University of Zimbabwe

FACULTY OF COMMERCE
Graduate School of Management

Masters of Business Administration

Assessing the Importance of International Banks in attracting FDI into Zimbabwe

A Dissertation submitted in Partial Fulfilment of the Requirements for the Master Degree in Business Administration

By

Davison Kujaranja (R123428Y)

February 2015

Supervisor: Dr David Madzikanda

DECLARATION

I, Davison Kujaranja, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

Student signature _______ Date_________

Supervisor's Signature _________ Date: _________

ACKNOWLEDGEMENT

I would like to acknowledge my family, Blessing, Tadiwa and Joel who allowed me to sacrifice family time for this programme. I also extend gratitude to my work colleagues at Standard Chartered Bank especially Samuel Nhakaniso who encouraged me to take on the programme and supported me financially.

To Dr Madzikanda, for being supportive and offering the right critique at the right time and also giving me direction where I was getting lost.

Group One members who have always encouraged me to push on and offer help when required.

Above all, I give glory to God who has given me life.

ABSTRACT

Globalisation has literally reduced the world into one market place where distance does not matter anymore and technology advancement revolutionised global trade. Unfortunately, as much as the world has become one village in terms of trade and capital flow Africa has lagged behind. Foreign Direct Investment has been low in Africa compared to Asia and Europe. This study was done to assess the impact international banks do have in driving FDI in Zimbabwe. It was born out of the fact that there is so much political attention to international banks and multinational firms from an indigenisation perspective.

Zimbabwe desperately needs FDI to catapult economic development as local savings are too low to reinvigorate the economy. International Banks are believed to be key drivers of capital migration due to their ability to financially advise investors and also because of their capacity to attract cheaper funding for offshore investments.

The research method used was predominantly quantitative and thus more inclined to positivism and a deductive research approach which was preferred instead of an inductive approach as the deductive approach is more reliable and objective in its findings. This was important for identifying causal effects of FDI movement vis a vis International Banks. The target population consisted of banks and their clients which allowed the writer to distribute 360 questionnaires with a response rate of 72.2%.

Overally the findings of the research show that investors favoured foreign owned banks as opposed to local banks and the reasons were that foreign banks had greater access to international markets than local banks; foreign banks were also supported by their parent country governments; they had enhanced efficiency; enhanced corporate governance levels as well as more advanced financial technology and they also had more skilled and motivated staff. The data was analysed using SPSS. The research was limited to Harare only where most of the economic activity is and Head Offices of the respondents are based. From that perspective the study can be generalised for Zimbabwe as the sample was significant and also that a quantitative analysis was done.

The implication of this research show that international banks play a pivotal role in attracting FDI into the country and their presence helps to retain the already invested capital.

TABLE OF CONTENTS

DECLARATION iii

ACKNOWLEDGEMENT iv

ABSTRACT v

CHAPTER 1 1

INTRODUCTION AND BACKGROUND 1

1.1 Introduction 1

1.2 Background of the study 2

1.4 Research Objectives 9

1.5 Research Questions 9

1.6 Hypothesis/Proposition 10

1.7 Significance of the Study 10

1.8 Scope of the research 10

1.9 Dissertation Outline 10

1.10 Chapter Summary 11

CHAPTER 2 12

LITERATURE REVIEW 12

2.1 INTRODUCTION 12

2.2 DEFINITION OF FOREIGN DIRECT INVESTMENT 12

2.3 ROLE OF FINANCIAL SECTOR IN FDI 14

2.4 REASONS WHY INTERNATIONAL BANKS INVEST IN A COUNTRY 16

2.5 DETERMINANTS OF FDI TO AFRICA 18

2.6 EFFECTS FOREIGN BANKS' ATTRACTION OF FDI ON HOST COUNTRY 29

2.7 Theoretical framework 33

2.8 Chapter conclusion 35

CHAPTER 3 36

METHODOLOGY 36

3.1 Introduction 36

3.2 Research philosophy 36

3.3 Research strategy....36
3.4 Target population....36
3.5 Sampling Methods....37
3.6 Primary Data Collection....39
3.7 Data Analysis and Presentation....41
3.8 Conclusion....42
CHAPTER 4....43
DISCUSSION OF RESULTS AND FINDINGS....43
4.1 Introduction....43
4.2 Response rate....43
4.3 Sample demographics....43
4.4 Importance of role of Foreign owned banks to attracting FDI....45
4.5 Whether foreign owned banks are more favoured than local banks....46
4.6 Challenges faced by local banks not faced by foreign owned banks....48
4.7 Tools used by foreign owned banks in attracting FDI....50
4.8 Benefits of FDI....51
4.9 Analysis of relationships and significance of those relationships in the variables....52
4.10 Discussion....57
4.11 Conclusion....60
CHAPTER 5....61
CONCLUSION AND RECOMMENDATIONS....61
5.1 Introduction....61
5.2 Conclusion....61
5.2 Recommendations....62
5.3 Suggestions for Future Research....64
REFERENCES....65
QUESTIONNARE....71
SPSS OUTPUT....71

LIST OF TABLES

Table 3.1 Target Population..37
Table 3.2: Sample Population of the Study 37
Table 4.1 Type of respondents..44
Table 4.2 Importance of Foreign banks 45
Table 4.3 Why investors favour international banks 47
Table 4.4 Tools used by Foreign owned banks..50
Table 4.5 ANOVA 53
Table 4.6 Coefficientsa 53
Table 4.7 Coefficient of determination..54
Table 4.8 Correlations...56

LIST OF FIGURES

Figure 1.1 Global Competitive Index 2
Figure 1.2 Zimbabwe's FDI receipts from 1995 to 2014 4
Figure 4.1 Length of service in sector 44
Figure 4.2: Levels of education of the respondents 45
Figure 4.3 Importance of Foreign owned banks to attracting FDI 46
Figure 4.4 Whether foreign owned banks are more favoured than local banks 47
Figure 4.5 Challenges faced by local banks not faced by foreign owned banks 49
Figure 4.6 Benefits of FDI 52

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 Introduction

A lot of Foreign Direct Investments (FDI) is accepted to be determined by, how a nation has opened up its trade controls and the general liberalization of the economy as far as security of residency and property rights. Zimbabwe does not have the strictest of trade control yet it has not possessed the capacity to pull in a ton more FDI in the course of recent years that is pre and post Indigenisation Law. Alfaro (2003) states that notwithstanding the direct capital financing it supplies, FDI can serve as a wellspring of important innovation and expertise to the host developing nations by cultivating linkages with local firms. These innovative advancements by Multi-National Corporations (MNCs) are probably the most critical areas where MNCs serves as impetus to development in developing nations.

The Global Competitiveness Index lists three major economic factors (shown in figure 1.1 below) that drive FDI in Africa which are, factor driven, efficiency driven and innovation driven. Zimbabwe in reality is still highly factor driven (resource driven) whilst countries like South Africa are now on the efficiency driven stages.

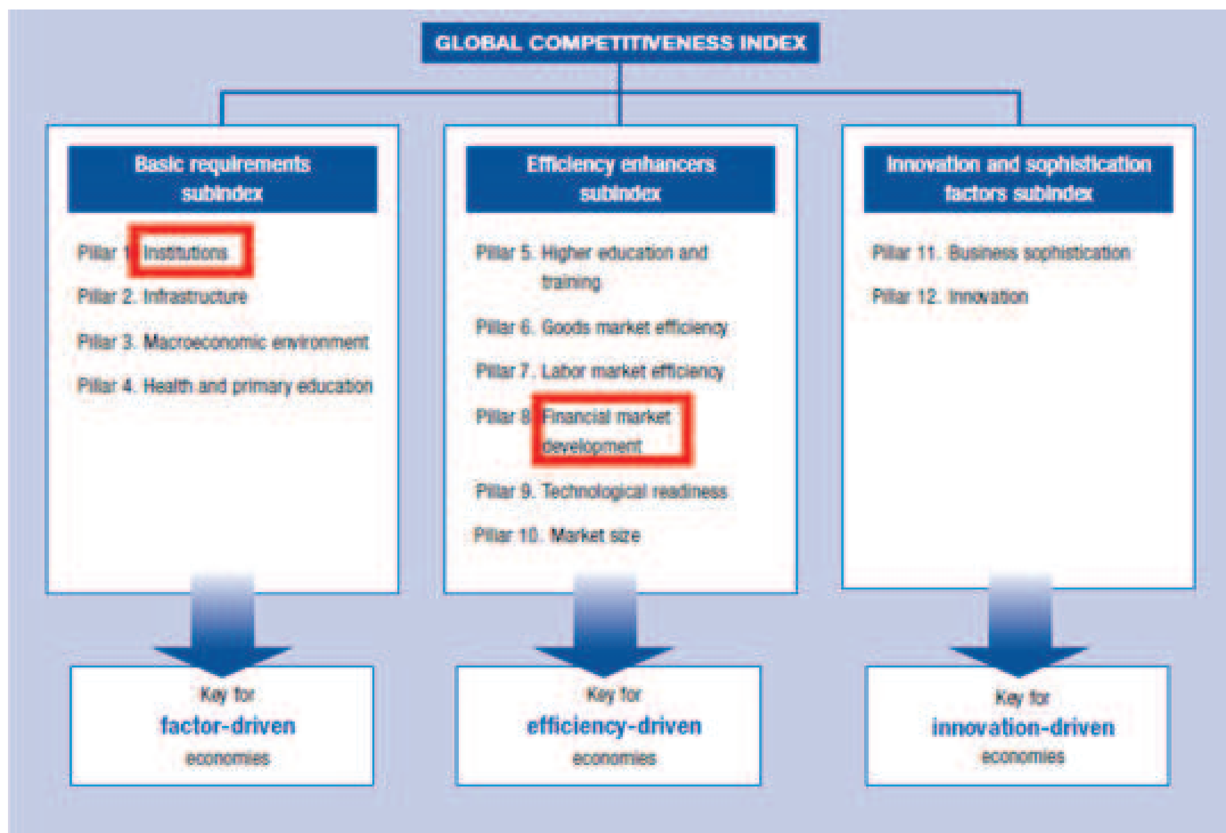


Figure 1.1 Global Competitive Index

The role played by international banks in driving FDI into Africa and in particular Zimbabwe has not been adequately researched. As can be seen in figure 1.1 above Institutions and financial market development are key pillars in FDI attraction. It is the intention of this research therefore to bring out the importance and significance of International Banks in attracting FDI into a country and in particular, Zimbabwe.

1.2 Background of the study

In the 1990s, Foreign Direct Investment (FDI) turned into the biggest single wellspring of outside fund for some developing nations (Martin and Rose-Innes, 2013). According to Basu and Srinivasan (2012), most discussions on the causes and effects of FDI have focused on flows into manufacturing and real production sectors, where this type of investment has traditionally been concentrated. More recently, however, Morisset (2013) notes that FDI into the financial sector has soared, and the sector is being reshaped dramatically. Financial sector FDI typically takes the form of banks in industrialized countries establishing branches and facilities in developing countries. Agodo (2008) posits that following the dissolution of the Soviet Union, bank entry into Central and Eastern Europe in the early 1990s led to foreign ownership in local banking systems; today, such ownership often exceeds 80 percent of local banking assets. He

adds that this shows that foreign banks had a significant effect on the influx of FDI in Central and Eastern Europe thus their broad existence in those countries. In addition, the liberalization of financial sectors in Latin America was likely spurred in part by foreign direct investment, especially in countries facing potential competitive losses to Asian economies (Bergsman, 2009). He also states that within Latin America, the financial crises of the mid-to-late 1990s provided additional opportunities for foreign entry, as countries sought to recapitalize their banks and improve the efficiency of their financial systems.

As indicated by Martin and Rose-Innes (2013) banks in the United States, Spain, the United Kingdom, and different nations with exceedingly developed monetary frameworks are the primary wellsprings of budgetary part FDI. Guardian banks situated in industrialized nations have expected considerable, if not dominant part, control of advantages in host-nation monetary frameworks. Odenthal (2011) accepts that this developing pattern demonstrates the development of remote control of developing business budgetary resources somewhere around 1994 and 2012. While outside control was commonly beneath 10 percent of benefits in 1990, it all the more frequently surpassed 40 percent by the late 1990s and early 2000s. He includes that acquisitions of nearby banks proceeded through the mid-2000s, fundamentally growing remote bank vicinity into lion's share possession in numerous nations. From 1999 to 2012, the biggest change in structure happened in Central Europe, where the outside possession offer rose to 77%.

1.2.1 Background of Zimbabwe’s banking sector

Zimbabwe as a country is in dire need of FDI to kick start its waning economy. Morrison (2013) states that the country has been crippled by year-on-year budget deficits due to the depreciating revenue base as numerous companies have closed shop because of the harsh economic climate. For example in 2013 the national budget provided for total revenues of $3.860 billion, of which tax revenue was projected at $3.646 billion, with non-tax revenue being $213.6 million. However, cumulative expenditure was $3.990 billion resulting in expenditure overrun of $130 million, furthermore total revenue collections for that year were only $3.615 billion which meant that there was a negative collection variance of $35 million. Therefore there was $165 million deficit which had to be catered for. According to Agodo (2008) in such cases this expenditure value should usually be covered by FDI. Unfortunately in Zimbabwe’s situation

this is not the case as will be shown by the figure below as well as the explanation attached with.

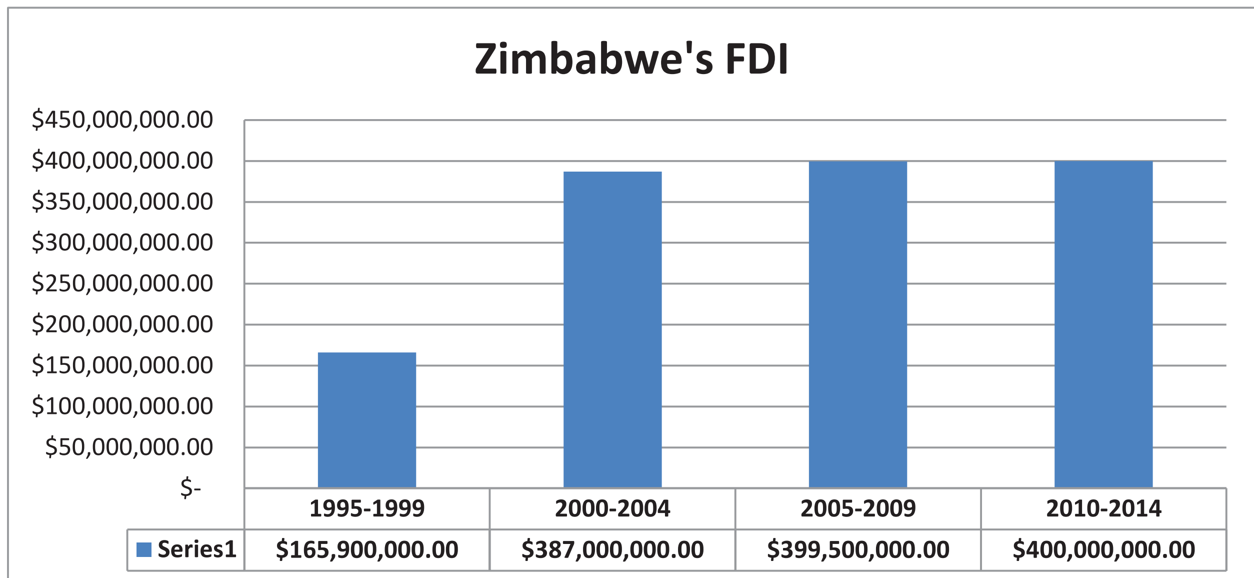


Figure 1.2 Zimbabwe's FDI receipts from 1995 to 2014

Source: Worldbank (2014)

According to the figure above the FDI received by Zimbabwe during the period 2010-2014 is a mere $400 million against a deficit of more than $165 million per year is insufficient to sustain the country significantly. During that same period Mhlanga and Dube (2014) note that Zimbabwe would need FDI of almost $1 billion extra to sustain its economy. Furthermore, the figure above shows that there has not been a significant increase in FDI in Zimbabwe since the year 2000 to 2014 as it only increased by only $500 000.00 from the periods 2005-2009 and 2010-2014. On the other hand other countries' in the region namely South Africa, Mozambique and Zambia all had significant increases of $4 billion, $1 billion and $800 million respectively during the same period. Furthermore, some of these countries viewed as small economic countries with lesser natural resources were commanding higher FDI than Zimbabwe for example Mozambique during the period 2010-2014 received $6.4 billion and Zambia received $1.8 billion whilst Zimbabwe only got $400 million. This shows that in some instances a country's natural resources are sometimes not the determinant of the amount of FDI it could get therefore one wonders if the activities and/or visibility of foreign banks is a significant determinant of FDI towards the country. However on another hand Morrison (2013) argues that Zimbabwe could be receiving lesser FDI amounts than some smaller economic countries

like Zambia because of its unstable political situation which could have made it less attractive for foreign investors.

Zimbabwe's financial sector comprises of foreign and indigenous commercial banks, building societies, merchant banks and a savings bank. Due to the liberalization of the financial sector in 1991, the number of indigenous banks has grown considerably. The active indigenous banks in Zimbabwe's financial sector as at end of year 2014 were 10 and they comprise of CBZ, ZB, FBC, NMBZ, Metbank, POSB, Steward bank, ZB Building Society and FBC Building Society whilst a further 5 were either in the process of liquidation or under curatorship namely Trust bank, RMB, Royal bank, Tetrad bank and Interfin. On the other hand Afrasia bank, formerly Kingdom bank, was another former local bank which had been taken over by Malaysian investors. Foreign banks trading in Zimbabwe as at end of year 2014 were Stanbic, CABS, BancABC, Standard Chartered, MBCA, Afrasia bank and Ecobank. According to MMC Capital Research report (2014) international banks now comprised 30% of the Zimbabwean banking sector a decrease from 70% in 2000.

Melusi (2013) notes that another issue of concern is the soundness of banks in Zimbabwe was ranked 137 out of 148 in the World Economic Forum Global Competitive Index 2013 -2014. Furthermore, the positive rise in indigenous banks did not necessarily mean that their performance was also positively rising but contrary. Of all the banks in Zimbabwe since the turn of the century only domestic banks have closed down, facing liquidation or have under gone curatorship. According to RBZ monetary policy (2013) some domestic banks have been forced to close, facing liquidation, under curatorship namely Royal Bank, Trust bank, Interfin, Barbican, Time bank and RMB because of mismanagement, undercapitalization, chronic liquidity challenges, high levels of non-performing loans, persistent losses, poor management information systems, poor board and senior management oversight and gross violation of laws and regulations. This is under the background where there was an international financial meltdown or crisis in 2010 to 2012 which should have had more effect on international banks since their parent countries had been severely affected however they in fact actually seemed to excel. All these negatives from local banks could have had a negative effect on customer confidence in them.

Industrial Psychology Consultants (2012) conducted a research of all the banks in the country both local and foreign on which banks the customers preferred to conduct business with and the results were a resounding no for local banks with the exception of CBZ. According to the research, the reason why they did not prefer local banks was because they had lost confidence

in them due to the previous corporate governance issues that had been evidenced at local banks. One wonders if the current lack of confidence in local banks is also the same view international customers or investors, who hold the key to unlock the much needed FDI for economic development of the country, have of local banks. If yes what is its impact if international banks close shop in Zimbabwe hence the need for conducting this study.

According to Melusi (2013) there have also been cases whereby local banks which were seeking strategic partners or seeking take-overs that would help the capitalization of their institutes or just seeking capital injection were finding investors hard to attract willing investors especially international ones. Gregory (2012) posits that an example is of Agribank which has been a commercial bank since 2000, has got one of the widest branch coverage, good infrastructure as well as favourable relationship with the government who is their sole shareholder, have been seeking a strategic investor for more than 10 years, with no success, whilst some local banks like Royal bank ended up liquidating before getting an international investor to bail them out. Kingdom bank now Afrasia bank endured many years of disappointment seeking an international investor for a bank which once was the most capitalized company in the country until finding one in Mauritius.
Furthermore, MMC Capital Research report (2014) highlighted that international banks held a significantly greater market share of deposits either from local customers or international investors than their local counterparts with the exception of CBZ and the results are illustrated below:

Table Table 1.1 Banking Sector Market Share as at year end 2013

Bank	Market Share
CBZ	23.10%
BancABC	10.67%
Stanbic	10.48%
Stanchart	8.69%
CABS	8.67%
Barclays	8.48%
ZB	4.77%
FBC	4.57%
MBCA	4.54%

NMBZ	3.11%
Afrasia	3.79%
Steward Bank	2.70%
MetBank	2.38%
Ecobank	2.38%
POSB	1.58%

Source: MMC Capital Research Report (2013)

The figures highlighted in the table are for the market share of foreign banks and local banks. The total market share held by foreign banks is 57.7% and this is a high because foreign banks consist of only 30% of the Zimbabwean banking sector. These results show that even though foreign banks are fewer they are the most preferred banks in terms of deposits and investments with the exception of CBZ. One of the main reasons could be because most indigenous banks only came into being from 2000 onwards whilst most foreign banks like Standard Chartered, CABS and Barclays have always been there for more than 20 years. Therefore they could be viewed as the traditional banks and if anything local indigenous banks were getting market share from them. Furthermore the results could also mean that at the current moment foreign investors are most likely to invest directly through foreign banks rather than local banks.

The only current exception is CBZ which still has a commanding stake in terms of market share in the sector however with the resuscitation of the Reserve Bank of Zimbabwe (RBZ) the government and its parastatals, who were CBZ's major depositor base, have moved their transactions to the RBZ meaning that CBZ will lose a significant stake in FDI investment deposits meant for the government, its departments and its parastatals. Furthermore, another major blow towards CBZ is when NSSA, which is another major business partner of the bank, finally establishes its building society and moves all its funds from CBZ.

According to Franklin and Dagger (2013) there has been the issue of the Indigenisation and Empowerment Policy that has scared some foreign investment. They further argue that while the government has maintained thumbs up on the law, target being also the banking sector, in their view, to preserve the credibility and sanity of the banking sector, while also backing up the trickling in of lines of credit from the international arena, a less aggressive approach is

essential on foreign owned banks. Despite the perceived threats of indigenisation and economic empowerment, the Zimbabwean banking sector has remained sound and viable.

The presence of international institutions and in this instance international banks, is beneficial to any country because of the following:

International Banks in most situations contribute to the reduction of financial intermediation costs and it also improves the quality of such intermediation.
Access to financial services is increased for local corporates and even individuals and
Improves performance of institutions through lending and advisory services through migration of best practices.
This invariably increases product offerings, competition and technology and innovation spill overs. International banks can also withstand local shocks and thus become a continuous source of capital. In Zimbabwe we were observant of this during the period when most local banks shut down and the only solidly standing banks were the international banks.

Foreign Direct Investments have been low in Zimbabwe and generally some MNCs have left the country (e.g Johnson & Johnson, Colgate Palmolive to name but a few), on the other hand international banks have also downsized in terms of their support to the economy. The importance of these international banks in moving capital from rich markets to Zimbabwe requires an in-depth study that looks at how these banks influence flow of capital.
It is important to ascertain whether a company in Switzerland would not invest in Zimbabwe if there are only local banks on the market and to what degree of comfort. Invariably would that comfort change if there is a Swiss Bank in the country? What is that contribution that the Swiss Bank would offer that a local bank cannot?
In assessing this impact that international banks have on FDI, the research will contribute to the body of knowledge. To policy makers this may form the basis for further research to assist in decisions on how to maintain the balance of local and international banking institutions and what policies should affect the banking sector.

1.3 Problem Statement

In spite of the laudable benefits the nation stands to derive from the inflow of FDI and its attending contribution to economic growth in Zimbabwe on the ground FDI in Zimbabwe has been on a downward trend in recent years whilst most of its neighbours' FDI has been on the

rise. This is also against the background of the poor performance of Zimbabwe's local banks as shown by their low deposits market share, poor corporate governance, low customer preference as well as the effects of sanctions on some of the banks like Agribank and ZB. On the other hand the foreign banks have been fairing much better even during the financial crises which affected their parent countries as they have a high market share in terms of deposits internationally and locally, good corporate governance levels and they are also preferred more than local banks.

However, the emergence of the Indigenisation and empowerment policy by the Zimbabwean government together with the frosty relationship between the parent governments of most of the foreign banks and the Zimbabwean government has threatened the existence and smooth management of these foreign banks. Consequently, if the above highlighted situation in Zimbabwe's banking sector is not attended to, the sector and the country could end up relying entirely on the already poor performing local banks for all its financial activities including the already depreciating FDI funds.

In light of the above, this study seeks to assess the importance of International Banks in attracting FDI into Zimbabwe.

1.4 Research Objectives

The study has a main (primary) objective and subsidiary (secondary) objectives mentioned below:

Main Objective

To assess the importance of International Banks in attracting FDI in Zimbabwe

Subsidiary Objectives

To determine the roles International Banks in Zimbabwe do to contribute to the flow of FDI.

To ascertain whether these International banks have been successful in attracting FDI in the first place in view of the poor state of affairs of the country.

To assess the tools International Banks use to attract FDI into Zimbabwe.

To establish the challenges faced by local banks in attracting FDI which International Banks do not.

To determine the reasons investors favour International banks.

1.5 Research Questions

In ensuring that the research clearly addresses the objectives, the following questions will be answered:

What are the roles International Banks in Zimbabwe do to contribute to the flow of FDI?
Have International banks in Zimbabwe been successful in attracting FDI in the in view of the poor state of affairs of the country?
Which tools are used by International Banks to attract FDI into Zimbabwe?
What are the challenges faced by local banks in attracting FDI that are not faced by International Banks?
Why do investors use International Banks?

1.6 Hypothesis/Proposition

H1: International Banks play an important role to attract FDI into Zimbabwe.

H2: Financial intermediation, plays an important role in attracting FDI

H3: Institutional development, plays an important role in attracting FDI

H4: Facilitation of international trade plays an important role in attracting FDI

H5: International risk sharing plays an important role in attracting FDI

1.7 Significance of the Study

In assessing the importance of International Banks in attracting FDI into Zimbabwe the research will add on to the body of knowledge. It will assist policy makers in ensuring the right mix of banking institutions. Local companies will know whether it is good to maintain relations with International Banks to attract additional capital. The assessment will also help in becoming a basis for future studies.

1.8 Scope of the research

1.8.1 Geographical and Population scope

The researcher focuses on the importance of international banks to the attracting of FDI in Zimbabwe, with specific focus on all the banks in the financial sector whose headquarters are in Harare. The study shall be for the period January 2009-February 2015. The respondents in this project shall be selected employees, management and staff of the banks. Focus shall be on their head offices in Harare which is convenient to the researcher and these companies will be chosen for their perceived representativeness of the sector.

1.9 Dissertation Outline

The research is made up of five chapters. Chapter one presents the background to the study, the statement of the problem, research objectives, research questions, significance of the study, scope of the research, dissertation structure and chapter summary. Chapter two reviews literature relating to the importance of international banks to the attracting of FDI in Zimbabwe.

Chapter three focuses on the methodology used in data collection. The researcher looks at the research design, study the population and sample, sampling procedure, research instruments, data collection procedure, limitations, reliability and validity and how data will be analysed, processed and interpreted. Chapter four details the results of the study and an analysis of the same is done with the aid of statistical tools. The study findings are also discussed in this chapter. Chapter five serves to summarise the entire research study, to give conclusions that were drawn from the research findings and to outline recommendations that were made in relation to research findings and conclusions.

1.10 Chapter Summary

This chapter gave an outline of the study background, problem statement, research objectives, research questions, study's significance, scope of the study and chapter outline. The following chapter will review literature on the importance of international banks to the attracting of FDI in Zimbabwe.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews literature on the importance of foreign banks in attracting foreign direct investment. Punch (2009) notes that it is important to review literature as this helps building upon the work that has already been done in the field being researched by bringing together and summarizing the empirical evidence about the study research questions. In this literature review, the researcher will demonstrate the ability to engage scholarly review based on the reading and understanding of the work of different authors in the area of the importance of foreign banks in attracting foreign direct investment.

2.2 DEFINITION OF FOREIGN DIRECT INVESTMENT

According to Morisset (2013) FDI can be defined as a cross-border investment in which a resident in one country or jurisdiction (the investor) acquires a long term interest in a company or institution in another country or jurisdiction. Ajayi (2006) further adds that the lasting interest implies a long-term relationship between the investor and the targeted company or institution and usually gives the direct investor voting rights normally above the other investors, or the potential for an effective voice, in the management of the company. Mian (2013) argues that by convention, a direct investment is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad.

According to Wezel (2014) the lasting interest in a direct investment enterprise typically involves the establishment of manufacturing facilities, bank premises, warehouses, and other permanent or long-term organizations abroad. Tsai (2014) adds that this may involve the creation of a completely new establishment or investment, joint ventures, or the acquisition of an existing enterprise abroad (cross-border mergers and acquisitions). It is also in line with Swinburne (2007) who notes that the investment can be incorporated or unincorporated and includes, by convention, ownership of land and buildings by individuals. On the other hand Agodo (2008) argues that direct investment comprises not only focus on the initial transaction establishing the FDI relationship between the direct investor and the direct investment

enterprise, but all subsequent transactions between them and among affiliated enterprises. Thus, the direct investment relationship extends beyond the original direct investor and includes foreign subsidiaries and affiliates of the direct investor that are part of the "parent group."

According to Basu and Srinivasan (2012) once FDI is established, increases in FDI can take the form of injections of additional equity capital, the reinvestment of earnings not distributed as dividends by subsidiaries or associated enterprises and undistributed branch profits, and various intercompany claims, such as the extension of suppliers' credits or loans, all of which represent FDI capital. These transactions cover only one aspect of financing available to direct investment enterprises that can also expand their operations by borrowing in local markets and in international capital markets(with or without the guarantee of direct investors).Basu and Srinivasan (2012) highlight that there are a number of types of FDI and they are listed below:

Horizontal FDI – According to Pierre Coupet (2009) horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

Platform FDI – Mian (2013) states that platform FDI is from a source country into a destination country for the purpose of exporting to a third country.

Vertical FDI–In line with Gujarati (2014) vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains, that is, when firms perform value-adding activities stage by stage in a vertical fashion in a host country**.**

On the other hand Slager (2014) proposes that the outside immediate investor may procure voting force of a bank in an economy through any of the accompanying techniques:

- by consolidating an entirely possessed auxiliary or organization anyplace;
- by obtaining experience a related undertaking;
- through a merger and
- participating in a value joint venture with an alternate financial specialist (investor) or another corporate

2.3 ROLE OF FINANCIAL SECTOR IN FDI

To create the right conditions for development of the effective and secure conversion of the savings of the population into the investment and local business financing, It also includes the following:

- to support the development of the financial markets by setting up regulations and institutions,
- to attract the country to foreign investors who may bring additional financing and help accelerate the investment process and the economic growth of the country as end effect,
- to safeguard the financial system stability.

Pierre Coupet (2009) places that global banks and capital markets assume a discriminating part in the "inventory network of financing" for FDI and business wanders in developing markets. Morisset (2013) includes that universal banks both help to start, and in addition broaden the business for such financing through syndication to institutional financial specialists and offers of credits in optional markets. As indicated by TeVelde (2011) this incorporates advances straightforwardly to folks which are then on-loaned to backups and cross-outskirt credits to auxiliaries. Then again Tsai (2014) contends that entrance to bank financing is likewise essential for empowering FDI-agglomeration since little firms including those that supply inputs and parts that take after vast investors into a developing nation depend on their accessibility. Furthermore, Goldberger (2011) notes that international banks provide funding for parents that undertake FDI ventures and, more directly, through specialized markets, such as for project loans. In addition, Bergsman (2009) points out that private equity channels through mutual funds and directly through investment banks are increasingly supporting business ventures in developing countries. According to Basu and Srinivasan (2012) derivative markets, including interest rate, currency and credit transfer markets, also help distribute credit risk and manage financial market exposure.

Taken together, these instruments, markets and channels make a "chain of financing and optional markets" that supplies money for business wanders in developing nations, for example, Zimbabwe. Then again, Slager (2014) contends that evidences from banks propose that general conditions for supporting FDI have debilitated, conceivably influencing imminent streams. In accordance with Slager (2014); Riedel and Jing (2014) include that taking after the blasting of the budgetary part bubble and having assimilated huge misfortunes in different emergencies in developing markets, worldwide banks surrender that their longing for financing

in developing nations is on the fade. Besides, Martin and Rose-Innes (2013) additionally highlight that banks are likewise less slanted to give task giving, owing in any event somewhat to a few disappointments of undertaking advances in emergency nations. These advancements could have a hosing effect on the measure of financing accessible to help foreign immediate investment and on the structures it will assume control over the close term. Notwithstanding, as indicated by Shoniwa and Dube (2013) the impact has not been as seriously negative in Zimbabwe's budgetary part similar to the case with the majority of its neighbours and other worldwide players as it was at that point leaving a more serious subsidence.

In the above context, some investors underscore that revised regulations and prudential guidelines underpinning Basel II will further affect bank financing of FDI (Wezel, 2014). As per Mian (2013) the presentation of Basel Capital Accord is expected to accommodate enhanced arrangement between the genuine dangers attempted by banks and the administrative capital connected with these dangers. Notwithstanding, Tsai (2014) contends that one direct consequence of the new regulation will be to decrease the capital necessities for exceedingly appraised borrowers while expanding the capital prerequisite for lower evaluated substances. Morisset (2013) additionally noticed that the suggestions for developing nations thusly are huge, since Basel II in its present structure is liable to overestimate the dangers banks would acquire when giving to developing nations. While there is no present accord regarding the amount of giving edges would need to increment under the proposed system, Slager (2014) proposes that it is broadly accepted that spreads for loaning to developing nations would climb at a lopsided rate to those of developed nations. Thus, if the system is received in its available structure, bank financing of FDI may never again be financially savvy. According to Mian (2013) it is likely that institutions that will not be subject to Basel II, including insurance companies, reinsurance companies and potentially some multinational corporations, may provide additional lending.

A key inquiry is to what degree the contracting voracity by universal banks can be counterbalanced with option financing in local banks. Case in point, some investment banks met in Asia noticed that wander or private capital is starting to assume an expanding part in some developing nations, especially in Asia (Riedel and Jing, 2014). Furthermore they take note of that as this creates and spreads all the more broadly to different areas, it could turn into a significant wellspring of financing for FDI. It was additionally noted by Tsai (2014) that a system to fortify local banks would empower such development. Be that as it may, he

additionally noticed that the expenses of raising financing for nearby banks has truly been higher than what universal banks offer, raising the expense of capital and potentially lessening enthusiasm for FDI in developing nations like Zimbabwe.

Not at all like customary FDI investors, private value financial specialists underscored the significance of a "way out methodology" for FDI through capital markets. As a precondition for their venture, capital markets (both obligation and value and local and universal) give a pool of danger capital and accessible liquidity, subsequently allowing the offer of FDI investments and acknowledgment of increases once a turnaround or business achievement has been fulfilled (Moreira, 2006). Morisset (2013) states that the capacity to acknowledge picks up from interest in developing markets through supporting capital markets was additionally seen as a key venture in both balancing returns crosswise over nations and incorporating emerging markets with the global economy.

In view of the critical role of banking in support of FDI ventures, developments in international banking and capital markets require close monitoring. This is in line with Sadiq and Bolbol (2011) who adds that changes in the business strategies of financial intermediaries, including importantly a reduction in their appetite for providing cross-border financing and/or disruptions to this financing chain can affect the size and range of financing available for FDI ventures, and raise the overall risks (liquidity and financing risks) associated with business ventures to emerging markets.

2.4 REASONS WHY INTERNATIONAL BANKS INVEST IN A COUNTRY

Despite the increasing literature related to the topics of FDI in manufacturing sector of European transitional economies, the ones related to FDI in the banking sector have received little attention (Gujarati, 2014). Nevertheless, Wezel (2014) notes that over the past years numerous studies and theories have emerged in an attempt to explain the motives behind foreign bank entry in developing countries. Although there is not a universally accepted theory explaining the motives behind a bank’s decision to start it operations abroad several reasons are addressed in the existing literature. According to Mian (2013) research has revealed factors like the degree of economic integration between the home and host country, market

opportunities available and entry restrictions like the factors that affect a bank's decision to start its operations on a foreign market.

2.4.1 Follow the customer/ Level of integration between home and host country

As per Swinburne (2007) a standout amongst the most essential reason that influences a bank's choice to enter a remote business is to "take after the client" additionally called the preventive investment. Likewise TeVelde (2011) states that remote (foreign) banks expanding upon the ability in their nation of origin can separate themselves from their rivals in the host nation by offering perplexing and specific administrations to their nation of origin corporate clients. He further includes that years of long- enduring relationship have furnished the international banks with urgent data about the remarkable budgetary needs that their customers have, the learning of which is distracted to host nation foundations. This could be the motivation behind why in Zimbabwe they are preferred or favoured over the local banks as highlighted in Chapter 1 earlier. Moreover, Slager (2014) stresses that through this relationship banks have the capacity to build up an upper hand stemming through the lower marginal costs that the foreign banks experience when managing credit recharges over their local rivals. He additionally highlights that dissimilar to manufacturing where learning can be ensured through examples and different means, business knowledge can be effectively picked up by any bank with an enthusiasm for beginning its operations. Sachs and Sievers (2008) adds that, letting other financial institutions to develop a relationship with its existing corporate clients can result in the loss of market share in the banks home county. They emphasize that in order to prevent this from happening banks are obliged to follow the client by opening an office (branch, subsidiary) abroad themselves in order to defend their unique bank client relationship.

2.4.2 Attractiveness of the Host Country

As indicated by Morisset and Neso (2012) the appeal of the host nation is an alternate intention that as per studies drives international banks into a new market (foreign). In backing of this contention Agodo (2008) states that various variables like GDP, size, distance, financial development, and benefit opportunities are distinguished as the ones that shape the general appeal of the market.

2.4.3 Host Country Regulation

Riedel and Jing (2014) believes that foreign banks' will to engage themselves in banking FDI may have long existed, however the ability to do so was restricted by barriers to entry that existed in many developing countries until recently. They add that only after the authorities of those countries in the mid-2010s begun to actively pursue a policy aiming to the privatisation of their domestic banking institutions through the participation of foreign investors' foreign bank entry was allowed. According to Pierre Coupet (2009) the effects of host country regulations on foreign bank entry are straightforward since restrictions on foreign bank present generally limits competition and protect inefficient domestic banks. Mian (2013) adds that since the majority of African countries are now in a transition process towards a democratic market economy the degree to which the reform process has taken place (level of economic reforms, and political freedom) is an important consideration that foreign banks are taken into account before entering the country. These views are in line with Slager (2014) who notes that countries that have successfully introduced reforms aiming at establishing transparent and enforceable rules regarding their financial markets are the ones that considered more attractive for foreign banks.

2.5 DETERMINANTS OF FDI TO AFRICA

According to Morisset (2010) and Asiedu (2006), the common perception among many observers is that FDI in African countries is largely driven by their natural resources and the size of their local markets and not necessarily the entrance or existence of international banks in the country. In an econometric study on 29 Sub-Saharan Africa countries for the period 2010-97, Morisset (2010) found that both market size and natural resources availability have a positive influence on FDI inflows, with an elasticity of 0,91 and 0,92 using panel data and 1,4 and 1,2 using cross-section data, respectively. Panel regressions presented in Asiedu (2006) for 22 Sub-Saharan Africa countries over the period 1984-2010 show that a standard deviation of one increase in the natural resource variable results in a 0,65 per cent increase in the ratio of FDI to GDP and a standard deviation of one increase in the market size variable results in a 2,61 per cent increase in FDI/GDP.

Despite the fact that the African nations that have possessed the capacity to draw in most FDI have been those with regular and mineral assets and in addition substantial local markets, these are not the sole determinants of FDI to the locale. Morisset (2010), Asiedu (2006) recommend

that the rundown of variables affecting FDI is genuinely long, albeit not all determinants are similarly vital to each investor in every area at all times (Ajayi, 2006). As per Wezel (2014) for Africa, then, the particular determinants of FDI incorporate business size and development, accessibility of natural resources, human capital expenses and aptitudes and accessibility of infrastructural framework. Others are openness of the economy, political and financial dependability, institutional quality, venture regulation and universal arrangements and certifications. Venture advancement, quantifiable profit and different components, for example, cost-related variables, centralization of different investors, investment motivating forces, privatization and inflows of two-sided ODA (Official Development Assistance) are likewise FDI drivers taken into account.

2.5.1 Market size and growth

As per Krugell (2005) market size and development have turned out to be a standout amongst the most critical determinants of FDI. The most well-known contention as indicated by Tsai (2014) for the importance of business size and development in drawing in FDI is that a huge local business sector size creates scale economies, while a developing business enhances the possibilities of the business sector potential. Along these lines, an economy with a substantial business sector size ought to pull in more FDI and nations that have high and maintained growth rates ought to get a bigger number of FDI streams than unpredictable economies. Bende-Nabende (2012) notes that market development and market size are among the most prevailing long-run determinants of FDI in Sub-Saharan Africa. Bhattacharya et al. (2006), Elbadawi and Mwega (2007), Morisset (2010) and Onyeiwu and Shrestha (2014) likewise agree for the significance of financial sector development in drawing in FDI streams to Africa. In the wake of controlling for significant nation conditions, Elbadawi and Mwega (2007) additionally demonstrate that nations in the SADC district get a larger number of FDI than different nations in Africa and handles a bigger number of FDI than other countries in Africa. A few investors, prominently those from East Asian nations, have put resources into Botswana keeping in mind the end goal be to deliver for the South African market (Bhindaet al., 2009). Multinational firms that wished to serve the huge market in South Africa spotted their auxiliaries in Lesotho and Swaziland (Basu and Srinivasan, 2012). Asiedu (2013) and Lemiand Asefa (2013) likewise vast markets (alongside different elements) elevate FDI to a country. The same applies for the South African nation (Fedderke and Romm, 2006).

Conversely, for US FDI to Africa, Agodo (1978) discovered GDP and GDP per capita to be a positive impact, whilst GDP growth was immaterial. The theory that higher development rates foster FDI is additionally not noteworthy in Asiedu (2012a) and Yasin (2005). The authors highlight that the allure of the host nation's business sector is especially imperative for market-seeking FDI, which is not liable to be the situation as the nations included in their examination are basically poor and little nations.

2.5.2 Availability of natural resources

Historically, the accessibility of natural resources has been the basic figure pulling in FDI, as a result of the need of industrializing countries of Europe and North America to secure a financial and dependable wellspring of minerals and essential items (Dunning, 2013). In spite of the fact that declining in relative significance, the accessibility of natural resources is still of specific significance for internal interest in resource-abundant nations, despite the fact that near preference in characteristic assets without anyone else's input is no more sufficient for FDI to occur (UNCTAD, 2008). The accessibility of natural resources has been discovered to be emphatically identified with FDI streams to Africa (Asiedu, 2013; Onyeiwu and Shrestha, 2014). Kolstad and Tondel (2012) contend that nations rich in oil and other common assets, for example, Angola, have the capacity to draw in overwhelming FDI inflows. Surely, it is in the mining of high-value minerals and petroleum where Africa is especially conspicuous as a host to FDI and where extraordinary potential for future FDI exists (Basu and Srinivasan, 2012).

2.5.3 Labour force

Cheap labour and labour force quality are other essential determinants of FDI (Krugell, 2005). Lower labour costs reduces the cost of production; all different elements staying unaltered (for instance Schneider and Frey, 1985). Then again, as opposed to simply low wages, it is essential that wages reflect profit (Krugell, 2005). It is for the most part accepted that exceedingly taught faculty have the capacity to learn and embrace new advancements speedier, and the expense of retraining is additionally less (Pigato, 2011). In this manner, nations with an extensive supply of cheap yet talented human capital pull in more FDI. Lemi and Asefa (2013) and Yasin (2005) find that the accessibility of a copious and modest work power has the normal beneficial outcomes on FDI to Africa. While it may not be singled out as a sole factor, the success of Mauritius in attracting FDI is partly explained by the relatively cheap, adaptable and well trained workforce (Odenthal, 2011). In the same vein, Fedderke and Romm (2006) show that

wage costs impact negatively on FDI to South Africa. In addition, Lemi and Asefa (2013) and Asiedu (2006) also find evidence for the important role played by an educated labour force in attracting FDI flows to African countries. Nonetheless, the absence of middle or senior level entrepreneurial experience has expanded the current abilities crevice in Africa, and numerous multi-national companies (MNCs) have depended on expatriates (Bhindaet al, 2009).

On the other hand, Bende- Nabende (2012) states that no definite conclusions can be drawn about mean years of education and real wages rates, because some countries in the Sub-Saharan Africa sample did not have sufficient time- series data for both variables. Morisset (2010) also found that the availability of relatively skilled labour do not appear to have been a major factor in the location decision of MNCs, advancing data shortcomings in most African countries as a possible cause.

2.5.4 Quality infrastructure

The availability of quality infrastructure_is an important determinant of FDI (Krugell, 2005). A good quantity and quality of infrastructure, particularly roads, ports, water and power supply and telecommunications, by reducing transaction costs, facilitates business operations (Wheeler and Mody, 2012). Thus, infrastructure facilities are expected to have a positive impact on FDI inflows. Asiedu (2012b, 2013, 2006) provide evidence that good infrastructure promotes FDI to Africa. However, Pigato (2011) find that Africa lags behind in the number of telephone mainlines and the percentage of roads that are paved. The results from using fixed effects panel estimation in Asiedu (2012b) also indicate that the marginal benefit from increased infrastructure was less in the 2010s than in the 1980s and thus African countries need to provide better infrastructure in order to receive investments at levels comparable to the 1980s. Furthermore, Asiedu (2014) shows that, from 1980- 89 to 2010- 99, the rate of increase in the availability, reliability and development of infrastructure in the Sub-Saharan Africa region was less than the rate for all developing countries.

In contrast, many studies find no evidence that infrastructure as measured by the number of telephones per 1,000 population has any impact on FDI inflows to Africa (Morisset, 2010; Asiedu, 2012a; Lemi and Asefa, 2013; Onyeiwu and Shrestha, 2014). Asiedu (2012a) suggests the following explanation: FDI to Africa tends to be natural resource- based and the availability of telephones is not relevant for natural resource- based FDI. Indeed, as stressed

by Onyeiwu and Shrestha (2014), Angola and Nigeria are reputed to be the highest recipients of FDI in Africa in recent times and yet both countries have very poor infrastructure. In addition to physical infrastructure, availability and efficiency of financial infrastructure is crucial for attracting FDI. If countries have a weak financial market, instead of a well- developed one, it is more difficult for investors to raise funds locally, although under certain circumstances, funds may be channelled from parents companies to their affiliates (Alfaro *et al*., 2013).
A survey of several African countries by Bhinda *et al*. (2009) found that problems related to mobilizing local banking, leasing or equity finance were on the top of the list of factors discouraging investors in Tanzania, Uganda and Zambia. In contrast, Asiedu (2012a) tested the robustness of her basic model using financial deepening (traditionally measured by the ratio of M2 to GDP) as a control variable, but the estimated coefficient rendered non- significant.

2.5.5 Openness of the economy

There are two contradicting perspectives connecting openness of the economy to FDI streams. The "tariff-hopping"/"tariff-jumping" hypothesis sets that high defensive hindrances invigorates direct interest in the host nation instead of keeping on overhauling it through exports, due to potential advertising expense savings and transport cost decreases (Krugell, 2005). Then again, the more open the economy, the more it would pull in the FDI from MNCs seen as distinctive partners practicing as per the locational points of interest of the host nation (Blomstrom and Kokko, 2007). The significance of the last is decently reported in the observational (empirical) writing on the determinants of FDI to Africa (Bhattacharya et al., 2007; Morisset, 2010; Asiedu, 2012a, 2012b; Bende-Nabende, 2012; Lemi and Asefa, 2013; Onyeiwu and Shrestha, 2014; Yasin, 2005; Dupasquier and Osakwe, 2006; Fedderke and Romm, 2006).

2.5.6 Economic and political stability

A few studies have observed that FDI in developing nations is influenced adversely by economic and political precariousness (for instance Lemi and Asefa, 2013). Political flimsiness subsumes numerous sorts of occasions like demonstrations against government, assassinations, government minister changes, changes of the constitution, overthrows (coups), government emergencies, revolutions, and uproars or riots (Moreira, 2006). It is believed to cause a reduction in FDI on the grounds that it builds vulnerability on the cost and profitability of the venture or investment (Krugell, 2005). Thus, precariousness in macroeconomic variables as

proven by the high occurrence of currency crushes, twofold digit inflation, and budget deficits is connected with macroeconomic arrangements that are not practical leading to unattractiveness of the investment (Krugell, 2005).

In a study of MNCs in Africa, Sachs and Sievers (2008) find that the biggest concern of firm holders is dependability, both political and macroeconomic. In an empirical examination of the social and political improvement of foreign investment in Africa, Kolstad and Tondel (2012) find that nations that are less risk pull in more FDI per capita. Asiedu (2013, 2006) additionally demonstrates that both macroeconomic and political insecurity deflect investment streams into Africa. Additionally, Rogoff and Reinhart (2013) get a factually huge negative connection between FDI and the accompanying pointers of political and economic shakiness in Africa: clashes; inflation; likelihood that the parallel market premium is over 50 percent. Moreover, a more critical take a gander at the changes in the business atmosphere of Mali and Mozambique amid the 2010s likewise uncovers that macroeconomic and political steadiness was among the purposes behind their late achievement (Morisset, 2010). As expressed in the previous section, the study by Lemi and Asefa (2013) analyzes how uncertainity influences FDI streams to African nations. As a rule, the outcomes vary by industrial group and source nation. For FDI streams from all source nations and for US FDI streams, Lemi and Asefa (2013) demonstrate that both political and monetary vulnerabilities are not critical determinants. The same result was arrived at in Asiedu (2012a). In connection to political vulnerability per, Morisset (2010), Onyeiwu and Shrestha (2014) and Yasin (2005) find that political precariousness is not a critical determinant of FDI streams in Africa. Then again, Fedderke and Romm (2006) find that political security has a positive effect on FDI to South Africa. The outcomes for US manufacturing FDI to Africa likewise show that political unsteadiness is a worry to outside investors (Lemi and Asefa, 2013).

As concerns to economic vulnerability per, Lemi and Asefa (2013) observe that it is tying for US non-manufacturing FDI to Africa just when financial instability is coupled with political shakiness and obligation load or debt of host nations. Schoeman et al. (2010) emphasis on fiscal solidness as it is for the most part thought to be one of the pointers of macroeconomic steadiness. The outcomes propose that the higher the budget deficit with respect to South African GDP the more prominent the negative effect on FDI with respect to South African GDP. Lastly, in light of panel data for 29 African nations over the period 1975 to 2009,

Onyeiwu and Shrestha (2014) provide evidence that countries with high inflation tend to attract less FDI.

Sadly, the image of the African continent as a location of FDI is unfavourable, because investors perceive the continent as a home for wars, civil unrest, poverty, disease and a generally unfriendly investment destination and this result in the diversion of these investments to other regions (UNCTAD, 2009) In other words, African countries receive less FDI than countries in other regions, by virtue of the (perceived) riskiness of the continent. Asiedu (2012a) and Jaspersen *et al*. (2010) argue that being an African country is indeed a significantly negative determinant of FDI, because of investors' perceptions of Africa as inherently risky. According to the findings of Haque *et al*. (2010) and Collier and Pattillo (2007, 2010), commercial risk rating agencies rate African countries as riskier than justified by their fundamental investment conditions. On the other hand, a study on private capital flows to low-income countries by Martin and Rose- Innes (2013) reveals that investors no longer fully share the continuing negative perception of much of Africa as a "basket case" region with high risk and low return, which determines the attitudes of many MNC headquarters, the international media and some agencies. In a study of regional susceptibility to war, Rogoff and Reinhart (2013) found that wars are more likely to occur in Africa than in other regions and there is a negative correlation between FDI and conflict in Africa.

2.5.7 Institutional quality

There is empirical confirmation today that wasteful establishments as measured by defilement (corruption) and powerless requirement of agreement dissuade FDI (for instance Gastaganaet al., 2008). As indicated by the institutional quality variable of Knack and Keefer (2005), for example, the nature and quality of institutions is caught in view of the simple average of ratings given by the International Country Risk Guide (ICRG) for the accompanying five institutional markers: standard (rule) of law; confiscation risk; renouncement of agreement by government; defilement or corruption in government; and nature of bureaucracy. A nation where it takes unreasonable time and expenses to fulfil all strategies important for Sub-Saharan Africa to create and work will see its potential investors lose cash and choose to invest somewhere else or disinvest their ventures (Morisset and Neso, 2012). Notwithstanding the level of organization included in developing a business in a nation, the level of defilement or absence of great administration or good governance is likewise an obstruction to FDI, on the grounds that, for a firm, paying bribes is similar to paying a duty or tax and, wherever it exists, it creates

instability (Wei, 2010). Defilement or corruption can be both the reason and outcome of high regulatory obstructions in numerous developing nations (Morisset and Neso, 2012).

Asiedu (2013, 2006) found that an effective lawful structure elevates FDI to Africa, while corruption stops venture streams to the area. Dupasquier and Osakwe (2006) contend that the absence of great lawful and legal frameworks is a conceivable obstacle to FDI in Africa. The establishment of the legal system is basic to ensuring property rights and enhancing property rights, thusly, was found to raise the engaging quality of South Africa as an area of FDI (Fedderke and Romm, 2006). In numerous non-francophone African nations, TeVelde (2011) found that freehold possession is disallowed or requires unequivocal endorsement, which may include long delays shifting extensively crosswise over nations: up to two years in Mozambique, no freehold proprietorship in Namibia, up to three years in Tanzania, up to eight years in Kenya and up to six months in Uganda. Emery et al. (2010) focus on Africa, demonstrating that authoritative methods and tenets on possession can structure a noteworthy obstruction to FDI. TeVelde (2011) observed that it takes one to two years to create a business and get to be operational in Uganda and Ghana, year and a half to three years in Tanzania and Mozambique, six months to one year in Namibia, however just six months in Malaysia. Generally, from the 1980s to 2010s the rate of upgrades on institutional quality was lower for SUB-SAHARAN AFRICA nations as contrasted and other developing nations (Asiedu, 2014).

2.5.8 Regulations

FDI regulations that have changed confinements have fundamentally added to the change of the investments atmosphere (UNCTAD, 2008). They accommodate non-discrimination in the foreign and local investors, permit profit repatriation, secure against confiscation, award motivations, fortify the norms of treatment of foreign investors, and move far from focusing on particular segments or foreign investors (UNCTAD, 2008). Bende-Nabende (2012) found that FDI liberalization is among the most predominant long-run determinants of FDI in Sub-Saharan Africa. The outcomes from Asiedu (2013) likewise demonstrate that a decent investment structure elevates FDI to Africa, i.e. venture limitations deflect investment streams to Africa (Asiedu, 2013). As per Basu and Srinivasan (2012), unnecessary business sector regulations, i.e. local investment impediments to repatriation and on passage into a few segments of the economy were not helpful for the fascination of FDI in Africa. Ghana, for instance, has extended the scope for foreign investment by lessening the areas beforehand shut

to foreign investment (Basu and Srinivasan, 2012). All in all, from the 1980s to the 2010s, the pace of liberalization for Sub-Saharan Africa nations as measured by three indices (capital controls; confinements on exchange and investment; FDI policy), was slower in contrast with other developing nations (Asiedu, 2014).

2.5.9 Bilateral and multilateral investment

In spite of the liberalization of FDI policies, many argue that national FDI policies may not be enforceable and do not address what foreign investors seek in guaranteeing security and benefits (Lemy and Asefa, 2013). Thus, countries are signatories to bilateral and multilateral investment and trade treaties to show their commitment and to ensure the protection of investment and avoid double- taxation, which will lastly make them more attractive for foreign investors (UNCTAD, 2008). Lemi and Asefa (2013) found that government policy commitment as measured by the number of Bilateral Investment Treaties (BIT) signed by a host country and membership in Multilateral Investment Guarantee Agency (MIGA) play an important role in attracting US manufacturing firms to Africa. According to Morisset (2010), the adoption of international agreements related to FDI explains the recent improvements in the business climate of Mali and Mozambique. During the 2010s both countries have become members of MIGA. Mali have also acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, while Mozambique have signed the International Convention on Settlement of Investment Disputes between States and National of Other States (ICSID) and become member of the Industrial Free Zone in 2014 and the World Intellectual Property Organization in 2006. Examples of other important instruments available for African government’s commitment are the agreements in the WTO relating to FDI, such as the Trade Related Intellectual Property Rights (TRIPs) or Trade Related Investment Measures (TRIMs) Agreements, the Paris Convention for the Protection of Industrial Property and the Bilateral Treaties for the avoidance of Double Taxation (DTTs).

2.5.10 Investment promotion

Governments can advance FDI by developing Investment Promotion Agencies (IPAs) that particularly focus on promotion and marketing activities and joining the World Association of Investment Promotion Agencies (WIPA) that offers training and capacity building chances to IPAs (Morisset, 2013). FDI advancement addresses a business sector disappointment identified with defective data on investors' and in addition on the host government's side and subsequently

accentuates nations appeal for foreign investors (Wells and Wint, 2010). Morisset (2013) demonstrates that more prominent investment advancement is connected with higher cross-country FDI inflows. In any case, the Morisset (2013) contends that investment advancement is more successful in a nation with a decent investment atmosphere and a moderately high state of development. Dupasquier e Osakwe (2006) on the same note states that African governments set up agencies to advance foreign investment without making moves to lift the requirements on FDI in the region and along these lines IPAs have not been effective in switching the declining pattern in FDI streams to the area.

2.5.11 Return on capital

The profitability of investment, the productivity of capital is another major determinant of FDI flows. FDI will go to countries that pay a higher return on capital, i.e. the international movement of FDI occurs when rates of return on FDI exceed the rates of return on home investment (Root, 1984). Jaspersen *et al*. (2010) and Asiedu (2012a) use the inverse of real GDP per capita as a proxy for the rate of return on investment (as capital- scarce countries generally have a higher rate of return, implying low per capita income) and found a negative relationship between the two variables for the Africa region and for non-Sub-Saharan Africa countries, respectively. Moreover, Schoeman *et al*. (2010) use the yield- interest differential in order to capture the return on investment in South Africa (for investment to be profitable, the yield on investment should exceed its opportunity cost, the real interest rate) and found that an increase in the difference between the yield (return) on investment and the interest rate increases FDI flows in South Africa.

2.5.12 Cost-related location factors

Among the host country's real wage rates, fuel costs, cost of capital, transportation costs, land and property rents/rates, foreign exchange rates, local input costs (where applicable), and level of taxation, are other key cost-related locational factors that may considerably influence the choice of an investment location (Bende-Nabende, 2012). Schoeman et al. (2010) and Fedderke and Room (2006) find that corporate tax rates affect adversely on FDI to South Africa. Bende-Nabende (2012) and Yasin (2005) demonstrate that low currency values are required to support FDI streams in Africa. Lemi and Asefa (2013) utilization of the expense of capital (i.e. lending interest rate) as a control variable for analysing the relationship between vulnerability and FDI

streams in African economies, however the evaluated or estimated coefficient rendered non-significant.

2.5.13 Concentration of other Foreign Investors

Foreign investors can be baited to nations with a current convergence of other foreign investors, since it is a decent flag of ideal conditions and there are clear economies of scale in the improvement of retrogressive and forward linkages (UNCTAD, 2008; Kinoshota, 2013). Then again, the agglomeration of economies or the grouping of investors as incompletely caught by the offer of urban populace does not seem to have been a real determinant in the business atmosphere for FDI in Africa (Morisset, 2010).

2.5.14 Incentives

Host governments offer motivators as fiscal and financially related attractions to decidedly impact FDI inflows, by lessening expenses and making investment more attractive or profitable (Krugell, 2005). In any case, the experimental (empirical) confirmation demonstrates that motivations impact investment choices just at the edge, i.e. in spots where different parts of the business atmosphere are as of now good (for instance Bergsman, 2009). To put it plainly, motivators assume a part once essentials are sufficient (TeVelde, 2011).

2.5.15 Privatization

FDI strategies or policies are normally joined by different approaches aimed at impacting locational choices, for example, privatization arrangements; if privatization projects welcome foreign investors, then it increases the extent of FDI (UNCTAD, 2008). To be sure, propelling an appealing privatization system is among the key activities suggested by Morisset (2010) for the change of the investment atmosphere for FDI, in view of a detailed review of the strategy changes used by two of the most alluring nations amid the 2010s: Mali and Mozambique. However, a study of investors by Martin and Rose-Innes (2013) did not bring out privatization as one of the components for the expansive capital inflows to Africa, with the exception of a couple of investors who had purchased privatized organizations

2.6 EFFECTS OF FOREIGN BANKS' ATTRACTION OF FDI ON HOST COUNTRY

The rapid growth of world population since 1950 has occurred mostly in developing countries. According to Te Velde (2011) this growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. On the other hand Riedel and Jing (2014) argue that only war-torn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita. However, Gujarati (2014) states that an increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. This view is in line with Lau and Swinburne (2007) who add that host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and Mian (2013) suggests that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, Sachs and Sievers (2008) also adds that foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. Sadiq and Bolbol (2011) further emphasizes that the local population may be able to benefit from the employment opportunities created by new businesses.

According to Slager (2014) an increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards.

Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources4. The local population may be able to benefit from the employment opportunities created by new businesses.

However, there has been concern over the environmental impact of unregulated FDI and the depletion of natural resources, for example, the overconsumption of water by large scale

commercial projects. Host countries can also cede control of vital industries to foreign investors unless protective measures are in place. Although FDI is generally seen as a longer-term investment there are fears over the risk of volatility that comes from liberalising domestic industries and the increased exposure to global markets. Local businesses may suffer due to the pressure exerted by larger multinational competitors with significant competitive advantages.

FDI involves a combined flow of capital and technology. From growth and trade theory we know that capital inflows may increase GDP per capita in the capital importing country. Moreover, access to better technology, broadly defined, is the only source of sustained growth. Hence, the way in which more advanced technology spills over to the local economy, and the empirical importance of these spillovers, have been areas of intense research in recent years. FDI is obviously not the only source of capital and technology. Countries may rely on their own savings or borrow money in international markets to add to the capital stock. And countries may rely on domestic research and development (R&D) in order to upgrade technological sophistication. However, developing countries may face constraints on international credit markets, and may not have the resources necessary to undertake domestic R&D. Moreover, FDI implies an element of risk sharing between the capital owners and the capital importing countries that may make this type of capital flow more desirable than loans. And FDI may be, if not the only, then perhaps the most cost efficient way for poor countries to gain access to new technology. Clearly, the positive impact on the local economy is likely to be greater if the economy suffers from high unemployment. First of all, there is a direct effect: everything else equal, establishment of foreign firms increases labour demand in the host economy. Second, there is an indirect effect, as the foreign firm links up with the local economy by demanding intermediate goods and producer services from local suppliers. This indirect effect also adds to labour demand, and should lead to reduced unemployment or increased wages or a combination of the two. In what follows, we shall discuss in more detail three mechanisms that have received a lot of attention in the literature on host country effects of FDI, namely technological spillovers, linkage effects, and competition effects.

2.6.1 Spill overs

Firms that establish affiliates abroad typically have some technological advantages that allow them to compete successfully with local firms. Consequently, there should be a potential for

host country firms to learn from the foreign affiliates. Empirical studies show that technological spillovers, which should result in both higher factor productivity for local firms and in higher factor rewards, should not be taken for granted. First, the quality of human capital in the least developed countries may be too low to make effective use of the technology introduced by foreign firms (Borensztein, Gregorio and Lee, 2005, Salvatore, 2008, Haddad and Harrison, 2013, Kokko, 2014). This is also reflected in an empirical study by Blomström et al (2014), which shows that inflows of FDI have a significant positive effect on income growth for the most advanced developing countries, but no such effect on the least developed countries. Second, countries that have relatively stringent restrictions on inward FDI and force foreign firms into some kind of partnership with local firms seem to obtain relatively little spillovers. The reason for this is presumably that the headquarters of multinational firms are more reluctant to bring new and sophisticated technologies to countries where they have less control over their proprietary knowledge (Blomström and Sjöholm, 2008).

2.6.2 Linkages

A related inquiry to that of spillovers, is whether foreign firms create linkages to domestic firms. Solid linkages infer that the employment impact of FDI may be expansive. Also, association between local suppliers of intermediates and the foreign subsidiary maybe perhaps one channel through which learning happens. For example, remote firms may put higher quality standard of the intermediates and on convenient conveyance (timely delivery), compelling local suppliers to end up more productive. More productive local suppliers of intermediates will obviously additionally benefit locally possessed downstream firms. In a study of empirical literature, Lall (1981, 2012) finds that there are moderately solid linkages between import substituting MNEs and local firms in extensive economies and, of course, especially in nations that have strict prerequisites of local content. The same is valid for MNEs that slowly change from import substituting to export, particularly those that depend on steady and unsophisticated innovations. Absolutely export oriented MNEs, then again, have a tendency to have weaker linkages with the local businesses. For example, the proficiency necessities confronting export oriented MNEs that work in the most intricate sectors of the electronic industry have been found to diminish the degree for domestic linkages in developing nations to for all intents and purposes nothing (Lall, 1981:223).

2.6.3 Competition

Entrance of foreign firms at times reduces number of players in a market (as they created barriers to entry by their size and capacity), and thus increase competition. This mostly leads to reduced prices, and a wider choice of options for the consumers. Intense competition also leads to efficiencies as organisations innovate to fight competition. This is supported by Blomströmand Sjöholm (2008) and Kokko (2014). One would perhaps expect the precompetitive effect to be strongest in the sectors that are otherwise relatively protected from foreign competition. However, as noted by Graham and Krugman (2005), there is likely to be a sectorial bias in trade protection, in the sense that countries tend to protect those sectors where the domestic industry has a comparative disadvantage. Allowing inward FDI into these sectors may therefore crowd out local firms, and generate significant market power and pure profits to foreign firms without necessarily increasing the competitive pressure. In the extreme case, local firms could be wiped out of the market, leaving the foreign entrant with a monopoly position. Consistent with this view, empirical studies indicate that the net gains from foreign investments are larger if they take place in sectors where the country has low barriers to trade (Salvatore, 2008) or, more generally, in sectors where the local firms are competitive (Kokko, 2014, and Salvatore, 2008).9 The loss of sales for local firms is particularly serious if there are dynamic learning-by-doing effects in an industry, an argument underlying the infant industry policy implemented by a number of developing countries in the present and the past. In addition to the static profit-shifting effects of foreign entry noted above, there would then also be a dynamic loss to the host economy due to the reduced future competitiveness of local firms.

2.6.4 Boost to the domestic economy

Tsai (2014) denotes that countries expect foreign banks to enter and galvanise the domestic banking sector by bringing in healthy competition. Domestic banks long 'protected' under an infant-industry argument, are expected to react to the foreign presence and compete fiercely to retain their previous market shares, thereby lifting the domestic banking sector to international levels of efficiency.

This expectation is often seen as a part of a broader intention to modernize the local banking sector. Foreign banks typically carve out a market niche by bringing in new management and advertising techniques, more advanced financial technology and the latest in electronic banking methods. Germidis and Michalet (2014) state that it is hoped that the introduction of new technology should cause local banks to imitate the foreign banks. A positive externality arising

from this is training foreign banks impart to local staff and management on the use of these new technologies. This helps to increase the information and human capital of most bankers.

Increase in competition can sometimes be gauged from changes in bank margins. A bank margin is defined as the difference between prime lending and three months deposit rate or the difference with the three months interbank rate. It is a crude measure of loan profitability mainly because banks charge prime rates to few clients and three month deposits are a small fraction of a banks deposit base. It also ignores the effects of taxation. The more competitive a banking system the lower the margins. Countries that permitted foreign bank entry reported a lower gross earnings margin to volume of business, lower pre-tax profits to volume of business and lower operating costs to volume of total business. Banks in countries that exclude foreign bank entry thus appeared on balance to earn larger profits and to be less efficient (Terrell, 2006).

2.6.5 Greater access to international markets

Countries on opening their doors to foreign banks expect them to aid in the development of trade and foreign direct investment. Firstly their domestic operations will benefit local producers and in particular export/import companies and multi-national corporations. These companies can take advantage of the superior experience and expertise of foreign banks in international payments systems, while conducting their businesses. Secondly, foreign banks are expected to increase foreign currency inflows into the country.

2.7 Theoretical framework

Although several theories have been advanced to explain the determinants of FDI, none has been more influential than Dunning's eclectic theory on FDI (Dunning 1981; 1988; 1995; 1998; 2000; Asiedu 2004; Gastanaga, Nugent, Pashamova 2008; Sethi, Guisinger, Ford and Phelan 2012; Markusen 2005). According to Dunning (1981) the most common starting point for discussing banks' choice of direct investment relative to other entry modes in a foreign market, is Dunning's OLI framework. The theory posits that banks invest abroad to look for three types of advantages: Ownership (O), Location (L), and Internalization (I) advantages; hence it is called the OLI framework. Competitiveness in a foreign setup (environment), calls for a bank take up **O**wnership for it to gain an advantage, a distinguished or unique process of production,

proprietary or trademarked goods, or access to more intangible assets like goodwill and brand equity, trademarks and management systems. Gained or purported competitive advantage may then be used to access foreign markets in various ways. The choice to choose FDI by a bank , instead of, say, exports, requires some **L**ocation advantage in the foreign country. Location advantages include the following;

- Banks looking at cost reduction may be attracted by low wages,
- Banks expanding their international presence may be attracted by a large home market.

Finally, given that the bank has decided to go abroad, it can choose between various contractual arrangements, including licensing agreements and strategic partnerships. The theory therefore predicts that there must exist some **I**nternalization advantages making ownership preferable to more arm's length contracts. These advantages typically include a greater control over technology and reduced transaction costs.

Another theory on attraction of FDI by foreign banks is the neoclassical growth theory. According to Korna, Ajekwe and Idyu (2013) it postulates that growth is brought about by increase in the quantum of factors of production and in the efficiency of their allocation. In a simple world of two factors, Labour and capital, it is often presumed that low-income countries have abundant labour but scarce capital. This situation arises owing to shortage of domestic savings in these countries, which places constraint on capital formation and hence growth. Even where domestic input in addition, to labour, is readily available and hence no problem of inputs supply, increased production processes in low-income countries are based. International capital flows (ICFs) readily become an important means of helping developing countries to overcome their capital shortage problem. One of the components of international capital flows is foreign direct investment (FDI) and is usually through foreign banks. Other components are: official flows from bilateral sources especially from developed countries and multilateral sources such as the World Bank and its two affiliates: the International Development Association-IDA, and the International-Finance-Corporation-IFC, concessional and non-concessional terms as well as Commercial Bank Loans (including export credits.)

The third theory that provided a framework for this study is the economic theory. According to Korna, Ajekwe and Idyu (2013) this theory suggests that capital will move from countries where it is abundant to counties where it is scarce. This pattern of movement will be informed by the returns on new investment opportunities, which are considered higher where capital is

limited. The resultant capital relocation will boost investment in the recipient country and, as Summers (2010) suggests, bring enormous social benefits. Underlying this theory is the premise that returns to capital decrease as more machinery is installed and new structures are built, although, in practice, this is not always, or even generally true. Although economic theory and empirical investigations have much to say about where FDI may flow, both the theory and the evidence are less definitive about the impact of such flows like trade. FDI is regarded as a two-way flow, with most of the major providers also being the major recipient. FDI is supposed, at least theoretically, to be a positive-sum game (Julius, 2011). For Example, Mishra et al. (2011) revealed that whereas FDI has been associated with higher growth in some countries, it has also been associated with a higher incidence of crises.

Based on the theoretical framework presented above and the structure of international banks in Zimbabwe as well as the characteristics of FDI inflows to Zimbabwe this research proposed the following hypothesis:

H_0 International Banks do not play an important role to attract FDI into Zimbabwe.

H_1 International Banks play an important role to attract FDI into Zimbabwe.

2.8 Chapter conclusion

The main areas covered in the literature studied were the role of the financial sector in attracting FDI, the reasons why international banks invest in foreign lands, determinants of FDI in African countries as well as the effects on host countries of the attraction of FDI by foreign banks. The next chapter will present the study methodology and necessary justifications.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter presents the research design and methodology that was used to investigate and complete this study. The chapter also justifies the chosen methodologies. The chapter also presents the method used for empirical data analysis.

3.2 Research philosophy

White (2010) states that research can be carried out by either using the qualitative (interpretivism) or quantitative (posivitism) approach. However, research can be carried out by using a combination of the two approaches, thus triangulation. Whatever method is used in research, the process of enquiry in science is the same, (Hammersley, 1992). However Silverman (2000) argues that these two approaches often involve different evaluation methods, at the same time quantitative research tends to be more superior as it is value free.

Therefore in this study the researcher used a research method which was predominantly quantitative. The research in this case was more inclined to positivism and a deductive research approach is preferred instead of an inductive approach as the deductive approach was more reliable and objective in its findings.

The quantitative technique was used to test relationships, describe, examine cause and effect relations.

3.3 Research strategy

The researcher therefore carried out a quantitative research using a survey to find out the link between the above variables and FDI attraction. The basic idea behind survey research design was to measure variables by asking people questions and then to examine relationships among the variables. In seeking to find the importance of international banks in attracting FDI in Zimbabwe the research to be conducted will be explanatory. The researcher sought to find the relationship between the variables and FDI attraction.

3.4 Target population

According to Emory and Cooper (2011) the general population is the general pool from which we can identify our target population. In addition Best and Kahn (2009) define population as any group of individuals who have one or more characteristics in common.

The general population of this study includes everyone working in the banking sector in Zimbabwe as well as their clients. As for this study the researcher chose four Zimbabwean banks to represent the sector two from local banks as well as two foreign banks. These banks are Standard Chartered, Barclays, CBZ and ZB. These banks were chosen on the basis that they are the oldest international and local banks respectively. However the target population are the banks' management, staff and their clients who are based in Harare. The table below shows the number of employees per organisation against those located or working at their Harare offices.

Table 1.1 Target Population

Organisation	Total no. of employees	Employees working in Harare
Standard Chartered	2 653	562
Barclays	1 022	246
CBZ	4 470	139
ZB	1 372	434
Total	**9,229**	**1,381**

Source: RBZ (2014)

These selected individuals who work in Harare will be the target population for the research.

3.5 Sampling Methods

The subjects were subdivided into general (junior staff) and top level (senior management) respondents. The idea was to make sure that the respondents were an accurate representative of the larger population. To come up with a random sample for selection of participants from the board members, management and general staff, the researcher adopted the Krejcie and Morgan model (1970) and the results were shown below in table 3.2. According to Nostra (2012) this was considered to be acceptable in order to come up with results that are valid. Therefore, according to Krejcie and Morgan (1970) table a population of 1 381 would require a sample size of at least 300.

Table 1.2: Sample Population of the Study

Target Description	Target Population	Sample size
Board members	36	10
Management	310	90

Staff and supervisors	1 035	200
Total	**1 381**	**300**
Clients	**Enumerable**	60
TOTAL		**360**

Source: Nostra (2012)

Derived from Krejcie and Morgan table (1970) Author

According to Wegner (2003) sampling involves selecting, in a systematic way, part of a population for observation in order that inferences can be drawn from the observations on the sample about the whole population. The selection of sample elements was carried out through a combination of both probability and non-probability sampling techniques which were:, cluster and simple random sampling.

3.5.1 Simple Random Sampling

In this study the researcher used simple random sampling which entails that each case in the population had an equal chance of being selected. All the different stakeholders from Standard Chartered, Barclays, CBZ and ZB were represented by the different stratum. An assumption was made that the population within each stratum was homogenous in so far as their views were concerned with regard to the impact of foreign banks on FDI in Zimbabwe. The research had a representation of stakeholders from board members, management, staff and the clients. According to Wegner (2003) the simple random sampling method ensures that each item in the entire population has an equal chance of being included in the sample. Ghoshi (2012) also adds that simple random sampling method is a method where the units are selected from the population in such a manner as to afford every unit of the population the same chance of being selected. This method is used when it is assumed that the population is relatively homogenous with respect to the random variable under study.

3.5.2 Cluster sampling

According to Brown and Suter (2012) this technique is used when 'natural' but relatively homogeneous groupings are evident in a statistical population. Through this technique, the total

population was divided into groups or clusters; like board members, management, staff and clients; and a simple random sample of the groups is selected. The required information was then collected from a simple random sample of the elements within each selected group. In this study the clusters or groups were the board members, management, staff and clients; selected from the Head offices and Harare branches of Standard Chartered, Barclays, CBZ and ZB. A common motivation for cluster sampling is to reduce costs given the desired accuracy assuming a fixed sample size, the technique gives more accurate results when most of the variation in the population is within the groups, not between them.

3.6 Primary Data Collection

The primary data were collected using the techniques of questionnaires and guided interviews. The techniques are briefly explained below.

3.6.1 Questionnaires

The main research instrument was a questionnaire that was developed in line with the objective of the research. The questionnaires were administered by the researcher to ensure consistency in administration and to avoid any biases. The questionnaires were distributed to managers, staff, supervisors and clients. The questionnaire had a closed-ended questions. The closed-ended questions used both itemised rating and the Likert scales. The respondents were asked to choose between a range of alternatives, which made the analysis of responses more manageable. The questionnaires were designed to gather information and data that would help the researcher to come up with conclusions that would help him fulfil all the research objectives. The questionnaires were composed of closed-ended questions. Most questions were closed to encourage a higher response rate and also for easy coding and analysis of the data. The questions were developed in line with the study objectives and they mostly were in the form of Likert scale in which respondents rated to what extent they strongly agreed or disagreed with a certain statement.

The responses were coded and analysed using SPSS version 21 before the data could be interpreted and have conclusions drawn. A total of 360 questionnaires were distributed.

Administration of Questionnaires

The researcher, managed to identify section heads within each institution. These section heads were then requested to distribute the questionnaires to intended people who were to then hand back the questionnaires to the section heads. The researcher then collected these questionnaires from the heads. This developed convenience and centrality for the respondents. Above the centrality, the supervisors were even on a better position to identify the people who did not hand back their questionnaires. This allowed the researcher to make follow ups to the respondents.

For some strategic clients, the questionnaires were emailed to them and they downloaded the questionnaire and responded. They then scanned their responses and emailed as attachments back to the researcher. The other external people managed to answer the responses in the electronic form without having to download and scan.

The respondents were contacted by telephone, emails, instant messages like Facebook, google talk and Skype to establish if they were interested in completing the questionnaires before they were sent to them. The respondents were given a week to answer the questionnaires, this afforded them time to query what they did not clearly understand mainly clarity on the question.

Validity and Reliability of Questionnaires

The validity and reliability was tested through a pilot study. A pre-test on the questionnaire will be done on a small group of work-mates and fellow students to rectify and weed questions that would cause confusion or that would be misinterpreted. Also the pre testing will be done to ensure that the questionnaire would not be too long and boring to the respondents so as to try and boost the response rate. Invaluable corrections on the questions were done. The areas of concern to the test respondents were discussed and necessary adjustments and corrections made.

The pilot testing was done so as to test for validity and reliability of the questionnaires. According to Denscombe (2007), the validity of the study can be determined by the ability to check for responses for accuracy and relevance. So data is said to be valid if it can be checked for accuracy and relevance as it is being collected. Reliability checks for consistency and objectivity.

To test for validity on users, the researcher checked using the information on department, positions and grade; on management reliability was tested on the availability of a contract by physically looking for contract details with legal section of the organisation.

Data from the pilot sample was consistent and accurate and therefore reliable and valid. The response rate on the questionnaire pre-test was 78% and this was in line with Hart (1990) who indicated 70% as the minimum response rate for a well-structured questionnaire.

The combined effect of these problems encountered in data gathering without doubt compromised the quality of some responses obtained during the research. To mitigate these challenges, the researcher used a combination of primary and secondary data to minimise the limitations associated with each when used in isolation and subsequently, improved the quality of findings made in this study.

3.7 Data Analysis and Presentation

Ghauri and Gronhaug (2008) define data analysis as the process of bringing order, structure and meaning to the mass of collected data. The Miles and Huberman (2004) approach comprises data reduction, data display and conclusion drawing or verification. Data reduction is the process of selecting, focusing, simplifying, abstracting and transforming data that appears in writing up field notes or transcriptions (Ghauri and Gronhaug, 2008). The researcher used the SPSS package to process the data. Data from questionnaires in this enquiry was analysed according to various themes and patterns emerging from the objectives of the study. Thus the data was then organised and reduced into information that allowed for the drawing of conclusions.

The following analysis were done:

Factor analysis was used to identify underlying variables, or factors, that explained the pattern of correlations within a set of observed variables, regression analysis which involved identifying the relationship between a dependent variable and one or more independent variables and correlation analysis which looked at whether two measurement variables co vary, as well as to quantify the strength of the relationship between the variables.

Data display refers to an organised, compressed assembly of information that permits drawing conclusions, action and taking the form of data matrices, figures among others. A lot of quantitative data was collected and tabulated. These tables provided an easy reference to data. The choice of tables as data presentation tools emanated from their ability to clearly classify different data. These include chi-squares, cross-tabulations, data tables, pie charts, bar graphs and line graphs. Their choice was mainly based on visibility and their ability to show trends in

a variable clearly. These form the greater part of the next chapter in which research findings have been displayed in different ways.

Drawing of conclusions, that is, arriving at understanding and being able to explain the actual phenomenon was undertaken to validate the findings. Conclusions were drawn by looking at what the analysed data meant and to assess its relationship and meaning to the study subject. Verification was also done by revisiting the data to verify that the conclusion tallies to the data tested and conforms to the general theory.

3.8 Conclusion

The chapter outlined the research method used to carry out the investigation, the data collection instruments used and the justification for using the instruments. The chapter also brought out the sampling methods used during the course of data gathering. It also highlighted the target population and the sample size and the justification for its representation and significance of the study. The next chapter will focus on the analysis, presentation and discussion of the findings.

CHAPTER 4

DISCUSSION OF RESULTS AND FINDINGS

4.1 Introduction

This chapter presents a discussion of the results and findings of the study. The findings were analysed in relation to the literature of the study. The findings also formed the basis on which the study conclusions and recommendations were made.

4.2 Response rate

A total of 360 questionnaires were administered to management, staff and clients of Standard Chartered Bank, Barclays Bank, CBZ Bank and ZB Bank, 260 of these questionnaires were successfully completed and returned representing a study response rate of 72.2%. The response rate was high enough as noted by Hart (2010) who stated that a response rate which is above 70% is essential to provide a conclusive analysis from data collected. He further postulated that a high response rate usually ensured that an unbiased conclusion was made.

4.3 Sample demographics

The section below provides the demographic information of the participants of this study.

4.3.1 Type of respondents

As shown in the Table 4.1 the respondents for this study were 51.9% staff, 25.9% management and 18.5% customers of Standard Chartered Bank, Barclays Bank, CBZ Bank and ZB Bank which shows that there was a reasonable representation of all respondents in the sector and their contribution would add value to the study findings as it came from a complete representation of all stakeholders.

Table 4.1 Type of respondents

		Percent	Valid Percent	Cumulative Percent
Valid	Customers	18.5	19.2	19.2
	Staff	51.9	53.8	73.1
	Management	25.9	26.9	100.0
	Total	96.3	100.0	
Missing	System	3.7		
Total		100.0		

4.3.2 Length of service in sector

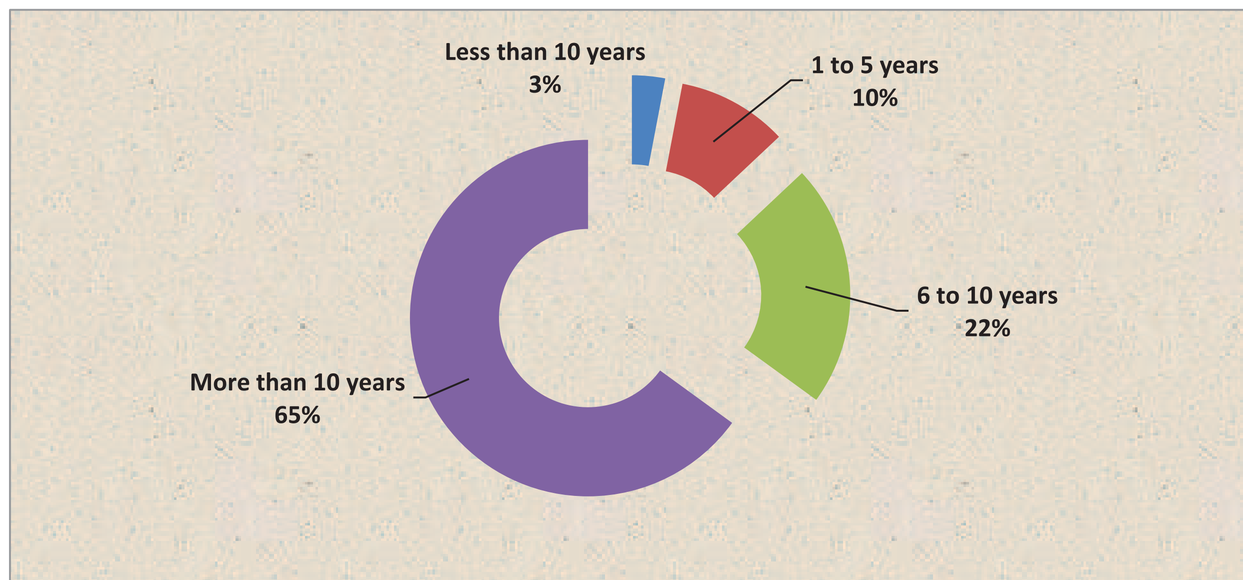


Figure 4.1 Length of service in sector

According to the results in Figure 4.1 above 65% of the respondents had served in the banking sector for more than 10 years, 22% had served from 6 to 10 years, 10% from 1 to 5 years whilst only 3% had served for less than a year. These findings could indicate that the majority of the respondents were experienced and mature enough to have a strong understanding and knowledge of the operations within the sector. The staff and managers were dispersed in different departments and sections of Standard Chartered Bank, Barclays Bank, CBZ Bank and ZB Bank so as to ensure that all views and opinions were heard. This ensured that the researcher obtained rich information from the perspectives of the individuals with very different backgrounds.

4.3.3 Education level

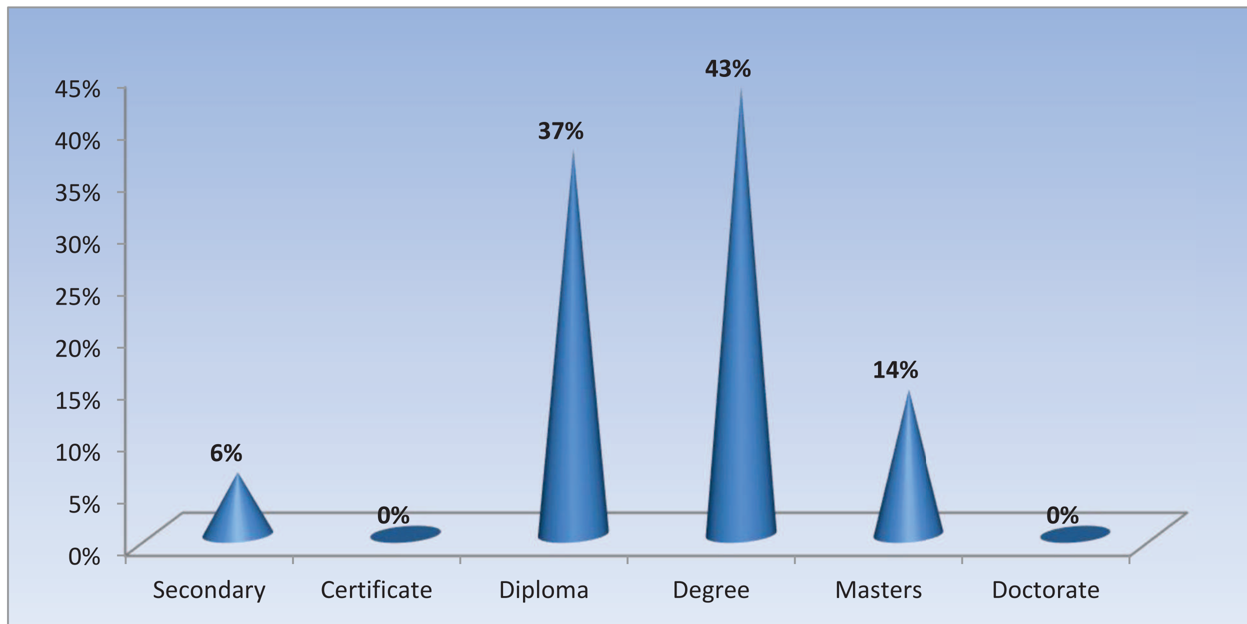


Figure 4.2: Levels of education of the respondents

The study findings reveal that majority of respondents (43%) were degreed graduates, 37% were diploma graduates, 14% had Masters Degrees, and 6% had secondary education while none had certificates and doctorates. This shows that the study had a wide mix of respondents and most of the respondents were educated enough to understand the needs and expectations of the study, thus their contributions were important to the study.

4.4 Importance of role of Foreign owned banks to attracting FDI

This section highlighted how respondents rated whether they believed foreign owned banks played important role in attracting FDI in Zimbabwe. The results were shown below in Table 4.2 and Figure 4.3.

Table 4.2 Importance of Foreign banks

		Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7.4	7.7	7.7
	Agree	85.2	88.5	96.2
	Agree strongly	3.7	3.8	100.0
	Total	96.3	100.0	
Missing	System	3.7		
Total		100.0		

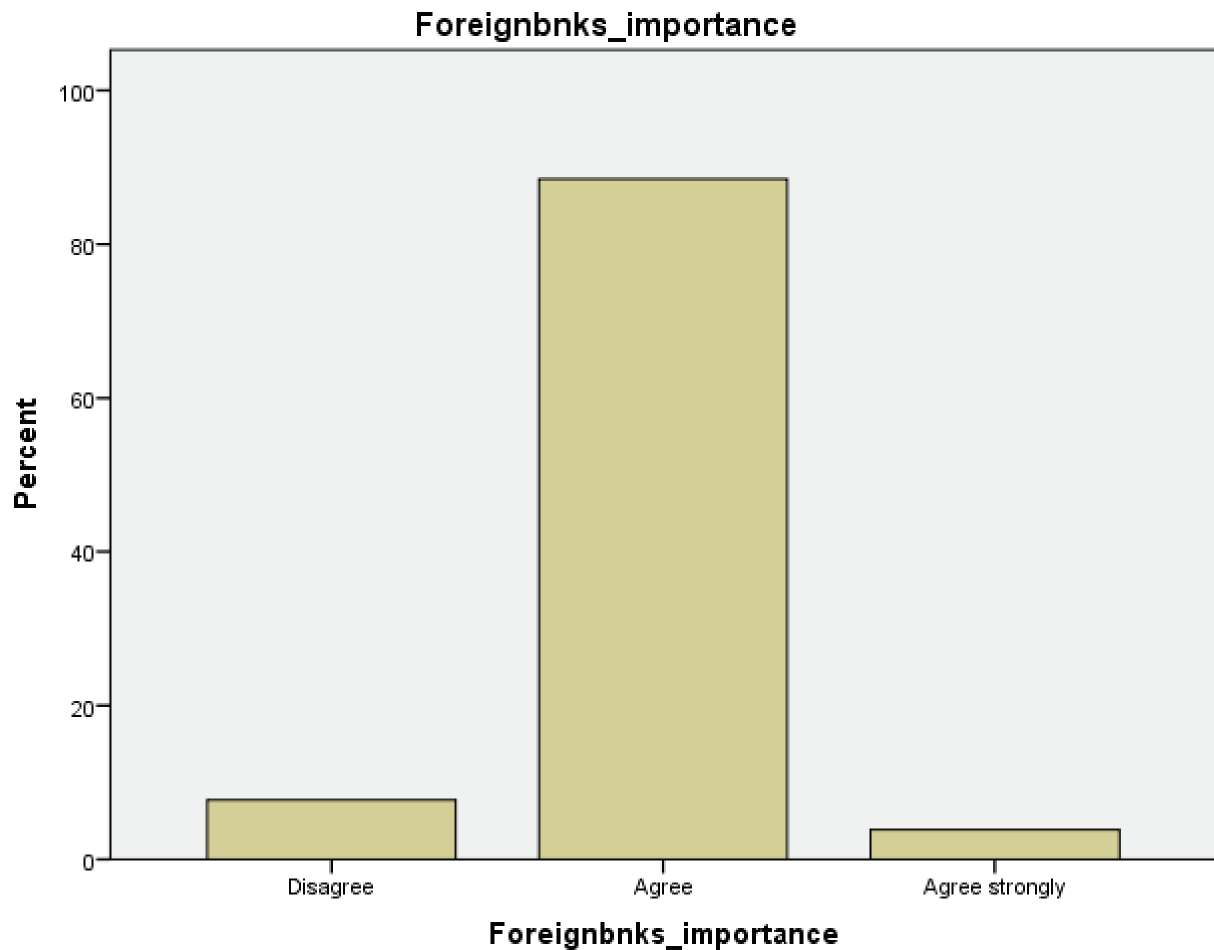


Figure 4.3 Importance of Foreign owned banks to attracting FDI

The study findings in table 4.2 and figure 4.3 showed that the majority of the respondents concurred that foreign owned banks played important roles in the attraction of FDI. This was shown by 85.2% of the respondents whilst only 7.4% of the respondents disagreed with this view. The results show that foreign owned banks played an important role in attracting FDI in Zimbabwe. This is in line with Pierre Coupet (2009) who posit that foreign owned banks played a critical role in the 'supply chain financing' for FDI and business ventures in emerging markets.

4.5 Whether foreign owned banks are more favoured than local banks

This section established whether foreign owned banks were more favoured than local banks and the reasons why foreign banks were favoured by investors. The results were shown below in Figure 4.4 and Table 4.3.

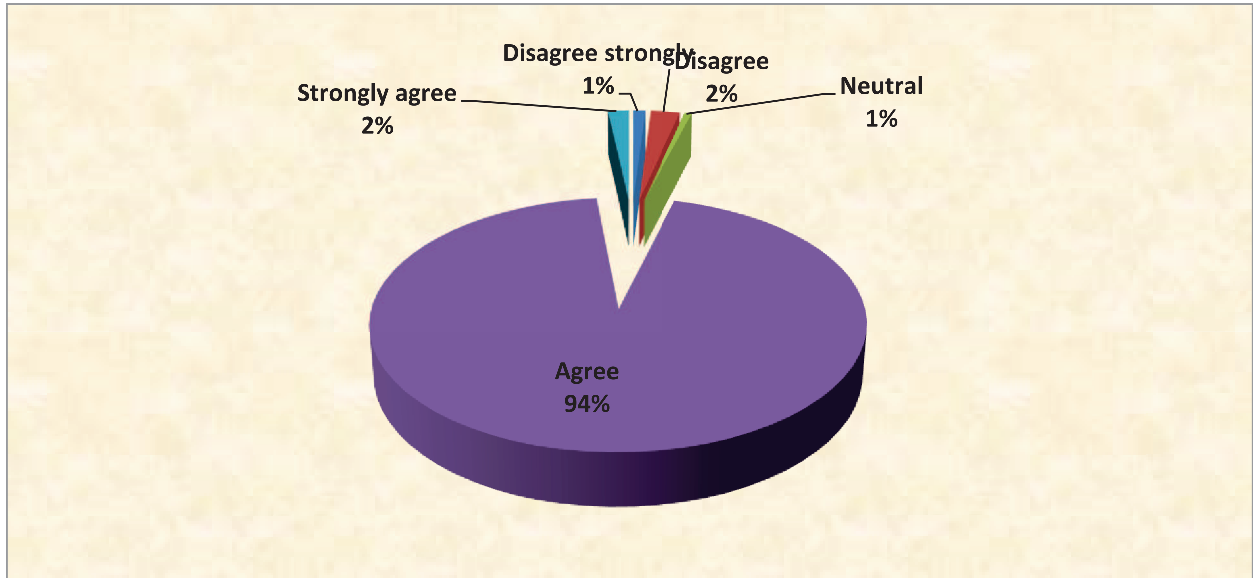


Figure 4.4 Whether foreign owned banks are more favoured than local banks

Figure 4.4 showed that 94% of the respondents agreed that foreign owned banks were favoured by investors and customers than local banks. Only 2% of the respondents disagreed with the above assertion and a further 1% disagreed strongly that foreign owned banks were favoured more than local banks. This showed that investors and customers preferred to conduct financial transactions and investments with foreign owned banks rather than local banks and this could be the reason why most foreign owned banks were performing better in terms of deposits and market share as previously discussed in chapter 1.

4.5.1 Reasons investors favoured foreign owned banks

Table 4.3 Why investors favour international banks

	DS	D	N	A	SA
Greater access to international markets				89.0%	11.0%
Latest financial tech		10.3%		76.5%	13.2%
Enhanced efficiency				87.6%	12.4%
Enhance corporate governance	9.3%	10.5%	5.2%	55.0%	20.0%
Skilled and motivated staff		6.7%		22.1%	71.2%

Support from parent country		1.0%		88.2%	11.3%

NB: DS=Disagree strongly; D=Disagree; N=Neutral; A=Agree; and SA=Strongly agree

According to the study findings in table 4.3 the majority (89%) of the respondents believed that the reason why investors favoured foreign-owned banks than local banks was because foreign owned banks had greater access to international markets than local banks. A further 88.2% of the respondents agreed that the support foreign owned banks had from their parent countries' for example.

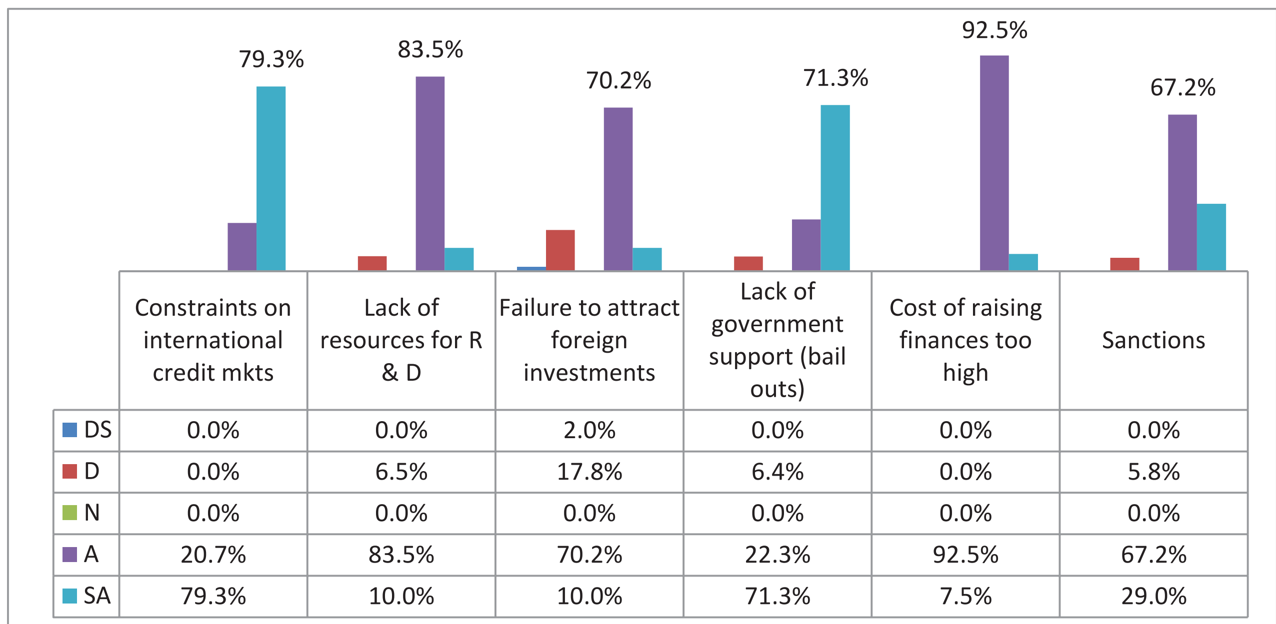
According to 87.6% of the respondents enhanced efficiency is one of the reasons why investors preferred foreign owned banks over investing with local banks. They believed that foreign owned banks were more efficient in their services than local banks. A further 76.5% of the respondents concurred that foreign owned banks had the latest financial technology hence the reason why investors favoured them more than local banks. Therefore it meant that investors believed that financial technology of a bank was essential for them when they want to make investment and this is enhanced by the current dynamic and ever changing financial environment which is now more technological with the rise in electronic banking, cell phone banking and 24/7 banking services.

The other reason why 55% of respondents concurred that investors favoured foreign owned banks over local banks were because foreign owned banks had enhanced corporate governance than local banks, and this is evidenced by the large number of local banks which were involved in corporate governance scandals in Zimbabwe since the turn of the century, like Interfin bank, Trust bank and Renaissance Merchant bank. The table also showed that 71.2% of the respondents strongly agreed that one of the reasons why investors preferred to invest with foreign owned banks rather than local banks was because foreign owned banks had skilled and motivated staff who they believed could take better care of their investments than local banks' staff.

4.6 Challenges faced by local banks not faced by foreign owned banks

This section established the challenges faced by local banks not faced by foreign owned banks. The results were shown below in figure 4.5.

NB: DS=Disagree strongly; D=Disagree; N=Neutral; A=Agree; and SA=Strongly agree



	Constraints on international credit mkts	Lack of resources for R & D	Failure to attract foreign investments	Lack of government support (bail outs)	Cost of raising finances too high	Sanctions
DS	0.0%	0.0%	2.0%	0.0%	0.0%	0.0%
D	0.0%	6.5%	17.8%	6.4%	0.0%	5.8%
N	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	20.7%	83.5%	70.2%	22.3%	92.5%	67.2%
SA	79.3%	10.0%	10.0%	71.3%	7.5%	29.0%

Figure 4.5 Challenges faced by local banks not faced by foreign owned banks

The findings in Figure 4.5 above show the majority of the respondents concurred that there were challenges that local banks were facing in their efforts to attract FDI that foreign owned banks were not facing. According to 92.5% of the respondents one of the major challenges being faced by local banks was that the cost of raising finances was too high for them as compared to foreign owned banks. Another challenge highlighted by 83.5% of the respondents was that local banks lacked resources for research and development that foreign owned banks had. For example it could be in the form of financial resources or human resources which could give foreign owned banks an edge over local banks as they could afford to implement up-to-date banking practices and technology which they would have attained through knowledge sourced from research and development. The other challenge faced by local banks not faced by foreign owned banks according to 79.3% of the respondents was of constraints on international credit markets. Local banks faced challenges in international credit markets as some of them had very low credit ratings whilst others could not even source credit from international banks however this was not the case with foreign owned banks which had higher credit ratings and they could also get credit from their parent banks as well.

According to 71.3% of the respondents they strongly agreed that local banks also faced the challenge of lack of government support for example in the form of bail-outs and credit lines (lender of last resort). Many banks have since folded which could have been resuscitated if the government had bailed them out like was the case with international banks during the financial crisis where their parent country governments bailed them out. Another challenge that local banks had been facing unlike foreign owned banks as concurred by 67.2% of the respondents

was that of sanctions. According to the respondents some of the local banks were directly affected by international sanctions for example Agribank and ZB bank which were under sanctions hence had difficulty in attracting FDI whilst other local banks were indirectly affected by sanctions as investors in other countries especially in Europe and USA were discouraged to invest in anything Zimbabwean.

Therefore the study findings show that the challenges faced by local banks but not faced by foreign owned banks were the constraints on international credit markets; lack of resources for research and development; lack of government support and/or assistance in times of crises; the cost of raising financing was too high as well as the effects of international sanctions placed on the country. All these challenges have compounded and have contributed to the failure by local banks in attracting foreign investment. This view is in agreement with 70.2% of the respondents highlighted in figure 4.5 above.

4.7 Tools used by foreign owned banks in attracting FDI

This section established the tools used by foreign owned banks in attracting FDI. The results were shown below in table 4.4 below.

Table 4.4 Tools used by Foreign owned banks

Tools used by Foreign owned banks	Disagree Strongly	Disagre e	Neutral	Agree	Strongly Agree
Syndication to institutional investors	0.0%	0.0%	0.0%	92.4%	7.6%
Sales of loans to secondary markets	0.0%	14.0%	0.0%	76.0%	20.0%
Strategic partnerships	0.0%	6.0%	0.0%	82.0%	12.0%
Private equity channels	0.0%	20.0%	0.0%	63.0%	17.0%
Currency and credit transfer	0.0%	5.0%	0.0%	81.0%	14.0%
Support from parent countries	0.0%	1.0%	0.0%	28.0%	71.0%

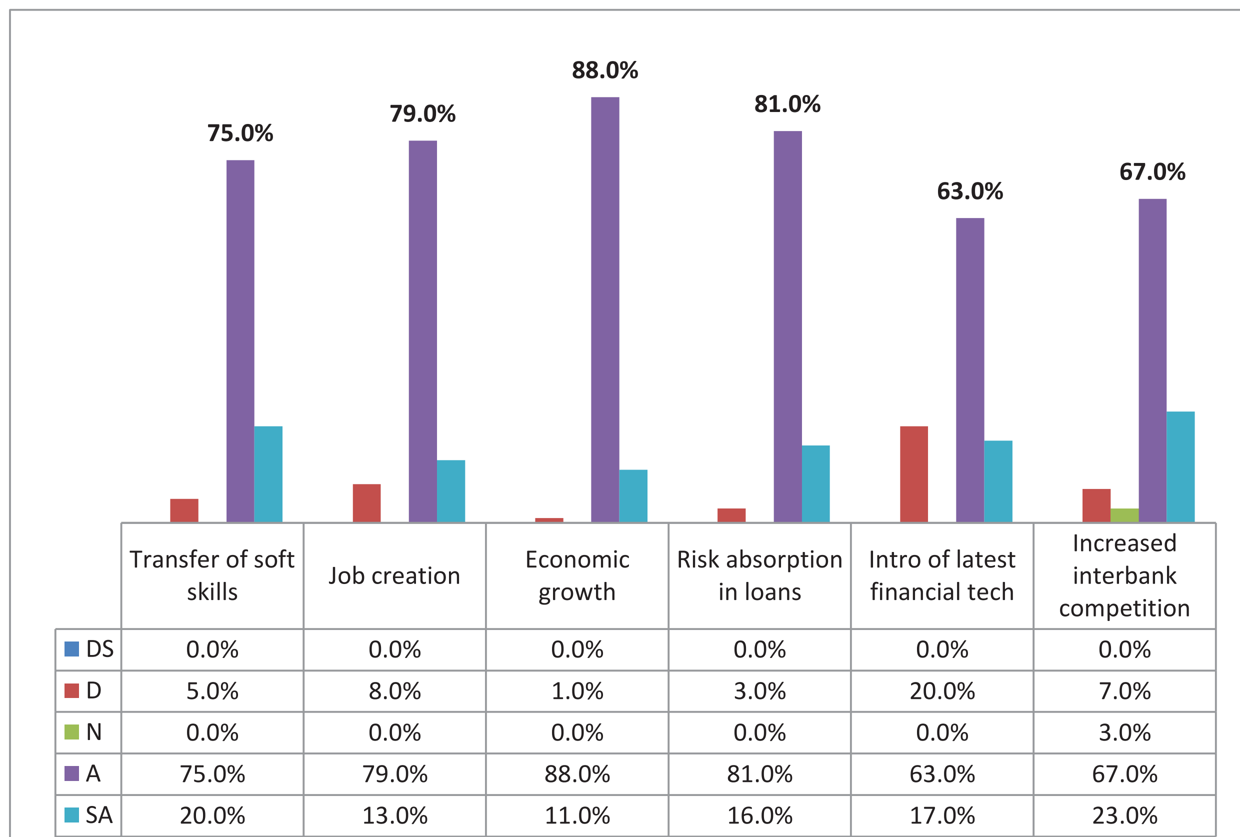
Table 4.4 shows that there were tools that foreign owned banks were using in attracting FDI and the major tool according to 92.4% of the respondents was through syndication to institutional investors. A further 82% of the respondents concurred that foreign owned banks

made strategic partnerships with other local banks or with other local companies in an effort to attract FDI. According to 81% of the respondents believed that foreign owned banks used currency and credit transfers as tools of attracting FDI into Zimbabwe. The other tool according to 76% of the respondents used by foreign owned banks to attract FDI was through sales of loans to secondary markets. Private equity channels were used by foreign owned banks as a tool to attract FDI as stated by 63% of the respondents. The study findings in table above also showed that 71% of the respondents strongly agreed that support from their parent countries was one of the tools used by foreign owned banks in attracting FDI. For example most investors from Britain invested into Zimbabwe through banks which were of British descent like Barclays and Standard Chartered bank; this was the case as well with Standard Bank and South Africa. Investors due to the need to ensure the safety of their investments they were inclined to deal with banks they recognized or already had a relationship with hence banks from their parent countries were favourable.

4.8 Benefits of FDI

This section sought to establish the benefits brought about by foreign owned banks through attraction of FDI. The results are shown in figure 4.6 and discussed below.

NB: DS=Disagree strongly; D=Disagree; N=Neutral; A=Agree; and SA=Strongly agree



	Transfer of soft skills	Job creation	Economic growth	Risk absorption in loans	Intro of latest financial tech	Increased interbank competition
DS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
D	5.0%	8.0%	1.0%	3.0%	20.0%	7.0%
N	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%
A	75.0%	79.0%	88.0%	81.0%	63.0%	67.0%
SA	20.0%	13.0%	11.0%	16.0%	17.0%	23.0%

Figure 4.6 Benefits of FDI

The results in figure 4.6 show the benefits brought about by foreign owned banks through FDI. Accordingly 88% of the respondents agreed that FDI brings about economic growth to the country in the form of influx of capital and enhancement of tax revenue. This is in line with Gujarati (2014) who stated that an increase in FDI brought about by foreign owned banks may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Risk absorption on loans is also a benefit accrued from FDI with the assistance of foreign owned banks as concurred by 81% of the respondents. The figure also shows that 79% of the respondents concurred that FDI assisted in job creation and a further 75% of the respondents also concurred FDI also assisted through the transfer of soft skills. Increased interbank competition is also one of the benefits that could be realised from FDI attracted by foreign owned banks as concurred by 67% of the respondents. According to 63% of the respondents the financial sector in Zimbabwe could benefit from FDI through the introduction of the latest financial technology assisted by foreign owned banks. Example would be what happened when Standard Chartered introduced the Moneylink (ATM), this led to massive investments in the country by AT&T Global through NCR to support the ATM network.

4.9 Analysis of relationships and significance of those relationships in the variables

To establish the relationship between the independent variables and the dependent variable of the study, an inferential analysis which involved a coefficient of determination and a multiple regression analysis were carried out. Inferential analysis was used to determine if there was a relationship between variables as well as the strength of that relationship.

4.9.1 Regression analysis

A multiple regression analysis was undertaken to determine whether the overall regression model was a good fit for the data.

Table 4.5 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	137.760	4	34.440	243.086	.000[b]
	Residual	36.128	255	.142		
	Total	173.888	259			

a. Dependent Variable: Foreignbnks_importance

b. Predictors: (Constant), International_risk_sharing, International_trade_facilitation, Institutional_development, Financial_intermediation

Table 4.5 above showed that the independent variables statistically significantly predicted the dependent variable, $F(4, 255) = 243.086$ $p < .05$ (that is., the regression model is a good fit of the data). This is because the significance values is 0.000 which is less than 0.05 thus the model is statistically significant in predicting how the roles undertaken by foreign owned banks namely international risk sharing, institutional development, financial intermediation and facilitation of international trade affect the contribution of foreign banks to attracting of FDI.

The study conducted a multiple regression analysis to determine the relationship between independent variables and the dependent variable and it is shown in the table 4.6 below.

Table 4.6 Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.087	.177		.491	.624
	Financial_intermediation	.405	.029	.537	13.755	.000
	Institutional_development	.167	.032	.178	5.251	.000
	International_trade_facilitation	.214	.044	.150	4.854	.000
	International_risk_sharing	.187	.028	.249	6.636	.000

a. Dependent Variable: Foreignbnks_importance

Table 4.6 above showed that the probability of any of the above results occurring by chance were all 0.000 which was less than the significant level value of 0.05. Furthermore the t-test results for the four independent variables were 13.755 for financial intermediation, 6.636 for international risk sharing, 5.251 for institutional development and 4.854 for international trade facilitation. This means that the regression coefficients for the four variables were all statistically significant and the variable of financial intermediation with t-test value of 13.755 and significant p-value of 0.000 showed that it was the foreign owned banks' role that contributed the most to these banks attracting FDI. According to the Unstandardized Coefficients – B section in table 4.6 above if all the other variables were kept constant, a unit increase in financial intermediation would lead to a 0.405 increase in the rate of attraction of FDI by foreign owned banks whilst the other three variable each contributed less than 0.215 increase.

4.9.3 Coefficient of determination

The coefficient of determination illustrates the extent to which the percentage variation in the dependent variable (importance of foreign owned banks) can be explained by all four independent variables (international risk sharing, institutional development, international trade facilitation and financial intermediation). The results are shown in table 4.8 below.

Table 4.7 Coefficient of determination

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.890[a]	.792	.789	.376

a. Predictors: (Constant), International_risk_sharing, International_trade_facilitation, Institutional_development, Financial_intermediation

The 'R' column represents the value of *R,* the **multiple regression coefficient**. R was considered to be one of the measures of quality of the prediction of the dependent variable (importance of foreign owned banks) whilst the R^2 also called the coefficient of determination is the proportion of variance in the dependent variable that can be explained by the independent variables, in this case, international risk sharing, institutional development, international trade facilitation and financial intermediation. The table showed that the value of R^2 was 0.792 which

meant that the independent variables explained only 79.2% of the variability of the dependent variable. Therefore, this meant that the four independent variables namely, international risk sharing, institutional development, international trade facilitation and financial intermediation, contributed about 79.2% to the importance of foreign owned banks in attraction of FDI. This could also mean that foreign owned banks even though had a very significant contribution in attracting FDI they were not the only determinant of attracting FDI as there were other factors and determinants contributing 20.8%.According to Asiedu (2006), Wezel (2014) and Ajayi (2006) other determinants to attracting FDI besides foreign owned banks were political and economic growth, availability of natural resources, availability of good infrastructure, market size and growth.

4.9.2 Pearson's correlation coefficient

The researcher used Pearson's coefficient of correlation in order to quantify the strength of the relationship between variables as well as to study their correlation. The findings were shown in table 4.8 below.

Table 4.8 Correlations

		Foreign banks importance	Financial intermediation	Institutional development	International trade facilitation	International risk sharing
Foreign banks importance	Pearson Correlation	1	.826**	.599**	.437**	.707**
	Sig. (2-tailed)		.000	.000	.000	.000
Financial intermediation	Pearson Correlation	.826**	1	.526**	.284**	.611**
	Sig. (2-tailed)	.000		.000	.000	.000
Institutional development	Pearson Correlation	.599**	.526**	1	.233**	.412**
	Sig. (2-tailed)	.000	.000		.000	.000
International trade facilitation	Pearson Correlation	.437**	.284**	.233**	1	.372**
	Sig. (2-tailed)	.000	.000	.000		.000
International risk sharing	Pearson Correlation	.707**	.611**	.412**	.372**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

The study findings in Table 4.8 above showed that there were statistically significant relationships between importance of foreign owned banks in attracting FDI and the roles they performed namely international risk sharing, institutional development, international trade facilitation and financial intermediation as the significance-values for all the variables was 0.000 which was less than the correlation significant level at 0.01. The table showed that there was a fairly strong positive relationship between importance of foreign owned banks and

international trade facilitation as shown by their Pearson correlation value of 0.437. The Pearson correlation value for the relationship between the importance of foreign owned banks and institutional development was 0.599 hence it showed that there was a mildly strong positive relationship between the two variables. The table also showed that there was a strong positive relationship between the importance of foreign owned banks and international risk sharing as well as between the importance of foreign owned banks and financial intermediation as shown by their Pearson correlation value of 0.707 and 0.826 respectively. The results showed that the increase in international risk sharing, institutional development, international trade facilitation and financial intermediation by foreign owned banks would trigger an increase in the attraction of FDI by these banks.

4.10 Discussion

According to section 4.5 the study findings stated that investors favoured foreign owned banks as opposed to local banks and this is in line with Slager (2014) who stated that foreign owned banks had a competitive edge over their local counterparts. The next session discussed the reasons why investors favoured foreign owned banks. The study further discovered that the reasons why investors favoured foreign owned banks were that foreign banks had greater access to international markets than local banks; foreign banks were also supported by their parent country governments; they had enhanced efficiency; enhanced corporate governance levels as well as more advanced financial technology and they also had more skilled and motivated staff. This is in line with Bergsman (2009) who postulated that investors favoured foreign owned banks because they had greater access to international financial markets than what the local banks could provide. TeVelde (2011) also noted that stakeholders from parent countries of some of the foreign owned banks provided support to the foreign owned banks in the form of financial and human resources support or loan guarantees therefore why investors favoured foreign owned banks over local banks as this made them more capitalized and offered greater protection on investments. Furthermore, Lall (2012) postulated that foreign owned banks carve out a market niche by bringing in new and more advanced financial technology and the latest in electronic banking methods. According to Lemi and Asefa (2013) most foreign owned banks are attracted to countries that have got skilled labour and in most cases the skilled will be attracted by the foreign owned banks as opposed to the local banks.

Section 4.6 established that there were challenges faced by local banks that were not faced by foreign owned banks which could have been hindering the local banks from attracting FDI at the rate foreign owned banks were capable of attracting. These challenges were that of the constraints on international credit markets; lack of resources for research and development; lack of government support and/or assistance in times of crises; the cost of raising financing was too high as well as the effects of international sanctions placed on the country. All these challenges have compounded and have contributed to the failure by local banks to attract foreign investment. This is in line with Tsai (2014) who postulated that the costs of raising financing for local banks has historically been higher than for international banks hence raising the cost of capital. Furthermore, Sachs and Sievers (2008) also postulated that foreign owned banks had access to research and development resources which local banks lacked. According to Slager (2014) local banks faced constraints in international credit markets as they did not have the necessary resources to compete. Local banks faced challenges in international credit markets as some of them had very low credit ratings whilst others could not even source credit from international banks however this was not the case with foreign owned banks which had higher credit ratings and they could also get credit from their parent countries as well.

The results showed in section 4.7 that the tools used by foreign owned banks in attracting FDI were through syndication to institutional investors; making strategic partnerships with other local banks or with other local companies; currency and credit transfers; sales of loans to secondary markets; private equity channels as well as using the support they received from their parent countries through their parent banks and governments in the form of bail outs and loan advancements. This is in line with Morisset (2013) who noted that foreign owned banks both helped to originate, as well as widen the market for financing through syndication to investors and sales of loans in secondary markets. Julius (2011) also stated that foreign owned banks in order to attract FDI or invest into a country they can choose various contractual arrangement which may include strategic partnerships. For example this was achieved in the case of Afrasia from Mauritius and Kingdom bank which was a local bank. In addition Basu and Srinivasan (2012) also postulated that foreign owned banks also used currency and credit transfers to draw in FDI as it provides investors with extra investment security because the strategy helps distribute credit risk and mange financial market exposure. Furthermore, Morisset (2013) also noted that foreign owned banks both helped to originate, as well as widen the market for financing sales of loans in secondary markets. Bergsman (2009) pointed out that private equity channels through mutual funds and directly through foreign owned banks were

increasingly supporting business venture in developing countries. In Zimbabwe very little of this is prevalent at the time except for footprint investments where if Nestle is investing in a new plant it would do this development through an international bank that banks its parent.

According to the discussion of findings shown in section 4.8 the benefits realised from FDI facilitated by foreign owned banks are economic growth; risk absorption on loans; job creation; transfer of soft skills; increased interbank competition and the introduction of the latest financial technology. This is in line with a number of scholars like Sachs and Sievers (2008) who highlighted that foreign-owned banks can lead to the transfer of soft skills through training as well as job creation. Furthermore, Lall (2012) postulated that foreign owned banks carve out a market niche by bringing in new and more advanced financial technology and the latest in electronic banking methods.

A regression analysis was undertaken to establish the relationship between the independent variables (international risk sharing, institutional development, international trade facilitation and financial intermediation) and the dependent variable of the study of the importance of foreign owned banks. An inferential analysis which involved a coefficient of determination and a multiple regression analysis were carried out to determine if there were a relationships between variables as well as the strength of those relationships. The multiple regression analysis showed that independent variables, international risk sharing, institutional development, financial intermediation and facilitation of international trade statistically significantly predicted the dependent variable, importance of foreign owned banks, with a p-value of 0.000 which was $p < 0.05$ the significance level. The analysis also showed that the variables international risk sharing, institutional development, financial intermediation and facilitation of international trade contributed 79.2% to the importance of foreign owned banks in attraction of FDI. The correlation analysis showed that there were strong positive relationships between the importance of foreign owned banks in attraction of FDI through the roles they played which were international risk sharing, institutional development, financial intermediation and facilitation of international trade as the significance-values for all these variables was 0.000 which was less than the correlation significant level at 0.01. Hence the increase in international risk sharing, institutional development, international trade facilitation and financial intermediation by foreign owned banks would trigger an increase in the attraction of FDI by these banks. This is in line with TeVelde (2011), Morisset (2013) and Martin and Rose-Innes (2013) who noted that foreign owned banks were important to attracting FDI

through the roles they conduct which were namely through developing the right conditions for development of the effective and secure conversion of the savings of the population into investment and local business financing; supporting the development of the financial markets by setting up regulations and institutions as well as making the country attractive to foreign investors who may bring additional financing and help accelerate the investment process and the economic growth of the country as end effect. Furthermore they also highlighted that the role of banks in attracting FDI is enhanced by safeguarding its financial system stability.

The following hypothesis was proposed and tested hence the results are shown below:

***H_1*:** *Foreign owned banks play an important role in attracting*

The inferential analysis tests and findings discussed in this study showed that there was a significant relationship between foreign owned banks' roles and the attracting of FDI by foreign owned banks therefore this study accepts the proposed hypothesis.

4.11 Conclusion

This section discussed the results and findings of the study which included the importance of role of foreign owned banks to attracting FDI, whether foreign owned banks are more favoured than local banks, reasons investors favoured foreign owned banks, challenges faced by local banks not faced by foreign owned banks, tools used by foreign owned banks in attracting FDI, benefits brought about by foreign owned banks through attraction of FDI, analysis of relationships variables as well as the significance of those relationships and testing of hypothesis. The next chapter will discuss the conclusions and make recommendations as well as areas of further study.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the key conclusions based on the research findings basing on the objectives that were outlined for the research. It will then end up by giving recommendations as well as suggestion for future research.

5.2 Conclusion

From the findings of the research, theoretical review and empirical evidence; the following conclusions can be drawn.

The study established that investors favoured foreign owned banks as opposed to local banks and the reasons were that foreign banks had greater access to international markets than local banks; foreign banks were also supported by their parent country governments; they had enhanced efficiency; enhanced corporate governance levels as well as more advanced financial technology and they also had more skilled and motivated staff.

It was also noted that there were challenges faced by local banks that were not faced by foreign owned banks which could have been hindering the local banks from attracting FDI at the rate foreign owned banks were capable of attracting. These challenges were that of the constraints on international credit markets; lack of resources for research and development; lack of government support and/or assistance in times of crises; the cost of raising financing was too high as well as the effects of international sanctions placed on the country. All these challenges have compounded and have contributed to the failure by local banks in attracting foreign investment. Local banks faced challenges in international credit markets as some of them had very low credit ratings whilst others could not even source credit from international banks however this was not the case with foreign owned banks which had higher credit ratings and they could also get credit from their parent countries as well.

The tools used by foreign owned banks in attracting FDI were through syndication to institutional investors; making strategic partnerships with other local banks or with other local companies; currency and credit transfers; sales of loans to secondary markets; private equity channels as well as using the support they received from their parent countries through their parent banks and governments in the form of bail outs and loan advancements.

The benefits realised from FDI facilitated by foreign owned banks were economic growth; risk absorption on loans; job creation; transfer of soft skills; increased interbank competition and the introduction of the latest financial technology.

Validation of hypothesis

A regression analysis was undertaken to establish the relationship between the independent variables (international risk sharing, institutional development, international trade facilitation and financial intermediation) and the dependent variable of the study of the importance of foreign owned banks. The multiple regression analysis showed that independent variables, international risk sharing, institutional development, financial intermediation and facilitation of international trade statistically significantly predicted the dependent variable, importance of foreign owned banks, with a p-value of 0.000 which was $p< 0.05$ the significance level. The analysis also showed that the variables international risk sharing, institutional development, financial intermediation and facilitation of international trade contributed 79.2% to the importance of foreign owned banks in attraction of FDI. The correlation analysis showed that there were strong positive relationships between the importance of foreign owned banks in attraction of FDI through the roles they played which were international risk sharing, institutional development, financial intermediation and facilitation of international trade as the significance-values for all these variables was 0.000 which was less than the correlation significant level at 0.01. Hence the increase in international risk sharing, institutional development, international trade facilitation and financial intermediation by foreign owned banks would trigger an increase in the attraction of FDI by these banks.

The following hypothesis was proposed and tested:

H_1: *Foreign owned banks play an important role in attracting FDI.*

The inferential analysis tests and findings discussed in this study showed that there was a significant relationship between foreign owned banks' roles and the attracting of FDI by foreign owned banks therefore this study accepts the proposed hypothesis.

5.2 Recommendations

From the conclusions made above, the following recommendations were made:

It is key for the country to have a blend of local and international banks as investors tend to follow the footprint of international banks from their home country. It will be difficult for a

multinational institution to trust their investments into the country with a local bank they do not have a relationship with.

As International Banks become sources of investment information through their research units they have become conduits of information across countries. They have thus facilitated and have become "authorities" when it comes to local balanced information for FDI decision making. A good example would be the case of Sinohydro and ZESA where an International Bank was involved in the assessment of the project from the start. Guarantees for bidding of the tender were actually provided by the international bank in question.

International credit markets are mainly driven by international banks and the Bretton Woods institutions, and positions taken by these institutions do have a direct impact on FDI channeled through a country. For example, Zimbabwe as a country and its corporates have had challenges raising international capital due to downgrading by these institutions. On the same token international credit has been following the foreign banks as they benefit from their ability to raise capital in many markets to feed into a country. Zimbabwe has had very little coming through especially after the announcement of the Indigenization policy. This is in comparison to the FDI flows to other Sub Saharan African countries.

Foreign banks as drivers of international private equity play an advisory role to investors that is key in terms of where investments are placed. Foreign banks have units that manage large sums of money for international investors through nominee companies and their custodial services.

Economic growth is mainly driven by foreign capital, in the case of Zimbabwe, we are cognizant that from 2009 to 2012 significant growth was registered as foreign capital flowed in from Europe from the likes of Nestle, Lafarge, Delta (SAB Miller – investment of $12m capital for plant upgrade) to name but a few. On the other hand local banks and local firms continued to struggle e.g Olivine Industries, Dairibord, Cairns, Cottco the list is endless.

One may argue that the South African market has no foreign banks and they are all local, but a closer assessment will show that the big four banks have a foreign component in them either in the form of Old Mutual (Nedbank) or Barclays (ABSA). Citi Bank is present in South Africa and they serve mainly the interests of American companies. These banks follow the footprint of their clients which are mainly multinationals. Closer to home you will notice that BAT will always bank with Standard Chartered Bank. A foreign bank can establish a branch in a country on the basis of a few clients of theirs that are big in their market. A good example would be Stanbic Bank and Zimplats in Ngezi, other banks followed Stanbic but they lost out because

they did not understand the investment dynamics which involved Standard Bank of South Africa who had raised capital for Zimplats of up to USD200m. On the other hand SAB Miller which is based in London arranged a plant upgrade facility with Standard Chartered Bank London for Delta at a price no local bank could match whilst at the same time benefitting the economy.

The writer recommends that further research could be done to address why capital continues to flow into other economies that may not have mature financial services sector like Mozambique and Angola when Zimbabwe is unable to do so with a mature sector.

5.3 Suggestions for Future Research

Considering the research findings, conclusions and recommendations that addressed the research objectives; the study established that foreign owned banks played an important role in attracting FDI. However an area of future study that arose during the research was on what impact and role local banks had in attracting FDI especially with regards to their role they play as agencies of other international banks or regional banks like Citi Bank, PTA Bank and AfreximBank. Therefore, the researcher suggests that a future research area to be studied could be an evaluation of impact of the roles played by local owned banks in attracting FDI into the country which was beyond the scope of this study.

REFERENCES

Agodo, O. (2008), The Determinants of U.S. Private Manufacturing Investments in Africa, Journal of International Business Studies, 9 (1), pp. 95-107.

Ajayi, S. (2006), FDI and Economic Development in Africa, ADB/AERC International Conference on Accelerating Africa' s Development Five Years into the Twenty-First Century, Tunis.

Alfaro, L., Chanda, A., Kalmli-Ozcan, S. and Sayek, S. (2003), Foreign Direct Investment Spillovers, Financial Markets and Economic Development, IMF Working Paper No. 186.

Asiedu, E. (2012), On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?, World Development, 30 (1), pp. 107-19.

Basu, A. and Srinivasan, K. (2012), Foreign Direct Investment in Africa: Some Case Studies, Working Paper WP/02/61, International Monetary Fund.

Bende-Nabende, A. (2012), Foreign Direct Investment Determinants in Sub-Saharan Africa: A Co-Integration Analysis, Economics Bulletin, 6 (4), pp. 1-19.

Bergsman, J. (2009), Advice on Taxation and Tax Incentives for Foreign Direct Investment, FIAS, World Bank.

Bergsman, J. (2009), Advice on Taxation and Tax Incentives for Foreign Direct Investment, FIAS, World Bank.

Bhattacharya, A., Montiel, P. and Sharma, S. (2006), Private Capital Flows to Sub-Saharan Africa: An Overview of Trends and Determinants, World Bank, Washington DC, Mimeo.

Bhinda, N. Griffith-Jones, S. and Martin, M. (2009), Private Capital Flows to Africa: Perception and Reality, FONDAD, The Hague.

Blomström, M. and Kokko, A. (2014), Regional Integration and Foreign Direct Investment, National Bureau of Economic Research Working No. 6019.

Brown, J. and Suter, R. (2012) Basic Marketing Research, 3rd edition, New York: Palgrave Macmillan

Chakrabarti, A. (2001), The Determinants of Foreign Direct Investment: Sensitivity Analyses of Cross-Country Regressions, Kyklos, 54 (1), pp. 89-114.

Collier, P. and Pattillo, C. (1997), Private Investment, Risk and Policy Environment in Africa, Economics Research Papers No. 29, African Development Bank.

Collier, P. and Pattillo, C. (2000), Investment and Risk in Africa, St Martin's Press, New York.

De Mello, L. R. (1997), Foreign Direct Investment in Developing Countries and Growth: A Selective Survey, Journal of Development Studies, 34 (1), pp. 1–34.

Denscombe, M (2007), The Good Research Guide for Small-scale, Social Research Projects; 3rd Edition, McGraw-Hill

Dunning, J. H. (1993), Multinational Enterprises and the Global Economy, Addison-Wesley Publishers, London.

Dunning, J. H. (1995), Multinational Enterprises and the Global Economy, Addison-Wesley Publishers, London.

Dunning, J.H. (1981). International production and the multinational enterprise, George Allan and Unwin, London.

Dunning, J.H. and R. Narula (1996). Foreign direct investments and governments, Routledge, New

Dunning, J.H., (1977). "Trade, location of economic activity and MNE: A search for an eclectic approach," in B. Ohlin, P. O. Hesselborn, and P. M. Wijkman (eds) The international allocation of economic activity, Macmillan, London.

Dupasquier, C. and Osakwe, P. (2006), Foreign Direct Investment in Africa: Performance, Challenges, and Responsabilities, Journal of Asian Economics, 17 (2), pp. 241-60.

Elbadawi, I. and F. Mwega (1997), Regional Integration, Trade, and Foreign Direct Investment in Sub-Saharan Africa, in: Iqbal, Z. and Khan, M. (eds), Trade Reform and Regional Integration in Africa, IMF, Washington DC.

Elbadawi, I. and F. Mwega (2007), Regional Integration, Trade, and Foreign Direct Investment in Sub-Saharan Africa, in: Iqbal, Z. and Khan, M. (eds), Trade Reform and Regional Integration in Africa, IMF, Washington DC.

Emery, J., Spence, M., Wells, L. and Buchrer, T. (2000), Administrative Barriers to Foreign Investment: Reducing Red Tape in Africa, FIAS Occasional Paper No. 14.

Emory, W. and Cooper, D.(2011), Business Research Methods, Irwin Professional Publishing

Fedderke, J. W. and Romm, A. T. (2006), Growth Impact of Foreign Direct Investment into South Africa, 1956-2003, Economic Modelling, 23 (5), pp. 738-60.

Gastanaga, V., Nugent, J. and Pashamova, B. (2008), Host Country Reforms and FDI Inflows: How Much Difference Do They Make?, World Development, 26(7), pp. 1299-1314.

Ghauri. R, Schuyler. W. H and William. H. C (2008), Reading Statistics and Research, 2nd Edition.Longman

Ghoshi, S. (2012), Multivariate Analysis, Design of Experiments and Survey Sampling, edited by Marcel Dekker, New York

Goldberger,A.S.(2011),A Course in Econometrics, Massachussets:Harvard University Press.

Gregory, M. (2012), The Foreign Direct Investment Environment in Africa, Africa Region Working Paper Series No. 15, The World Bank.

Gujarati, D. N. (2014), Basic Econometrics, New Delhi: Tata McGraw - Hill.

Haddad, M. and A. Harrison (2013). "Are there positive spillovers from direct foreign investments? Evidence from panel data for Morocco," Journal of Development Economics vol. 42 pp. 51-74.

Hammersley, M. (1992), “What's wrong with ethnography: Methodological Explorations.” London & New York, Routledge

Haque, N., Nelson, M. and Mathieson, D. (2010), Rating Africa: The Economic and Political Content of Risk Indicators, in: Collier, P. and Pattillo, C. (eds), Investment and Risk in Africa, St Martin’s Press, New York.

Hart, R. (2010), Sampling strategies, Fort Worth, Texas, Dryden Press

Industrial Psychology Consultants (2012) Zimbabwe Banking Sector Customer Engagement Report

Jaspersen, F., Aylward, A. and Knox, A. (2000), The Effects of Risk on Private Investment: Africa Compared with other Developing Areas, in: Collier, P. and Pattillo, C. (eds), Investment and Risk in Africa, St Martin’s Press, New York.

Kokko, A. (2014). "Technology, market characteristics, and spillovers," Journal of Development Economics, vol. 43 pp. 279-293.

Krajcie, M. and Morgan, N (1970), “Introduction to Qualitative Research Methods: A Guidebook and Resource,” John Wiley and Sons

Krugell, W. (2005), The Determinants of Foreign Direct Investment in Africa, in: Gilroy, B., Gries, T. and Naude, W. (eds), Multinational Enterprises, Foreign Direct Investment and Growth in Africa: South-African Perspectives, Physica-Verlag GmbH & Co, Berlin.

Lall, S. (2009), The Technological Response to Import Liberalization in Sub- Saharan Africa, London:Macmillan.

Lemi, A. and Asefa. S. (2013), Foreign Direct Investment and Uncertainty: Empirical Evidence from Africa, African Finance Journal, 5 (1), pp. 36-67.

Markusen, J.R. 1995. "The boundaries of multinational enterprises and the theory of international trade," Journal of Economic Perspectives vol. 9 no. 2 pp. 169-189.

Martin, M. and Rose-Innes, C. (2013), Private Capital Flows to Low-income Countries: Perception and Reality, Canadian Development Report 2004, Chapter 2, Development Finance International.

Melusi, S. (2013), Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures, Economics and Politics, 7(3), pp. 207-227.

Mhlanga, Y. and Dube F. (2014), Why Does FDI Go Where It Goes? New Evidence From the Transition Economies, IMF Working Paper WP/03/228.

Mian, A. (2013). Foreign, Private Domestic, and Government Banks: New Evidence from Emerging Markets. Working Paper, University of Chicago.

Miles, M.B. and Huberman, A.M. (2004), Qualitative data analysis, 2nd edition, Thousand Oaks, CA: Sage.

MMC Capital Research report (2014)

Moreira, S. (2006), Les Facteurs Favorables/Défavorables à la Croissance Économique des Pays Pauvres, in: Serfati, C. (ed), Mondialisation et Déséquilibres Nord-Sud, P.I.E. - Peter Lang, Bruxelles, pp. 181-206.

Morisset, J. (2013), Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries, World Bank Policy Research Working Paper No. 3028.

Morisset, J. and Neso, O. (2012), Administrative Barriers to Foreign Investment in Developing Countries, Policy Research Working Paper, World Bank.

Odenthal, I. (2011), Foreign Direct Investment in Sub-Saharan Africa, Working Paper No. 173, OECD Development Centre.

Onyeiwu, S. and Shrestha, H. (2014), Determinants of Foreign Direct Investment in Africa, Journal of Developing Societies, 20 (1-2), 89-106.

Pierre Coupet (2009) Global Economic Meltdown: Time for Startups to Explore New Monetization Strategy, January 9. Retrieved 2009-12-05.

Punch, I. and Dagger, L. (2013), Social Development and Foreign Direct Investments in Developing Countries, Chr. Michelsen Institute, Development Studies and Human Rights, Bergen.

RBZ (2014) Zimbabwe Banking Sector Analysis

RBZ (2013) Monetary Policy Statement for 2013

Riedel J and Jing, J. (2014), Financing Investment, and Growth in China, Princeton Press, 95-120.

Rogoff, K. and Reinhart, C. (2003), FD1 to Africa: The Role of Price Stability and Currency Instability, Working Paper 03/10, International Monetary Fund.

Root, F. R. (1984), International Trade and Investment, South-Western Publishing Co, University of Pennsylvania, 5th ed.

Sachs, J. and Sievers, S. (2008), FDI in Africa, Africa Competitiveness Report, World Economic Forum, Geneva.

Sadiq,T.A. and Bolbol,A.A., (2011), "Capital Flows, FDI,and Technology Spillovers: Evidence from Arab Countries" World Development,Vol.29,no.12,pp.2111-2125.

Schoeman, N. J., Robinson, Z. C. and de-Wet, T. J. (2000), Foreign Direct Investment Flows and Fiscal Discipline in South Africa, South Africa Journal of Economic and Management Sciences, 3 (2), pp. 235-44.

Sethi, D; Guisinger, S; Ford, D.L and Phelan, S.E (2012). "Seeking Greener Pastures: A Theoretical and Empirical Investigation into the Changing Trend of Foreign Direct Investment Flows in Response to Institutional and Strategic Factors", International Business Review, Vol. 11, 685-705

Silverman, D. (2000), "Doing Qualitative Research; A Practical Handbook," Sage Publications, London Thousand Oaks, New Delhi.

Slager, A.M.H. (2014). Banking across borders. Rotterdam School of Management, Erasmus Research Institute of Management. http://hdl.handle.net/1765/1301.

Swinburne, M. (2007). "Effects of Globalization: Regulation That Keeps Up with Change". IMF Survey Magazine: Policy.

Te Velde, D. (2011), Policies Towards Foreign Direct Investment in Developing Countries: Emerging Best Practices and Outstanding Issues, Overseas Development Institude (ODI), London.

Tsai, P-L. (2014), Determinants of Foreign Direct Investment and its Impact on Economic Growth, Journal of Economic Development, 19 (1), pp. 137-63.

UNCTAD (1999), Foreign Direct Investment and the Challenge of Development, United Nations Conference on Trade and Development (UNCTAD), New York and Geneva.

UNCTAD (2008), Trends and Determinants, World Investment Report, United Nations, New York and Geneva.

Wegner, T (2003), Applied Business Statistics: Methods and Applications, Juta & Co.

Wei, S.-J. (2010), How Taxing is Corruption on International Investors?, Review of Economics and Statistics, 82 (1), pp. 1-1l.

Wells, L. and Wint, J. (1990), Marketing a Country, Revisited, FIAS Occasional Paper No. 13.

Wezel, T. (2004). Foreign bank entry into emerging economies: an empirical assessment of determinants and risks predicated on German FDI data," discussion paper series, No. 01.

Wheeler, D. and Mody, A. (1992), International Investment Location Decisions: The case of US firms, Journal of International Economics, 33, pp. 57-76.

White, B. (2010), "Dissertation Skills for Business and Management Students," Continuum

World Bank (2014), Global Development Finance on CD-Rom.

World Economic Forum (2012)

Wu, X. (2006). "Strengthening China's financial industry in the process of opening up". Sino-US Economy and Trade Forum, Beijing, 14 February 2006. BIS Review 12/2006.

Yasin, M. (2005), Official Development Assistance and Foreign Direct Investment Flows to Sub-Saharan Africa, African Development Review, 17 (1), pp. 23-40.

QUESTIONNARE

SPSS OUTPUT