger parent study. Treece and Treece (1982) also suggested 10% of the project sample size.

The objectives of pre-testing were to give allowance for modification of various questions in order to rephrase, clarify and clear up any short-comings in the questionnaires before the actual administration to the respondents. This helped the researcher to correct any inconsistences arising from the instruments, which ensured that they measure what was intended.

Validity indicates the degree to which an instrument measures the construct under investigation (Saundres et. Al., 2003). For a data collection instrument to be considered valid, the content selected and included must be relevant to the gap established or need. Internal validity of the questionnaire was established by the researcher and the supervisor reviewing the items. The instrument was also subjected to other experts on transfer pricing policies who gave in their input. The views from the experts and the supervisor helped in modifying the instruments which ensured that the questionnaire collected reliable information and also improved the response rate.

Validity is one of the main concerns with research. “Any research can be affected by different kinds of factors which, while extraneous to the concerns of the research, can invalidate the findings” (Seliger & Shohamy 1989, 95). Therefore controlling all possible factors that threaten the research’s validity is a primary responsibility of every good researcher.

Reliability is the degree of consistency of a measure. “A test will be reliable when it gives the same repeated result under the same conditions” (Martyn Shuttleworth et al., 2009). Therefore a reliability test measures the internal consistency of the questionnaire. An instrument is reliable when it can measure a variable accurately and obtain the same results over a period of time. Reliability of the questionnaire was tested by using Cronbach’s alpha test with the help of Statistical Package for Social sciences (SPSS). A coefficient of 0.7 -1 is regarded to be sufficiently reliable for the measurement of an attribute (Tavakol & Dennick 2011).

The reliability of the instrument under the legal factors was tested at 0.9, the political at 0.71, the internal economic factors at 0.72, while the external economic factors at 0.35. The informal cross-border tested at 0.93 and the testing for market based and non-market based at 0.81.

A reliability of 0.7 -1 is highly good and acceptable, however a reliability of 0.35 -0.7 on the Cronbach’s alpha is also acceptable especially for the social sciences. Therefore the researcher went ahead to using the instrument to test the attributes under the external economic factors but after eliminating the factors which were lowering the Cronbach’s alpha coefficient.

3.8 Operational Definition of Variables

Concerning the general company characteristics, environmental determinants, and the transfer pricing methods, the primary data was obtained by means of a questionnaire. Then the key factors were captured using multiple factors. A five point (5-point) scale was used to rate the legal, internal and external, and political determinants of international transfer pricing.

Table 3.2 below shows the variables of the study, the indicators to measure the variables, and the scale to measure those variables.

Table 3. 2: Operationalization of variables

Variable/Variable Type	Indicator	Scale
DEPENDENT		
Transfer Pricing Policy	• Market Based • Non-Market Based	Likert scale (I -5) 5 indicated great extent/strongly agree 1 indicated low extent/strongly disagree
INDEPENDENT		
Legal Factors	• Antitrust and antidumping legislations • Financial reporting requirements • Tax and custom requirements	5 indicated great extent/ strongly agree 1 indicated low extent/strongly disagree
Political Factors	• Nationalisation & expropriation • Social classes • Porosity of borders	5 indicated great extent/ strongly agree 1 indicated low extent/strongly disagree
Internal Factors	• Market share of foreign affiliates • Competitive position of foreign affiliates • Performance evaluation of foreign affiliates	5 indicated great extent/ strongly agree 1 indicated low extent/strongly disagree
External Factors	• Exchange controls • Import restrictions/quotas • Inflation • Price controls	5 indicated great extent/ strongly agree 1 indicated low extent/strongly disagree
Informal Cross-border Trade	• Border porosity • Informal Cross-border trade	5 indicated great extent/ strongly agree 1 indicated low extent/strongly disagree

3.9 Data Analysis

The data collected was coded and entered into SPSS which helped in the data analysis. Data analysis was done using descriptive and inferential statistics. On the descriptive statistics, frequency distribution tables and measures of central tendency (mean), and measures of variability (standard deviation) were used. The inferential statistics which was used included a multiple regression model that established the relationships between the variables. The analysed quantitative data was presented using tables.

The model that was used in this study is as follows:

$y_i=\beta_0+\beta_1 x_{i1}+\beta_2 x_{i2}+...+\beta_p x_{ip}+\epsilon$

where, for $i=n$ **observations:**

yi=dependent variable

xi= explanatory variables (x_1= Legal factors, x_2=Political factors, $x_{3=}$ Internal economic factors, $x_{4=}$ External economic factors, $x_{5=}$ Informal cross-border trade)

$\beta 0$=y-intercept (constant term)

βp=slope coefficients for each explanatory variable

ϵ=the model's error term (also known as the residuals)

3.10 Ethical Considerations

The following ethical guidelines were put into place for the research period:

1. The dignity and wellbeing of respondents was protected at all times.
2. The research data remained confidential throughout the study.
3. The researcher did not require any name of the respondent to appear in the questionnaire.

CHAPTER FOUR

4.0. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the data analysis and interpretation of the research findings as per the objectives of the study. The objective of the study was to examine the determinants of the transfer pricing policies by multinational companies in Rwanda.

The data was analyzed and presented in form of tables.

4.2 Response Rate

The total sample which was the same as the population had thirty two (32) MNCs. Out of these, four (4) were used in the pilot testing of the questionnaire (two MNCs dealing in mobile phones and two dealing in agribusiness): and two did not respond.

Therefore the remaining sample/population was composed of 28 MNCs.

Table 4. 1 Response Rate

Response Rate	Frequency	Percentage
Responses	26	92.9
Non Response	2	7.1
Total Sample	**28**	**100**

The study sample was 32 MNCs, 5 form the mobile industry, 21 from Agribusiness and 6 from the alcoholic and beverages industry. Out of the thirty two (32), four were used for pilot testing of the instrument (2 from the mobile industry and two from the alcoholic and beverages industry) and therefore the remaining ones were 28.

The response rate was 92.9% which was very good.

4.3 Respondents Profile

This section looks at the demographic information of the respondents. The respondents' demographic information reflects the relevant attributes of the population and forms the basis under which the study can rightfully access the relevant information. The information captured included: gender, age, level of education and number of years worked in the organization, branches within East Africa and within Rwanda.

4.3.1 Respondents Gender, Age and Level of Education

Table 4. 2 Respondents Gender, Age and education level

Variables		
Gender		
	Frequency	**Percentage (%)**
Male (M)	16	61.5
Female (F)	10	38.5
Total	26	100
Age		
Below 30 years	2	7.7
31-40 years	14	53.8
41-50 years	8	30.8
Above 50 years	2	7.7
Total	26	100
Level of Education		
Bachelor's Degree	16	61.5
Master Degree	10	38.5
Total	26	100

Source: Primary data collected by Researcher from March 5, - April 15, 2019

On the respondents' profile, the findings are presented in Table 4.2.

The results from Table 4.2 show that the majority of the respondents (61.5%) were male while 38.5% were female. This implied that most of the senior finance officers in MNCs in Rwanda are male.

The respondents in this study were requested to indicate their age, which was captured in structured age brackets to make it easier and comfortable for them to fill. The results in Table 4.2 show that the majority of the respondents (53.8%) were aged between 31-40 years, while 30.8% were aged between 41-50 years. On the other hand 7.7% were below 30 years while a similar percentage 7.7% above 50 years. This implies that the majority of the finance officers in the MNCs in Rwanda are between 30 and 50 years of age.

On the level of academic qualifications, the research findings showed that the majority of the respondents (61.5%) had attained a Bachelor’s degree while 38.5% of them indicated that they had attained a Master’s degree. This implies that majority of the finance officers in the MNCs in Rwanda are well educated and knowledgeable thus increasing the reliability of the information given.

4.3.2 Duration worked in the Company, the Business sector and Number of Branches

The respondents were asked to indicate the duration they had worked in their respective organizations, the sector in which they operate, and the number of branches they have within East Africa and within Rwanda, and the findings were as presented in Table 4.3.

Table 4. 3 Duration worked, number of branches in Rwanda and within East Africa

Variables		
Years Worked		
	Frequency	**Percentage (%)**
Less than 5 years	12	46.2
5-10 years	14	53.8
Total	26	100
Business Sector		
Agribusiness	17	65.4
Beverages & Alcoholic drinks	6	23.1
Mobile phones	3	11.5
Total	26	100
Branches within East Africa		
Yes	23	88.5
No	3	11.5
Total	26	100
Branches within Rwanda		
Yes	2	7.7
No	24	92.3
Total	26	100

Source: Primary data collected by Researcher from March 5 - April 15, 2019

On the number of years worked, the findings in Table 4.3 showed that 53.8% of the respondents had worked in their respective organizations for a duration of 5-10 years while 46.2% had worked for less than five (5) years. The results showed that majority of the finance officers had worked in their respective MNCs for more than 5 years which is long enough a period to understand the operations of the organizations and the factors determining the transfer pricing policies of those entities thus improving on the reliability of the responses given.

On the sectors of businesses of the MNCs involved in the study, Table 4.3 showed that 65.4% fall under the agribusiness, 23.1% fall under beverages and alcoholic drinks, while 11.5% were under Mobile phone providers. From these results, it implies that the majority of the MNCs in Rwanda are in the agribusiness when compared to those in beverages and alcoholic drinks and mobile phone providers.

The respondents were asked to state if they had branches within East Africa. The responses are summarized in Table 4.3. From the Table, 23 MNCs representing 88.5% had branches within East Africa while 3 or 11.5% said they did not have branches within East Africa. The results showed that most of the MNCs operating in Rwanda also operate in other countries within the East African community economic block.

Two (2) out of the twenty six (26) respondents, had branches in Rwanda which represents 7.7%.

Those MNCs which had branches in other East African countries were distributed as per Table 4.4.

Table 4. 4 Other Countries of operation within East Africa

Branches within East Africa	Frequency	Percentage
Kenya	14	60.9
Uganda	19	82.6
Tanzania	10	43.5
Burundi	1	4.3
South Sudan	1	4.3
Total	**23**	**100.0**

From the results shown on Table 4.4, 14 MNCs operating in Rwanda also have offices in Kenya, 19 have offices in Uganda, 10 have offices in Tanzania, 1 in Burundi and 1 in South Sudan. This implies that majority of the MNCs operating in Rwanda also have branches in Uganda with 82.6% presentation.

4.4 Results on the Determinant Factors

4.4.1 Legal factors

This section addresses the first objective of the study which seeks to determine the extent to which legal factors affect the determination of transfer pricing policies by multinational companies in Rwanda. A five point Likert scale was used to interpret the responses whereby the scores of “strongly disagree” and “disagree” were represented by mean score, equivalent to 1 to 2.6 on the continuous Likert scale (1 ≤ disagree ≤ 2.5). The scores of “neutral” were equivalent to 2.6 to 3.5 on the Likert scale (2.6 ≤ neutral ≤ 3.5). The score of “agree” and “strongly agree” represented were equivalent to 3.6 to 5.0 on the Likert scale which shows a strong agreement with the statement.

Table 4. 5 Legal factors

Statements on Legal factors and Transfer pricing policies	Mean	Std. Deviation
Antitrust and Anti-dumping legislations in the country influence transfer pricing	3.92	0.977
Compliance with Rwandan Tax and customs regulations have effect on transfer pricing	3.69	1.011
Compliance with financial reporting requirements	3.69	0.97
Heavy punishment to tax evaders influences transfer pricing strategy	2.85	1.515
More detail subsequent years audits to tax evaders influences the transfer pricing strategy	3.65	1.056
The possibility that Rwanda Revenue Authority finds out if tax is not declared or under declared will influence transfer pricing decisions	3.96	0.662
High withholding taxes on out sourced services influences the non-usage of arm's length transfer pricing	4.38	0.496
High corporate tax rate positively affect the price at which goods/services are transferred to related companies	4.38	0.752
Advance Pricing Agreements(APA) influence transfer pricing strategies	4.04	0.196

The results presented in Table 4.5 showed that some respondents neither agreed nor disagreed as to whether heavy punishment to tax evaders influences transfer pricing strategy as shown by a mean score of 2.85. The respondents agreed that:

i) Antitrust and anti-dumping legislations influence transfer pricing shown by a mean score of 3.92

ii) Compliance with Rwandan Tax and customs regulations have an effect on transfer pricing shown by mean score of 3.69

iii) More detail subsequent years audits to tax evaders influences the transfer pricing strategy with a mean score of 3.65

iv) The possibility that Rwanda Revenue Authority finds out if tax is not declared or under declared will influence transfer pricing decisions with a mean score of 3.96

v) High withholding taxes on out sourced services influences the non-usage of arm's length transfer pricing with a mean of 4.38, same as high corporate tax rates positively affecting the price at which goods/services are transferred to related companies.

vi) Advance Pricing Agreements (APA) influence transfer pricing strategies with a mean of 4.04.

4.4.2 Influence of Political factors

This section addressed the second objective of the study which sought to assess the extent to which political factors affect the transfer pricing policies by multinational corporations in Rwanda.

Table 4. 6 Political factors

Statements on political factors	Mean	Std. Deviation
The political environment influences transfer pricing strategy	4.42	0.703
The fear of nationalization and expropriation affects the transfer pricing strategy	2.81	1.625
The stability of the country after the 1994 genocide against the Tutsi influences the transfer pricing strategy	3.65	1.129
The social factors like class conflicts play a positive role in determining transfer pricing	2.62	0.941
The porosity of the borders in terms of free goods movement has a positive effect to transfer pricing	3.88	0.653
The social factors like class conflicts do not play a positive role in determining transfer pricing	3.19	0.939

The findings presented in Table 4.6 show that the respondents agreed that political environment, the stability of the country after the 1994 genocide against the Tutsi, and the porosity of the borders in terms of free goods movement are likely to have a positive influence on the transfer pricing policies by MNCs as evidenced by the mean scores of 4.42, 3.65 and 3.84 respectively.

The respondents were however neutral (neither disagreed nor agreed) as to whether the fear of nationalization and expropriation, and the social factors like class conflicts play a positive role in the determination of the transfer pricing policies by multinational corporations in Rwanda. This is evidenced by the mean scores of 2.81 and 2.62 respectively. The respondents were also neutral as to whether social factors like class conflicts are likely not to have a positive influence on the transfer pricing policies by MNCs as shown by the mean score of 3.19.

4.4.3 Influence of Internal Economic factors

This section addressed the third objective of the study which sought to assess the extent to which internal economic factors affect the transfer pricing policies by multinational corporations in Rwanda.

Table 4. 7 Internal Economic factors

Statements on Internal Economic factors and Transfer pricing policies	Mean	Std. Deviation
The efforts to have increased market share of an affiliate affects the transfer pricing strategy taken by an entity	4.23	0.43
Performance evaluation of a foreign affiliate would impact on the entity in its transfer pricing strategy	4.00	1.095
The Existence of a strengthened competitive position does not affect the transfer pricing decisions	2.54	1.14
The drive to enhancing overall profits of the company have positive effects to the transfer pricing decisions	3.92	0.688
In a bid to have a Units Autonomy, the company’s transfer pricing policies will be positively effected	3.96	0.528
Utilization of Idle production capacity leads to usage of arm’s length transfer pricing	3.12	1.143
The volume of inter-unit transfers will dictate the transfer pricing strategy	3.65	0.797
Determining pricing that may allow the buying unit and the selling unit to maximize their individual profits dictates the pricing strategy	4.19	0.694
The need of subsidiaries in foreign countries to seek local funds does not influence the transfer pricing strategy	3.00	1.296
Maintenance of adequate cash flows in foreign subsidiaries	3.04	1.148

The findings presented in Table 4.7 show that the respondents agreed that:

i) The efforts to have increased market share of an affiliate affects the transfer pricing strategy taken by an entity shown by a mean score of 4.23

ii) Performance evaluation of a foreign affiliate would impact on the entity in its transfer pricing strategy shown by a mean score of 4.0

iii) The drive to enhancing overall profits of the company have positive effects to the transfer pricing decisions shown by a mean score of 3.92

iv) In a bid to have a Units Autonomy, the company's transfer pricing policies will be positively effected as shown by a mean score of 3.96.

v) The volume of inter-unit transfers will dictate the transfer pricing strategy as shown by the mean score of 3.65

vi) Determining pricing that may allow the buying unit and the selling unit to maximize their individual profits dictates the pricing strategy as reflected by a mean score of 4.19.

However, the respondents were neutral on the following:

i) The Existence of a strengthened competitive position does not affect the transfer pricing decisions as shown by a mean score of 2.54.

ii) Utilization of Idle production capacity leads to usage of arm's length transfer pricing as shown by a mean score of 3.12

iii) The need of subsidiaries in foreign countries to seek local funds does not influence the transfer pricing strategy as reflected with a mean score of 3.0

iv) Need to maintain adequate cash flows in foreign subsidiaries influencing transfer pricing policies as shown by mean score of 3.04.

4.4.4 Influence of External Economic Factors

This section addressed the fourth objective of the study which sought to assess the extent to which external economic factors affect the transfer pricing policies by multinational corporations in Rwanda. Table 4.8 shows a summary of the responses.

Table 4. 8 External Economic Factors

Statements on External Economic factors and Transfer pricing policies	Mean	Std. Deviation
Existence of exchange control legislations affect the decisions on transfer pricing	3.85	0.613
Transfer pricing policy is guided by restrictions on imports imposed by the government	4.08	0.56
Existence of price controls in the country influences the pricing decisions at which goods/services will be transferred to sister company	4.12	0.516
Transfer pricing strategy is influenced by the rate of inflation in the country	3.38	1.061
Restrictions imposed by foreign countries on repatriation of profits and dividends influence transfer pricing	3.54	0.989

The findings presented in Table 4.8 show that the respondents agreed that:

i) Existence of exchange control legislations affect the decisions on transfer pricing shown by a mean score of 3.85

ii) Transfer pricing policy is guided by restrictions on imports imposed by the government shown by a mean score of 4.08.

iii) Existence of price controls in the country influences the pricing decisions at which goods/services will be transferred to sister company as shown by the mean score of 4.12

iv) Restrictions imposed by foreign countries on repatriation of profits and dividends influence transfer pricing as shown by the mean score of 3.54

However, the respondents were neutral as to whether transfer pricing strategy is influenced by the rate of inflation in the country – with a mean score of 3.38.

4.4.5 Influence of Informal Cross-border Trade

This section addressed the fifth objective of the study which sought to assess the extent to which the cross-border informal trade affect the transfer pricing policies by multinational corporations in Rwanda. The findings presented in Table 4.9 show that the respondents agreed that the existence of cross-border informal trade, and the porosity of the borders in terms of free goods movement are both likely to have a positive effect on the transfer pricing strategies by the MNCs in Rwanda with mean scores of 4.27 and 4.19 respectively.

Table 4. 9 Informal Cross-border Trade

Statements on Cross-border Informal Trade and Transfer pricing policies	Mean	Std. Deviation
Existence of Cross-border informal trade influences transfer pricing strategy	4.27	0.452
The porosity of the borders in terms of free goods movement has a positive effect to transfer pricing	4.19	0.567

4.4.6 Market Based and Non-Market Based Transfer Pricing Policies

This section sought to test as to whether MNCs would use market-based approaches to transfer pricing strategies or would use non-market based approaches. The findings are shown on Table 4.10.

From Table 4.10, the respondents agree that:

i) Motivation effect to the producing units leads to usage of non-market based transfer pricing as shown by a mean score of 4.23

ii) The drive of Enhancing Efficiency of the producing unit leads to non-usage of market based transfer pricing strategy as shown by a mean score of 4.31

iii) Availability difficulty for external/ outside suppliers influences transfer pricing approach as shown by a mean score of 3.73

iv) Transparency of market prices leads to usage of market based pricing models as shown by a mean score of 4.23

v) Goods can be transferred between the divisions at a variable cost with profit to supplying division implying the usage of non-market based approach reflected by a mean score of 4.0.

vi) Sharing the group profit earned on the transferred good motivates the usage of non-market based pricing as shown by a mean score of 3.69.

vii) Simple negotiation or negotiated optimal two part tariff to determine transfer prices. This means that the price is non-market based. A mean score of 3.73.

viii) Transfer pricing increases where corporate tax rates are low shown with a mean score of 4.15

ix) Minimisation of financial risks such as double taxation or tremendous additional tax payments leads to the usage of non-market based transfer pricing strategies as shown by a mean score of 3.88.

Table 4. 10 Market Based and Non-Market based Transfer Pricing Policies

Statements on Market Based and Non-Market based Transfer pricing policies	Mean	Std. Deviation
Motivation effect to the producing units leads to usage of non-market based transfer pricing	4.23	0.43
The drive of Enhancing Efficiency of the producing unit leads to non-usage of market based transfer pricing strategy	4.31	0.549
Availability difficulty for external/ outside suppliers influences transfer pricing approach	3.73	0.962
Transparency of market prices leads to usage of market based pricing models	4.23	0.514
Goods can be transferred between the divisions at a variable cost with profit to supplying division	4.00	0.938
Sharing the group profit earned on the transferred good motivates the usage of non-market based pricing	3.69	0.884
Simple negotiation or negotiated optimal two part tariff to determine transfer prices	3.73	0.827
Transfer pricing increases where corporate tax rates are low	4.15	0.834
Minimisation of financial risks such as double taxation or tremendous additional tax payments leads to the usage of non-market based transfer pricing strategies	3.88	0.653

4.5. Results on Bivariate and Multivariate Analysis

This section assessed the relationship between different determinants and transfer pricing policies through correlation and regression analysis.

4.5.1 Correlation Between the different Factors

Here, Table 4.11 presents the correlation matrix which indicates the strength and direction between two variables.

Table 4. 11 Correlation matrix

	Legal	Political	Internal	External	Informal CBT	Market Based
Legal	1.000					
Political	$.685^{**}$	1.000				
Internal	$.560^{**}$	$.671^{**}$	1.000			
External	$.468^{*}$	$.465^{*}$	$.613^{**}$	1.000		
Informal Cross Border Trade	$.634^{**}$	$.452^{*}$	$.568^{**}$	$.543^{**}$	1.000	
MB	$.630^{**}$	$.516^{**}$	$.780^{**}$	$.607^{**}$	$.732^{**}$	1.000
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Table 4.11 shows that there is a positive and moderate correlation between legal factors and political factors($r=0.685$, $p<0.01$), positive and moderate correlation between legal and internal economic factors ($r= 0.560$, $p<0.01$), positive and weak correlation between legal factors and external economic factors($r=0.468$, $p<0.05$), positive and moderate correlation between legal and informal cross border trade ($r=0.634$,$p<0.01$), positive and moderate correlation between legal factors and market based approaches ($r=0.630$, $p<0.01$).

The results in Table 4.11 revealed that there is a positive and moderate correlation between political factors and internal economic factors ($r=0.671$, $p<0.01$), positive and weak correlation between political factors and external economic factors ($r=0.465$, $p<0.05$), positive and weak correlation between political factors and informal cross-border trade ($r = 0.452$, $p < 0.05$), positive and moderate correlation between political factors and market based approaches ($r = 0.516$, $p < 0.01$).

The results in Table 4.11 showed that there is a positive and moderate correlation between the internal economic factors and external economic factors ($r=0.613$, $p<0.01$), positive and moderate correlation between internal economic factors and informal cross border trade ($r= 0.568$, $p<0.01$), positive and strong correlation between internal economic factors and market based approaches ($r=0.780$, $p<0.01$).

On the external factors, the results from Table 4.11 showed that there is a positive and moderate correlation between the external economic factors and informal cross-border trade ($r=0.543$, $p<0.01$), positive and moderate correlation between external economic factors and market based approaches ($r=0.607$, $p<0.01$). The results also showed a strong positive correlation between the informal cross-border trade and market based approaches ($r=0.732$, $p< 0.01$).

4.5.2 Multivariate Analysis

This section presents the results on the hypotheses testing. Here, the multiple linear regression was used in two stages. At stage 1, the enter mode was used and at stage 2, the stepwise mode was applied. For reminder the hypotheses to test were the following:

Ho1: The legal factors are not responsible for the transfer pricing policies of multinational companies in Rwanda.

Ho2: Political factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

Ho3: Internal economic factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

Ho4: External economic factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

Ho5: The informal cross-border trade is not responsible for transfer pricing policies by multinational companies in Rwanda.

Stage 1: Enter Mode

The results from the multiple regression analysis (using model Enter) were presented in model summary, ANOVA and coefficients of determinants as per Tables 4.12, 4.13 and Table 4.14.

Table 4. 12 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.857[a]	.734	.668	.27508	1.925
a. Predictors: (Constant), Informal Cross Border Trade, External, Political, Internal, Legal					
b. Dependent Variable: Market Based					

Table 4.13, indicates that there is a linear relationship that exists between the dependent and the independent variables in the regression analysis. Table 4.12 shows that there is a positive and very strong correlation(r=0.857). On the other hand Table 4.12 showed that adj-R-Square is 0.668 which indicates that all predictors (Political, legal, internal economic factors, external economic factors and informal cross-border trade) explained the variation of the transfer pricing policies by MNCs in Rwanda at 66.8%.

Table 4. 13 Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.178	5	.836	11.042	.000[b]
	Residual	1.513	20	.076		
	Total	5.691	25			
a. Dependent Variable: Market Based						
b. Predictors: (Constant), Informal Cross Border Trade, External, Political, Internal, Legal						

Table 4.13 reveals that there is a significance of the regression model and thus enhances the reliability of the results. The results showed that (F = 11.042, p=0.000 < 5%) thus with that significance value, it means that the model is good and fit for the data (i.e significant for the data).

Table 4. 14 Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
		B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
1	(Constant)	.167	.573		.291	.774		
	Legal	.168	.176	.201	.954	.351	.299	3.350
	Political	-.051	.111	-.089	-.454	.655	.344	2.907
	Internal	.397	.170	.422	2.336	.030	.407	2.457
	External	.157	.162	.148	.971	.343	.573	1.745
	ICBT	.307	.179	.318	1.712	.102	.384	2.601
a. Dependent Variable: Market Based								

The results in Table 4.14 showed that in the column of significance (Sig.) that represents the p-value, only the internal factors affected transfer pricing policies of multinational companies in

Rwanda. Hence, the values of p-value from Table 4.14 allowed us to conclude that the following null hypotheses were not rejected: H_{01}, H_{02}, H_{04} and H_{05} while the null hypothesis H_{03} was rejected. Table 4.14 shows that the values of VIF (variance inflation factor) are less than 10. This is an indication that there is no multicollinearity.

H_{01}: The legal factors are not responsible for the transfer pricing policies of multinational companies in Rwanda.

To test this hypothesis, the linear regression was used since, legal factors as independent variable and transfer pricing policies as dependent variable were expressed into total scores. Based on the results in Table 4.14, the p-value =0.351>0.05, therefore the H_0 was not rejected. These results are in contradiction with the study of Muhammad *et a*l (1990) in which they found that the U.S firms suggested that legal constraints are the significant determinants in selecting of international transfer pricing strategies by U.S multinationals

H_{02}: Political factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

From Table 4.14, the p-value =0.655>0.05, thus the H_0 was not rejected. These results are in contradiction with the study of Muhammad *et a*l (1990) in which, they found that the U.S firms suggested that political factors played a role in the determination of transfer pricing policies though were not among the significant determinants in selection of international transfer pricing strategies by U.S multinationals

H_{o3}: Internal economic factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

From Table 4.14, the p-value =0.030<0.05, thus the H_0 was rejected. The alternative hypothesis is therefore accepted that internal economic factors are responsible for transfer pricing policies by multinational companies in Rwanda. These results are in line with the study of Adler (1996) who noted that transfer pricing decisions are fundamentally influenced by the internal economic factors including the characteristics of the transferred products. Same is corroborated by Muhammad *et a*l (1990) where they noted that internal economic factors play a role in transfer pricing strategies by U.S multinationals.

Ho4: External economic factors are not responsible for transfer pricing policies by multinational companies in Rwanda.

Looking at the external economic factors from Table 4.14, the p-value =0.343>0.05, thus the H_0 was not rejected. These results are in contradiction with the study of Dan Li (2008) where he found out that external factors like external technological and social environment exert influence on the transfer pricing practices used by MNEs.

Ho5: The informal cross-border trade sector is not responsible for transfer pricing policies by multinational companies in Rwanda.

Arising from the results in Table 4.14, the p-value =0.102>0.05, thus the H_0 was not rejected. This shows that there is a positive and statistically insignificant relationship between informal cross-border trade and transfer pricing policies by MNCs in Rwanda. These results are in line with most of the studies carried out within the developed world where informal cross-border trade never exists and if it exists at a very negligible percentage which has no effect and thus warrants no research on.

However, the researcher went further to try and get the best predictors of the situation under study and used the stepwise method to further analyse the determinant factors. From Table 4.14, it can be seen that the hypotheses of the external economic factors and informal cross border trade were accepted but with lower margins especially that of the informal cross-border trade which had p- value of 0.102.

At stage 2: Stepwise Mode. The results from the multiple regression analysis by using stepwise technique showed that there were two models (see the two models results) as indicated in Tables 4.15, 4.16 and Table 4.17

Table 4. 15 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.758[a]	.574	.556	.31788	
2	.842[b]	.709	.684	.26828	1.788

a. Predictors: (Constant), Internal Economic Factors

b. Predictors: (Constant), Internal Economic Factors, Informal Cross-Border Trade

c. Dependent Variable: Market Based Approaches to Transfer Pricing

Table 4.16, indicates that the linear relationship that exists between the dependent and the independent variables in the regression analysis. On the other hand Table 4.15 showed that adj-R-Square with model 1 is 0.556 which indicates that the predictor internal economic factors explain the variation of the transfer pricing policies by MNCs in Rwanda at 55.6%.

Model 2 of the model summary (Table 4.15) shows that the internal economic factors together with the informal cross-border trade explain the variation of the transfer pricing policies by multinational corporations in Rwanda at 68.4%.

Table 4. 16 ANOVA of Determinants

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	3.266	1	3.266	32.319	.000[b]
1	Residual	2.425	24	.101		
	Total	5.691	25			
	Regression	4.035	2	2.018	28.033	.000[c]
2	Residual	1.655	23	.072		
	Total	5.691	25			

a. Dependent Variable: Market Based approaches to transfer pricing

b. Predictors: (Constant), Internal economic factors

c. Predictors: (Constant), Internal economic factors, Informal Cross-border Trade

Table 4.16, gives the significance of the regression model and thus enhances the reliability of the results. The results show that model 1, $F_1 = 32.32$, $p=0.000 < 5\%$ thus with that significance value, it means that the model is good and fit for the data (i.e significant for the data). It therefore implies that the regression model provided by the internal economic factors is significant in predicting the change in the transfer pricing policy methods.

Model 2, F2 = 28.03, p=0.000 <5%. This presents a good model as the significance p=0.000<5%, and thence means that the regression model provided by the internal economic factors and the informal cross-border trade is significant in predicting the change in the transfer pricing strategy.

Table 4. 17 Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.373	.466		2.949	.007		
	Internal Econ. factors	.713	.125	.758	5.685	.000	1.000	1.000
2	(Constant)	.451	.484		.933	.361		
	Internal econ. factors	.454	.132	.482	3.434	.002	.641	1.560
	Informal Cross Border Trade	.443	.136	.459	3.270	.003	.641	1.560

a. Dependent Variable: Market Based approaches to Transfer Pricing

From the results as depicted by Table 4.17, there is a positive and significant regression relationship between internal economic factors and the transfer pricing policy methods by MNCs in Rwanda, as shown by $\beta = 0.713$, p=0.000 <5%. The study therefore rejects the null hypothesis H_{03}, and accepts the alternative hypothesis that internal economic factors have a significant influence on the transfer pricing policies by multinational corporations in Rwanda.

The results also show that there is a positive and significant relationship between internal economic factors, informal cross-border trade, and the transfer pricing policies by MNCs in Rwanda as shown by β3=0.454, p=0.0.002<5%; β4=0.443, p=0.003<5%. The study therefore rejects the null hypothesis Ho_5 that states that informal cross-border trade is not responsible for the transfer pricing policies by MNCs in Rwanda, and instead accepts the alternative hypothesis which states that informal cross-border trade is responsible for the transfer pricing policies by multinational corporations in Rwanda.

From Table 4.17, model 1 the estimate equation is**:**

TPP (transfer pricing policies) = 1.373 + 0.713 x_3 (where χ_3 is internal economic factors). It implies that a unit increase in internal economic factors would increase the transfer pricing policies by MNCs in Rwanda at a unit of 0.713 (71.3%).

With the second model 2, the estimate equation is:

Transfer pricing policies = $0.451 + 0.45x_3 + 0.44\ x_5$

Where x_3, and x_5 are respectively internal economic factors and informal cross-border trade.

Interpretation:

If ceteris paribus, if internal factors increase to one unit then the TPP will increase by 0.45 units. It means that if everything is held constant, if the internal economic factors increases by 1% then the transfer pricing policies increase by 0.45%.

If ceteris paribus, if informal cross-border trade increase to one unit then the TPPM will increase by 0.44 units. It means that if everything is held constant, if the informal cross-border trade increases by 1% then the transfer pricing policies increase by 0.44%. From the results of the regression analysis done, null hypotheses related to legal factors, political factors and external economic factors were not rejected but the null hypotheses for internal factors and cross-border trade were rejected.

CHAPTER FIVE

5.0. SUMMARY OF FINDINGS, CONCLUSIONS AND SUGGESTIONS

5.1 Introduction

This chapter summarizes the findings, gives conclusions and recommendations of the study based on the stated objectives of the research. It gives a detailed breakdown of the major issues of the objectives of the study from the overall perspective of the research.

5.2 Discussion and Summary of the Findings

The first objective of the study was to assess the effects of legal factors to transfer pricing policies by the MNCs in Rwanda. The study found out that legal factors do not influence the transfer pricing policies by MNCs in Rwanda though most of the respondents had a mean score above of 3.9. These results are contradicting the study done by Mohammed et al (1990) where they found that legal factors play a role in the transfer pricing policies of the multinationals in the U.S.A. The study also reveals that high withholding tax on outsourced services influences the usage of non-market based transfer pricing policies with a mean score of 4.38. Abdalla & Murtuza (2006) observed that many tax authorities are concerned that many multinational companies manipulate their transfer prices so as to avoid the payment of corporate income taxes. This study also contradicts the findings of Lin and Chang (2009); Jamal, Saleh and Karima (2008) who all concurred that legal factors affect the transfer pricing strategies of multinational entities.

The study also sought to establish the extent to which political factors influence the transfer pricing policies by multinational corporations in Rwanda. The results showed that political factors do not influence the transfer pricing strategy of the multinationals in Rwanda. The study showed that MNCs transfer pricing policies are not influenced by any fear of nationalization or expropriation with a mean score of 2.81. Similarly social factors like class conflicts do not play any positive role in transfer pricing policies by multinational organizations in Rwanda with a mean score of 2.62.These results are not in line with the findings of Mohammad et al (1990) who found out that political factors contributed to multinationals transfer pricing strategy.

On the other hand, internal economic factors of the firm were assessed and the results showed that efforts to have increased market share of an affiliate would affect the transfer pricing strategy taken by an entity as shown by a mean score of 4.23. Also the fact that there is performance evaluation of foreign affiliates would impact on the transfer pricing policy as reflected with a mean score of 4.0. Likewise, transfer pricing strategy would be influenced by entities trying to determine prices that allow both buying and selling units to maximize their individual profits as shown by a mean score of 4.19. This observation is supported by Adler (1996) and also by Mohammed et al (1990) who noted that the internal economic factors of a firm would affect the transfer pricing strategy of its products and services.

The extent to which external economic factors influenced transfer pricing policy was analysed and the results showed that transfer pricing policy was not guided by external economic factors in Rwanda despite the instrument showing high mean scores. The external economic factors showed a p-value of 0.343>0.05 which led to the acceptance of the null hypothesis. These results however are in contradiction with what other researchers have found such as Dan Li (2008) who noted that external factors like external technological factors influence the transfer pricing strategies of multinational enterprises. It also contradicts the findings of Mohammed et al (1990).

On how informal cross-border trade influences transfer pricing policies, the study found out that the existence of the informal cross-border trade influenced transfer pricing strategies(mean score of 4.27), while the border porosity in terms of free movement of goods had a mean score of 4.19. In as much as under model enter, this factor showed a p-value of 0.102>0.05 thus leading to the non-rejection of the null hypothesis, when the same was subjected to the stepwise approach, it showed a p-value of 0.003<0.05 thereby rejecting the null hypothesis and accepting the alternative. This is corroborated by the government of Rwanda itself in an editorial article which featured in the most popular Rwandan daily newspaper –The New Times of July 16, 2019 where the tax collection authority was complaining of market price destabilization due to alcohol finding its way through the informal cross-border trade after seizing so many consignments of whiskeys and wines.

5.2 Conclusion

The study concludes that there is a positive and significant relationship between internal economic factors of the firm and the transfer pricing strategy by the multinational companies in Rwanda. It therefore implies that the MNCs in Rwanda rely so much on their own internal economic factors to make a policy decision as to whether to adopt a market based approach to transfer pricing or not.

Conclusion could also be drawn that there is a positive and significant relationship between the informal cross-border trade and the choice of the transfer pricing strategy. The more the informal cross-border trade the more the transfer pricing approach changes.

As the research was looking into the determinants of the transfer pricing policies by multinational companies in Rwanda, it can therefore be concluded that the only factors which significantly affect transfer pricing by the MNCs in Rwanda from the factors examined are only the firm's internal economic factors and the informal cross-border trade.

5.3 Suggestions for Further Research

The study found out that there is no detailed transfer pricing policy document in Rwanda that gives guidelines which MNCs could follow. This could give room to multinational companies to adopt other approaches that might not be economically viable to Rwanda. A detailed transfer pricing document is therefore recommended to guide all who might be interested, including the employees of the tax collecting body-Rwanda Revenue Authority. The research has hopefully shed some light on numerous factors relating to transfer pricing in Rwanda. The descriptive and empirical evidence provided in this research will have to be continually generated in order to further enhance understanding of this topic.

The researcher recommends that future research could be undertaken to focus on other factors that could affect the transfer pricing policies of multinational companies in Rwanda as this study addressed specific factors without carrying out factor analysis. Such focus could be on firm size, profitability and leverage.

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APPENDICES

APPENDIX 1: Excluded Variables

Excluded Variables

Model		Beta In	T	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	Legal	.368[b]	2.522	.019	.465	.681	1.469	.681
	Political	.160[b]	.874	.391	.179	.538	1.858	.538
	External	.259[b]	1.573	.129	.312	.618	1.618	.618
	ICBT	.459[b]	3.270	.003	.563	.641	1.560	.641
2	Legal	.156[c]	.906	.375	.190	.432	2.316	.407
	Political	.028[c]	.173	.864	.037	.500	1.999	.470
	External	.149[c]	1.004	.326	.209	.577	1.732	.516

a. Dependent Variable: MB

b. Predictors in the Model: (Constant), Internal Economic Factors

c. Predictors in the Model: (Constant), Internal Economic Factors, Informal Cross-Border Trade

APPENDIX 2: COLLINEARITY

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	Tot_Int	Tot_ICBT
1	1	1.991	1.000	.00	.00	
	2	.009	14.868	1.00	1.00	
2	1	2.985	1.000	.00	.00	.00
	2	.009	18.202	.68	.61	.00
	3	.006	23.208	.32	.38	1.00

a. Dependent Variable: Market Based Approach

APPENDIX 3: DATA COLLECTION LETTER

COLLEGE OF BUSINESS AND ECONOMICS

January 29th, 2019

TO WHOM IT MAY CONCERN

This is to certify that Mr.Edmund Jillani Sadi bearing Reg No 218015525 is a student in Master of Business Administration program (MBA-Finance), at the University of Rwanda-College of Business and Economics. He is currently in the process of gathering data for research work entitled “Determinants of Transfer pricing Policies by Multinational Companies in Rwanda”.

He will approach you with the aim of collecting relevant information to complete his study. We request you to kindly extend the necessary cooperation in providing the needed data.

Do not hesitate to contact the directorate of Research and Innovation should you need further information.

Sincerely,

Prof. Bideri Ishuheri Nyamulinda
Ag Director of Research and Innovation
University of Rwanda-College of Business and Economics
Mob. Tel 0738407631 or 0788716140

APPENDIX 4: QUESTIONNAIRE

Dear Respondent, Good Day.

My name is Edmund Jillani Sadi, a Master's student of the College of Business and Economics, University of Rwanda, desired currently to work on my thesis entitled "determinants of transfer pricing policies by multinational companies in Rwanda". In line with this, I would like to ask your good office to grant my humble request in answering this questionnaire. This will enable me to gather significant information in fulfilling my study. You will be rest assured that whatever information I will gather will be used only for thesis purposes and treated with uttermost confidentiality. Your cooperation will be highly appreciated.

Instructions: Please read and answer the questions as appropriately as possible. It is advisable that you answer or fill in each section as provided. Tick [ ] where appropriate.

Section A: Respondent's and company profile

A1 What is your gender?

1.Male 2. Female

A2 What is your age group?.

1.Below 30 years 2. 31 – 40 years 3. 41 – 50 years

4. Above 50 years

A3 Kindly indicate your highest level of academic qualification

1. Certificate/diploma 2. Bachelors degree

3. Masters degree 4. PhD

A4 How many years have you worked in this organization?

1. Less than 5 years 2. 5 – 10 years

3. 11 -15 years 4. Over 15 years

A5 What is the sector of your business

1. Agribusiness 2. Beverages and Alcoholic drinks

3. Mobile phones providers 3. other (Please specify)

A6 Do you have other branches within East Africa?

1. Yes 2. No 3. If yes, list the countries…………..

A7 Do you have any other branches in Rwanda?

1. Yes 2. No

Section B: Legal factors

From your company's point of view, please indicate the extent to which you agree with the following statements on legal factors and implementation of transfer pricing policies by multinational companies in Rwanda. Tick under the appropriate number in the table below.

Using a scale of 1 to 5, where 1 is strongly disagree (SD); 2 is Disagree (D); 3 is Neutral (N); 4 is Agree (A); and 5 is strongly agree (SA)

	Statements	1	2	3	4	5
B1	Antitrust and Anti-dumping legislations in the country influence transfer pricing					
B2	Compliance with Rwandan Tax and customs regulations have effect on transfer pricing					
B3	Compliance with financial reporting requirements					
B4	Heavy punishment to tax evaders influences transfer pricing strategy					
B5	More detail subsequent years audits to tax evaders influences the transfer pricing strategy					
B6	The possibility that Rwanda Revenue Authority finds out if tax is not declared or under declared will influence transfer pricing decisions					
B7	High withholding taxes on out sourced services influences the non-usage of arm's length transfer pricing					
B8	High corporate tax rate positively affect the price at					

	which goods/services are transferred to related companies					
B9	Advance Pricing Agreements(APA) influence transfer pricing strategies					

Section C: Influence of Political factors and transfer pricing policies

From your company's point of view, please indicate the extent to which you agree with the following statements on political factors and implementation of transfer pricing policies by multinational companies in Rwanda. Tick under the appropriate number in the table below.

Using a scale of 1 to 5, where 1 is strongly disagree (SD); 2 is Disagree (D); 3 is Neutral (N); 4 is Agree (A); and 5 is strongly agree (SA)

	Statements on influence by political factors	1	2	3	4	5
C1	The political environment influences transfer pricing strategy					
C2	The fear of nationalization and expropriation affects the transfer pricing strategy					
C3	The stability of the country after the 1994 genocide against the Tutsi influences the transfer pricing strategy					
C4	The social factors like class conflicts play a positive role in determining transfer pricing					
C5	The porosity of the borders in terms of free goods movement has a positive effect to transfer pricing					
C6	The social factors like class conflicts do not play a positive role in determining transfer pricing					

Section D: Influence of Internal economic factors and transfer pricing policies

From your company's point of view, please indicate the extent to which you agree with the following statements on internal economic factors and implementation of transfer pricing policies by multinational companies in Rwanda. Tick under the appropriate number in the table below.

Using a scale of 1 to 5, where 1 is strongly disagree (SD); 2 is Disagree (D); 3 is Neutral (N); 4 is Agree (A); and 5 is strongly agree (SA)

	Statements on influence by Internal economic factors	1	2	3	4	5
D1	The efforts to have increased market share of an affiliate affects the transfer pricing strategy taken by an entity					
D2	Performance evaluation of a foreign affiliate would impact on the entity in its transfer pricing strategy					
D3	The Existence of a strengthened competitive position does not affect the transfer pricing decisions					
D4	The drive to enhancing overall profits of the company have positive effects to the transfer pricing decisions					
D5	In a bid to have a Units Autonomy, the company's transfer pricing policies will be positively effected					
D6	Utilization of Idle production capacity leads to usage of arm's length transfer pricing					
D7	The volume of inter-unit transfers will dictate the transfer pricing strategy					
D8	Determining pricing that may allow the buying unit and the selling unit to maximize their individual profits dictates the pricing strategy					
D9	The need of subsidiaries in foreign countries to seek local funds does not influence the transfer pricing strategy					
D10	Maintenance of adequate cash flows in foreign subsidiaries					

Section E: Influence of External economic factors and transfer pricing policies

From your company's point of view, please indicate the extent to which you agree with the following statements on legal factors and implementation of transfer pricing by multinational companies in Rwanda. Tick under the appropriate number in the table below.

Using a scale of 1 to 5, where 1 is strongly disagree (SD); 2 is Disagree (D); 3 is Neutral (N); 4 is Agree (A); and 5 is strongly agree (SA)

	Statements on influence by external economic factors	1	2	3	4	5
E1	Existence of exchange control legislations affect the decisions on transfer pricing					
E2	Transfer pricing policy is guided by restrictions on imports imposed by the government					
E3	Existence of price controls in the country influences the pricing decisions at which goods/services will be transferred to sister company					
E4	Transfer pricing strategy is influenced by the rate of inflation in the country					
E5	Restrictions imposed by foreign countries on repatriation of profits and dividends influence transfer pricing					

Section F: Influence of informal cross border trade and transfer pricing policies

From your company's point of view, please indicate the extent to which you agree with the following statements on cross-border trade and implementation of transfer pricing policies by multinational companies in Rwanda. Tick under the appropriate number in the table below.

Using a scale of 1 to 5, where 1 is strongly disagree (SD); 2 is Disagree (D); 3 is Neutral (N); 4 is Agree (A); and 5 is strongly agree (SA).

	Statements on threats from cross-border informal trade	1	2	3	4	5
F1	Existence of Cross-border informal trade influences transfer pricing strategy					
F2	The porosity of the borders in terms of free goods movement has a positive effect to transfer pricing					

Section G: Testing of market based (MB) and non-market based (NMB) transfer pricing policies

From your company's point of view, please indicate the extent to which you agree with the following statements on market based and non-market based factors and implementation of transfer pricing policies by multinational companies in Rwanda. Tick under the appropriate number in the table below.

Using a scale of 1 to 5, where 1 is strongly disagree (SD); 2 is Disagree (D); 3 is Neutral (N); 4 is Agree (A); and 5 is strongly agree (SA)

	Statements on market (MB) and non-market(NMB) based factors	1	2	3	4	5
G1	Motivation effect to the producing units leads to usage of non-market based transfer pricing					
G2	The drive of Enhancing Efficiency of the producing unit leads to non-usage of market based transfer pricing strategy					
G3	Availability difficulty for external/ outside suppliers influences transfer pricing approach					
G4	Transparency of market prices leads to usage of market based pricing models					
G5	Goods can be transferred between the divisions at a variable cost with profit to supplying division					
G6	Sharing the group profit earned on the transferred good motivates the usage of non-market based pricing					
G7	Simple negotiation or negotiated optimal two part tariff to determine transfer prices					

G8	Transfer pricing increases where corporate tax rates are low					
G9	Minimisation of financial risks such as double taxation or tremendous additional tax payments leads to the usage of non-market based transfer pricing strategies					

Which other challenges affect or influence the transfer pricing policies by multinational companies in Rwanda?

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……………………………………………………………………………………………

APPENDIX 5: LIST OF MULTINATIONAL COMPANIES DEALING IN MOBILE PHONES,

AGRIBUSINESS, BEVERAGES & ALCOHOLIC DRINKS

	NAME
1	ERICSSON AB
2	UDV HOLDINGS LIMITED
3	JOY WELL-BEING FOOD CO.
4	LAND OF A THOUSAND HILLS COFFEE COMPANY
5	KENYA SEED COMPANY RWANDA
6	BESTELL COMPUTERS
7	NESTLE EQUATORIAL AFRICAN REGION (RWANDA)
8	XSCAPE MOBILE
9	FARAM EAST AFRICA LIMITED
10	MIKOANI EDIBLE OILS & DETERGENTS LIMITED
11	KASESE DISTILLERS LIMITED
12	SAI BEVERAGES LIMITED
13	CHEMI AND COTEX (RWANDA)
14	NOKIA SOLUTIONS AND NETWORKS
15	DSM NUTRITIONAL PRODUCTS SOUTH AFRICA (PTY) LIMITED
16	KAGADI DISTILLERS LIMITED
17	KRINGLE UGANDA LTD
18	SEFALANA CASH & CARRY
19	UNILEVER KENYA LIMITED
20	AFRICAN FARMS & MARKETS LIMITED
21	MOTOROLA SOLUTIONS ISRAEL
22	LEADING DISTILLERS (U) LIMITED
23	WESTERN SEED COMPANY LTD
24	JOHN ROWLAND FARM AND AGRO ALLIED LTD
25	GLOBAL FOOD PRODUCTION CORPORATION
26	AFRICA IMPROVED FOODS
27	CKL RWANDA
28	BRALIRWA
29	SKOL
30	ADMA INTERNATIONAL
31	AZAM
32	AZANIA

Source: Rwanda Development Board (RDB) February 6, 2019