

Foreign Private Investment Flows and Manufacturing Sector in Zimbabwe.

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DEDICATION

I wish to dedicate this work to my son, Nathaniel.

ACKNOWLEDGEMENTS

God has been my ever-present help in the compilation of this dissertation, I owe all my time and ability to Him.

My husband has been the most amazing supporter of all my work and ambitions, I am forever grateful to him.

Finally, my son Nathaniel, who endured all the demands of this dissertation, I owe him time and attention lost along my journey.

ABSTRACT

The study primarily examined the macroeconomic and institutional factors constraining the flow of foreign private investment flows into Zimbabwe's manufacturing sector. The study further explored the benefits that accrue from private capital as a source of financing for Zimbabwe's manufacturing sector. Quantitative analysis was used to determine the macroeconomic and governance factors that have a significant impact on the flow on private capital into Zimbabwe. Using the Johansen cointegration trace and maximum eigen value test indicate the presence of a significant long-run relationship between foreign capital inflows and the predictor variables. The results indicated the presence of 5 integrating equations for the trace test and 3 cointegrating equations for the maximum eigen value test. The normalized coefficients, foreign private investment flows are significantly and positively impacted by infrastructure development, economic growth rate, and inflation (macroeconomic factors) and further by business freedom and government effectiveness (governance factors). GDP per capita was found to have a negative impact on foreign investment flows. Analysis of questionnaire data revealed that foreign private financing appeals highly to manufacturing companies but access to this source of funding is constrained by funding mismatches, high credit risk levels within the local manufacturing industry, a longer time lag, sanctions imposed on the country and high production costs. In terms of the benefits of foreign private capital over the traditional sources of funding, the study found that private capital improves company operations (capacity utilisation, export market penetration and productivity), improves technology usage, and boosts the target company's corporate image.

DEFINITION OF TERMS

Foreign private capital – refers to the inflow of capital into a host country in the form of foreign direct investment (FDI) through acquisition of shares on either the stock market or privately (private equity). It also includes capital in the form of commercial borrowings.

Economic Growth – is an increase in the total production of goods and services in an economy over a defined period.

Sanctions – commercial, financial and travel penalties and or restrictions imposed by one or more countries against an individual or a company or a government.

Macro-economic factors – refers to factors that have a bearing on the functioning of the economy as a whole. These could be related to economic wide factors such as national policies, geo-political events or natural disasters. Specific examples of macroeconomic factors include the rate of inflation, gross domestic product (GDP), national income, and unemployment levels.

Micro-economic factors – these mainly refer to small-scale activities such as that of individuals, companies, and specific industries. These factors include individual demand and supply, factor and, product pricing considerations, individual firm production, and consumption are some micro-economic factors. These are mainly termed industry specific factors in this study.

LIST OF ACCRONYMS

ADF – Augmented Dickey-Fuller Test

ARDL – Autoregressive Distributed Lag

BACOSSSI – Basic Commodities Supply Side Intervention

CIMA – Chattered Institute of Management Accountants

CPI – Consumer Price Index

CZI – Confederation of Zimbabwe Industries

DFIs – Development Finance Institutions

DRC – Democratic Republic of Congo

EBA – Extreme Bound Analysis

ELCC – External Loans Approved by Exchange Control

EU – European Union

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

GDPPC –Gross Domestic Product Per Capita

GMM – Generalised Method of Moments

ICAZ – Institute of Chartered Accountants of Zimbabwe

ID – Infrastructure Development

IMF – International Monetary Fund

IPO – Initial Public Offering

OLS – Ordinary Least Squares

RBZ – Reserve Bank of Zimbabwe

SADC – Southern African Development Community

SEZ – Special Economic Zones

SMEs – Small to Medium Enterprises

SSA – Sub-Saharan Africa

UCT – University of Cape Town

UNCTAD – United Nations Conference on Trade and Development

UNIDO – United Nations Industrial Development Organization

US A – United States of America

USD – United States Dollar

VAR – Vector Autoregression

VECM – Vector Error Correction Model

VMI – Volume of Manufacturing Index

ZANU P.F – Zimbabwe African National Union Patriotic Front

ZIMSTATS – Zimbabwe National Statistics Agency

ZISCO – Zimbabwe Iron and Steel Company

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Most developing countries, especially in Africa, are facing several challenges in financing and stimulating sustainable economic growth. Most governments in Africa have failed to fund sustainable national economic development due to very high levels of government debt, inability to efficiently and effectively mobilize domestic resources, failure to curb the high levels of capital flight, over dependence on official development assistance, and ill-advised economic policies (Frontier Economics, 2013; Global Council, 2015). As a result, most governments are financially incapacitated to fund sustainable economic growth. The traditional sources of business finance like bank borrowing and issuance of public securities have not been sufficient to stimulate growth and investments in the manufacturing sector of the region's dynamic and growing private enterprises (Dickinson, 2007; Beck et al, 2008).

In any economy, the manufacturing sector plays an important role in the overall economic development agenda though the significance of the sector varies across countries. In 2018 merchandise trade contributed 70% to total world trade compared to 30% for services trade (WTO, 2019). This shows that the manufacturing industry remains a crucial sector in any economy. As outlined by UNIDO (2013), the manufacturing sector, as the centre of business innovation and technical change, has always occupied a key position in the minds of economic policymakers. Further to that, the sector also plays a link role between producers of raw materials and consumers of the manufactured products by converting the raw materials into finished products. In carrying this role, the manufacturing industry plays a decisive role in determining the extent to which an economy can be self-sustained. The sector thus can be used as a solid anchor upon which a strong economic take-off can be premised (UNIDO 2013, ZEPARU 2011).

In addition, there has been a general drift by countries from dependence on primary production and exports towards reliance on value addition. In view of the sector's significance in spurring economic growth, the Zimbabwe Industrial Development Policy set a target of 20% per annum

growth in manufacturing value added, a 75% capacity utilisation target by 2023 and a 2% growth in the manufacturing sector industry (ZIDP, 2019).

Important to development of the manufacturing sector is sufficient funding. Manufacturing sector investment flows have emerged as a key driver to sustainable economic development through providing the much needed capital in the manufacturing sector of developing countries hence bridging the gap between self-financing and conventional local sources of funding (Dickinson, 2007; Frontier Economics, 2013). The power of private capital in stimulating growth of the manufacturing sector does not lie in it being a source of financing, as is the case with bank financing and stock market financing, but in its ability to raise efficiency in the manufacturing sectors in which it engages (Frontier Economics, 2013; Gudiskis and Urbsiene, 2015). Private capital has been documented as the driving force behind stunning economic growth in some of the most influential sectors of the American economy and most of the developed countries in Europe and emerging Asia.

Empirical studies on the impact of private capital on the manufacturing sector in developing countries have shown that it is of high significance in fostering development through its positive impact on the development of the manufacturing sector. According to Borensztein, 1998, foreign private capital is a vehicle that allows the movement of capital and also skillsets and technology from developed economies to the developing economies. Thus private capital is plays an important role in promoting the development of the industrial sector of developing economies.

Zimbabwe's Real GDP growth reached 2.9% in 2017. This was a significant improvement compared to 0.7% growth rate achieved in 2016. The improved growth rate achieved in 2017 was a result of better performance in the agriculture and mining industry. Regrettably the economy continues to be anchored on the primary industries and there is limited efforts to improve value addition on raw agricultural and mining produce. Further to that, structural challenges due to the shrinking of the formal sector, weak domestic demand as a result of increasing poverty levels, high government debt, and weak investor confidence following a challenging and unchanging political environment. In relation to the financing, the country continues to experience a liquidity crisis and there in no immediate solution or strategy to curb this on the table. The liquidity crisis has impacted the lending market and access to financing by the manufacturing sector has been crippled.

Table 1 Zimbabwe's Macroeconomic Indicators 2016 (%)

	2016	2017(e)	2018(p)	2019(p)
Real GDP growth	0.7	2.9	0.9	1.1
Real GDP per capita growth	-1.6	0.6	-1.4	-1.2
CPI inflation	-1.6	0.5	0.7	1.1
Budget balance (% of GDP)	-8.2	-9.0	-9.8	-10.1
Current account (% of GDP)	-4.0	-5.6	-5.9	-5.7

Source: Researcher's own compilation using data from ZIMSTATS

Weak economic activity in 2016 caused government revenues to fall by 6% (in nominal terms), exacerbating liquidity shortages. The introduction of bond notes in 2016 pegged to the US dollar led to the emergence of a parallel market for foreign exchange, owing to shortage of foreign currency on the formal market. This was followed by the emergence of a four-tier pricing system in the market, in which the actual price paid by a customer depends on the mode of payment and currency used (US dollar, South African rand, bond notes or plastic money). The real exchange rate remains overvalued, undermining competitiveness of local products on the international market.

Table 2 Zimbabwe's GDP composition by sector

	2011	2016
Agriculture, forestry, fishing and hunting of which fishing	11.8 –	11.1 –
Mining and quarrying of which oil	9.7 –	8.4 –
Manufacturing	12.4	9.7
Electricity, gas and water	4.2	2.0
Construction	2.8	3.0
Wholesale and retail trade; repair of vehicles; household goods; restaurants and hotels of which restaurants and hotels	13.4 –	15.2 –
Transport, storage and communication	12.7	10.4
Finance, real estate and business services	8.4	9.6
Public administration and defence, security	8.8	11.1
Other services	15.8	19.5
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Researcher's own compilation using data from ZIMSTATS

The wholesale and retail sectors were the biggest contributors to the economy contributing a combined 15.2% after other services. The manufacturing industry contributed 9.7% to GDP in

2016 and these has been due to the presence of few big and resilient multinational companies including Delta, Varun Beverages given the continued low capacity utilization levels and the myriad of challenges the manufacturing industry is facing, the target of a 30% contribution remains far-fetched unless drastic measures are put in place.

In light of the aforementioned issues, this study therefore seeks to explore the specific challenges that the manufacturing industry is facing as well as the factors constraining manufacturing sector FDI inflows, also considering that Zimbabwe is one of the many developing countries that were placed under sanctions by various first world giants. Between 2000 and 2003, Zimbabwe received a set of sanctions mainly from the United States of America, United Kingdom, Australia, Canada and the European Union. Reasons for these sanctions include widespread reports of political and election violence, alleged human rights abuses, violation of property ownership rights and disrespect for rule of law, (Chingono, 2010) and this was following the famous land reform program orchestrated by the country's ruling party where in April, 2000, the parliament passed a constitutional amendment to section 16 of the constitution legalizing the acquisition of land by the historically disenfranchised black people as an effort to more equitably distribute land between the majority blacks and the white minority who ruled Zimbabwe from 1890 to 1979.

In December 2001, the US passed the Zimbabwe Democracy and Recovery Act opposing extensions of loans or any debt cancellations from the Multilateral Organizations. The United Kingdom and United States joined forces in 2002 to call for its allies to impose sanctions on Zimbabwe. On 18 February 2002, following the expulsion of the EU head of election monitoring mission the Swedish diplomat Pierre Schori accused of interfering with the elections, EU introduced restrictive sanctions on Mugabe and some senior government officials from traveling in and around Europe and freezing of personal assets and bank accounts. In September 2002, the Howard government in Australia imposed targeted sanctions on members of the Zimbabwe government in protests against the deteriorating political situation in Zimbabwe. These included travel restrictions, arms embargo and targeted financial sanctions. Australian sanctions went as far as removing children of some notable senior government officials who were studying in Australia from schools in Australia. (Chingono, 2010)

The nature of the sanctions however, is highly debatable as all the parties involved have a different name to the restrictions, with the Western giants calling them targeted sanctions which

are meant to restore democracy, rule of law and normalcy within the country according to the Western standards, while on the other hand the recipient of the sanctions, which is particularly the country's ruling party ZANU-PF perceives the restrictions to be illegal economic sanctions which are meant to destabilize the country's affairs (particularly the land reform program) and disturbing the country's sovereignty. What is undoubtful about the restrictions is their effects, which were felt and experienced by almost every citizen from the year 2000 to date. The withdrawal of the multilateral financial institutions from providing balance of payments support to Zimbabwe led to other bilateral creditors and donors also scaling down or suspending disbursements on existing loans for both government and parastatal loans (Bowden Bel al, 2011). In 1998, FDI inflows into Zimbabwe amounted to US\$444.3m, but by 2006, it had declined to a paltry US\$40m (Kromah, 2007). The result of all these and other developments led to serious foreign currency shortages and current account deficits as well as a serious depletion of the foreign currency reserves.

The protracted foreign currency shortages that Zimbabwe faced from 2000 onwards crippled the operations of industry, which heavily relied on imported inputs for its daily operations. Declines in the key sectors of the economy resulted in high unemployment, an inefficient health delivery system, deteriorating education standards, reduction in FDI and the drying up of balance of payments support (Bowden B, et al, 2011). Inflation levels skyrocketed and the Zimbabwean dollar continued to lose value and by the end of January 2008, it was trading at 1 US dollar to \$6 million Zimbabwe dollars on the parallel market. This ushered in the inevitable move to adopt the United States Dollar as the official currency in February of 2009, commonly known as dollarization. A ray of hope arose as the inflation levels immediately stabilized, in fact, the country experienced deflation as year-on-year inflation reached a record low of -7,5% in December 2009. Dollarization considerably restored businesses and investor confidence in the economy although it was not enough to bring back much of the investment withdrawn from key sectors such as agriculture and manufacturing as the infamous indigenization policy was already at play.

The Zimbabwean economy has never fully recovered from the devastating effects of the sanctions from the west, however it is one of many countries who have fallen prey to the wrath of the western giants and some of these include Iran, Cuba, and Apartheid South Africa. Most

of these developing countries under western sanctions have experienced the worst of recessions and economic meltdowns owing to the interference of the west and most have suffered much economic losses but have definitely found ways to cope and to adapt as well as to rebuild whatever had been lost under the most difficult of circumstances, much like what Zimbabwe is currently through and thus policy makers may learn a thing or two from their experiences.

1.2 Problem Definition

Structural economic transformation towards industry is critical for the sustained economic growth and development of Zimbabwe. The manufacturing industry is a key sector in Zimbabwe, a richly resourced country with natural resources in the form of gold, platinum, Chrome, nickel, and diamonds as well as farming land. In view of the sector's significance in spurring economic growth, the Zimbabwe Industrial Development Policy (2019-2023) set a target of 20% per annum growth in manufacturing value added, a 75% capacity utilisation target by 2023 and a 2% growth in the manufacturing sector industry. However, the policy document notes antiquated machinery and equipment, lack of affordable and long-term funding for industry, and foreign exchange shortages to procure raw materials as the main challenges crippling the manufacturing sector. Thus, achievement of the set objectives is a far-fetched idea without laying the necessary building blocks for manufacturing industry financing. Financing challenges and the liquidity crunch being experienced in the country has made local conventional sources of funding futile. For companies, attracting foreign private capital either in the form of FDI, private equity or external loans are options to be considered. It is against this backdrop that this study seeks to explore the sector specific and macroeconomic challenges constraining the manufacturing industry in attracting foreign private capital inflows.

1.3 Research Questions

For close to two decades, Zimbabwe has been menaced by economic sanctions which have left the country devoid of any decent economic system and an almost non-existent manufacturing sector. It is therefore the overarching question of this research to find out what financing sources are available in such an economy as Zimbabwe. The following sub-questions seek to shed more light on this investigation by dissecting further into the economy and relevant industry under investigation:

- What are the (macro) economy- wide factors constraining the flow of capital into the manufacturing sector of Zimbabwe?
- What are the industry specific factors or characteristics constraining foreign private capital flows into the local manufacturing sector of Zimbabwe?
- What are the specific benefits that accrue from private capital as a source of financing for Zimbabwe's manufacturing sector?

1.4 Statement of Research Objectives

The overarching objective of this research is to explore the factors constraining Zimbabwe's manufacturing sector to attract foreign financing towards the awakening of the industry.

The specific objectives of this research are:

- To examine the macro factors that influence the flow of private capital into Zimbabwe's manufacturing sector.
- To explore the industry specific factors constraining the manufacturing sector in attracting foreign private capital.
- To explore the benefits of foreign private capital as a source of funding for the country's manufacturing sector.

1.5 Justification of the study

Zimbabwe is a relatively well resourced country with vast amounts of minerals, forests and farming land. However, the economy is not fully benefiting from these resources due to poor domestic resource mobilisation and absence of a vibrant manufacturing sector capable of adding value to the primary products. The much needed foreign currency has been lost through export of raw and semi-raw materials and this has further crippled the economy as well as the industry through the multiplier effect. Resuscitation of the manufacturing industry will aid the economy to leap-frog from production and export of low value added products to higher value products up the value chain of production.

The study seeks to bring an awakening call to the government, the industry players and policy makers on the need to address the macro and micro economic factors that stand in the way of

the country's development by deterring foreign investment in the manufacturing sector which might otherwise bring back life to the dying manufacturing industry of Zimbabwe. The bulk of existing literature has looked at the impact of the manufacturing industry on economic growth, while others such as one by Muzurura (2013) on the determinants of foreign direct investment inflows based on data from 1980-2011, showed that gross fixed capital formation, political stability, inflation, poor governance, corruption, policy inconsistencies and weak export competitiveness are the factors that significantly impact FDI inflows into Zimbabwe. This was quite similar to another study by Sikwila et al (2018), who found investment policy stability, inflation, trade openness, and growth in real domestic products to have a significant influence on the FDI inflows into the country.

This study has gone further to breaking down Foreign Direct Investment and to pick on one of the various components of FDI which is Foreign Private Investment as a funding source, as well as to zero in on particularly the manufacturing sector as the major growth component of any aspiring emerging economy. The study also takes into consideration that the economy has been highly distressed by long standing economic sanctions which have crippled the economy and thus tries to paint a more realistic picture of what the country has to overcome in order to attract any meaningful source of funding for its manufacturing industry development and thus makes the study relevant to literature.

1.6 Organisation of the study

Outline of the dissertation is as follows: Chapter one is an introduction to the matter giving an overview of the challenges that Zimbabwe is facing because of failing to attract foreign private investment for the purposes of awakening its manufacturing industries, which has also been thoroughly proven to be key to economic growth. Chapter two is mainly the empirical literature review on the topic, looking at what earlier researchers found and documented on the matter. Chapter three outlines the methodology to be adopted in the research process. Chapter four is an analysis of empirical findings and Chapter five gives a conclusion and recommendations based on the empirics and findings of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Theoretical Literature Review

Several schools of thought or theories have been put forward to explain the concept of private capital. Private capital flows theories mainly include a) the capital market theory, b) the location-based approach theory and c) the institutional FDI fitness theory.

2.1.1 Capital Market Theory

The theory is founded in the works of Aliber (1971). According to the theory, private capital or FDI flows, are a result of imperfections within the world capital market. It postulates that private capital flows are a result of currency differences between home and host country (Nayak and Choudhury, 2014). As a result of this proposition, the theory is also known as the “Currency Area’ theory. Specifically, the theory posits that private capital flows to countries with relatively weaker currencies to arbitrage on differences in company market capitalizations.

The case of recent private capital flow trends, the theory does not hold true. Private capital flows to regions with stronger currencies have been high. Also as put forward by Nayak and

Choudhury (2014), the theory fails to account or explain private capital flows between countries that have roughly equally valued currencies. For example, according to the World Bank Data on Foreign Direct Investment net inflows in 2019, the world's biggest recipients of FDI remain the United States of America, China and Singapore respectively. The theory therefore fails to also explain the reasons why the manufacturing sector of Zimbabwe fails to attract foreign capital for its development, a weak currency seemingly is not the key.

2.1.2 Location Based Approach

The theory is of the view that private capital flows is a function of economic geography or country level characteristics (Popovici and Calin, 2014). These characteristics include the abundance of natural resources, availability of human capital, level of infrastructure development, and the size of the potential market (Makoni, 2015). The theory extends the list of potential determinants of FDI flows unlike the capital market theory which focuses on currency value differences only. The location theory holds true to a greater extent as proven by most research.

According to Pigato (2005) an educated labour force is able to adapt quickly to new technologies that come with private capital with less need for additional investment in skills development. Studies by Onyeiwu (2004), Asiedu (2006) and Ang (2008), show that the relationship between the level of infrastructure development and FDI flows significantly positive. In the case of Zimbabwe, the theory might hold true to some extent. Poor infrastructure development and low size of the potential market have been discussed as some of the factors with the potential to hinder private capital inflows. The issue of availability of natural resources has not contributed much to attracting foreign private capital due to policies like indigenisation and violation of investor rights. A study by Musonera et al (2010) refutes the notion that natural resource abundance attracts private capital as countries like Tanzania and Uganda though they are poorly resourced, they have managed to attract significant foreign private capital. Differences in economic, political and social setups, accounts for the differences in significance of variables across countries or regions. The Zimbabwean case for example can be considered unique to some extent. The theory thus could be tested in the Zimbabwean case as results in other countries cannot be generalised.

2.1.3 Institutional Investment Fitness Theory

The theory was founded in the works of Wilhems and Witter (1998). It explains private capital flows of FDI being a function of the recipient country's dynamicity or ability to adapt or fit into the expectations of the potential investors. It highlights a country as being supported by three pillars namely a) the government, b) the market, and c) the socio-cultural factors. The theory holds true to some extent and is supported by findings from the study by Muthoga (2003) (as cited by Popovici & Calin, 2014), who found out that the key drivers of FDI inflows are economic openness, GDP growth, human capital and availability of credit. The theory is too open and wide and thus any factor can easily fall into one of the three pillars of the institutional investment fitness theory. The theory is thus is relevant in the case of Zimbabwe.

The support by the local government stands key in the quest to meet investor potential and most Africa countries have since adopted this strategy with much positive outcome. For countries under difficult economic situations in the form of western sanctions, an inward-looking approach in the form of subsidies to industries by the government reaped much good for countries like Iran and Cuba. For others like Rwanda and Kenya, the creation of Special Economic Zones (SEZ) for investor attraction were also beneficial for their rise to fame. The Zimbabwean government adopted a look-east policy for investor attraction in response to the western sanctions together with creation of SEZs, which are still much work in progress.

2.2 Private Capital and the Manufacturing Industry

2.2.1 Global Outlook

According to a sector report by CIMA (2018), the manufacturing sector is still haunted by the effects of the 2008 financial crises and are in the process of transition and recovery. In the aftermath of the global financial crisis, global demand has declined which in turn has led to a vicious cycle of company closures, job losses and further reduced demand. The pace of recovery has been significantly slow. In developing and emerging markets, recovery pace has slightly picked pace compared to the developed economies albeit being more productive in the case of the later.

As outlined by UNIDO (2013), the manufacturing sector, being the centre of business innovation and technical change, has always occupied a key position in the minds of economic policymakers internationally. However, it has been observed to be greatly changing in nature, calling for continued research, focusing and planning studies as inputs for the design of national

manufacturing strategies and policies in many countries. Countries with dynamic and quickly adaptive manufacturing sectors have managed to remain globally competitive and have helped in creating sustainable economies.

The role of the manufacturing industry differs across regions. A study by UNIDO (2013) points out that in Europe for example, emphasis has been placed on the role of manufacturing as a driver of future economic recovery and as capturing economic value in the form of production-related jobs. In the Asian region, attention has been paid to the role of the manufacturing sector in achieving technological deepening and sustaining future economic expansion. On the other hand, the United States of America places more emphasis on the future role of industrial manufacturing for technology development and new industry creation. For Latin America and most African states, the emphasis has traditionally been on making use or utilizing the abundant natural resource endowments to promote industrial and economic development and diversification.

Even countries under distress in the form of economic sanctions by the west rose above the tide and took an inward approach to manufacturing industry development through government subsidies and import substitutions much to their greater benefit. The first formal U.S. sanctions against Iran were ordered by President Carter in April 1980, following the break in diplomatic relations between the two countries. The sanctions banned all U.S. exports to Iran (Hooman Estelami, 1999). Ever since this time there have been successive lifting and reinstating of restrictions on the country with the latest one being on 8 August 2018, when the U.S. President Donald Trump issued an executive order re-imposing U.S. sanctions on Iran “as expeditiously as possible”, and the Trump administration also vowing to penalize foreign entities with U.S. interests that continue to trade with Iran.

Because of these long-standing sanctions on Iran, as well as their highly nationalist approach to wealth distribution, the country basically took an inward approach to industrial development which was implemented through a gradual reinvestment of revenues from oil and gas sales into an import substitution strategy that allowed it to acquire foreign technologies to industrialize.

Coupled with this strategy was, “to promote applied research with a view to making university research applicable to industrial needs. During the 1990s, the Ministry of Industry also sought to directly promote research and development activities in large and medium-sized companies, most of which were state-owned. Apart from building up capacities in the knowledge system, Iran has also built up substantial technological capacity in the productive sector. It has a fairly well developed manufacturing capacity in the automotive industry, telecommunications and pharmaceuticals.” (Molanezhad, 2010). To date, Iran is a middle-income developing country, with a broad industrial base, a relatively well developed science and technology infrastructure and skilled manpower. However, Iran’s industry only undertakes production without any innovative activities. Although the strategy serves well the idea of import substitution, it does not result in sustainable development and this is mainly brought about by the absence of strong support industries in the form of Small to Medium Enterprises (SMEs). The country has pursued a development strategy of self-reliance with a significant degree of success despite the deep seated western sanctions.

Cuba is another victim to the western bullying through economic sanctions following the commencement of the Revolution in 1959, which saw Cuba cancelling all US contracts in Cuba and expropriating US owned mining concessions in the country. The US responded to these actions by applying trade embargoes on Cuba, freezing of Cuban owned assets in the US as well as prohibition of US public and private investments in Cuba. This left Cuba in a downward economic trend for years and is still counted among the poor countries in the world, with a 2010 per capita gross domestic product (GDP) at purchasing power parity of \$10,200; this amount was three times less than that of Mississippi, which was the U.S. State with the lowest per capita GDP (United Nations Economic Commission for Latin America and the Caribbean, 2014; U.S. Central Intelligence Agency, 2014), which had now become \$6789.8 (USD) according to the World Bank by 2014 and ranking 62nd of 185 in Nominal GDP (World Bank, 2018).

In response to these restrictions, Cuba like Iran also took a self-reliance approach to food production for feeding the nation, enabled by extensive rural and urban organic farming as well as looking in a different direction (from the US), for trade and investment. Since 1990 the country opened its economy to other players and welcomed some foreign joint ventures, who were granted majority ownership control of businesses as well as dominant market share, with the government restricting competition and profit margins. Coupled with opening up its

economy, Cuba further enacted Law number 77 (Foreign Investment Act), passed in 1995, which allowed 100% foreign ownership of business to foreign investors, however starting in 2011, the Government has sought a 51% or more share in joint ventures., which might help to explain its failure to thrive.

Apartheid South Africa, which was well known for violation of human rights as well as discrimination of the black majority population in South Africa, was abolished in 1994 and replaced by the Republic of South Africa, however, during its time, the regime had long standing differences with the western countries because of its racist policies, which sought to separate and segregate the main racial classes that is The Whites, Coloureds, Asians and blacks in terms of "the apartheid, or 'separate development' policy which laid down special racial provisions for the ownership of properties and businesses and the location of housing and factories. This required the establishment of segregated residential areas for each of the officially defined 'races' or 'population groups'-whites, coloureds, Indians and Africans or blacks. The policy also required the decentralisation, wherever possible, of factories employing blacks away from the major white urban centres to the 'homelands' or Bantustans, to which blacks supposedly belonged." (Francis Antonie, et al, 1993). This also applied on all major economic activities such as controls over allocation of land (which reserved almost 86 % of all land in South Africa for white ownership), laws on the labour market, which reserved certain occupations for the white population, and a 'whites first in que' policy on education, among many others, and all these led the country to be on economic sanctions since as early as 1985 to April of 1994, when the country gained its independence.

Of fact is that the threat and imposition of international sanctions destabilised and eventually led to the collapse of the Apartheid system in South Africa, however during this time of sanctions, evidence suggest that in the state's leading role in countering sanctions, came in the establishment of strategic stockpiles and industries, where enormous resources of capital and skill were devoted to stockpiling oil and arms as well as developing (often unviable) industries, particularly in armaments and sources of energy, as self-sufficiency was sought in sophisticated products such as chemicals, computers and armaments. According to Francis Antonie, et al (1993), the National Party employed a highly protectionist framework to economic development to suite the apartheid blueprint and as such the state vigorously promoted import substitution industries, including many in the state sector. The intensification of apartheid also

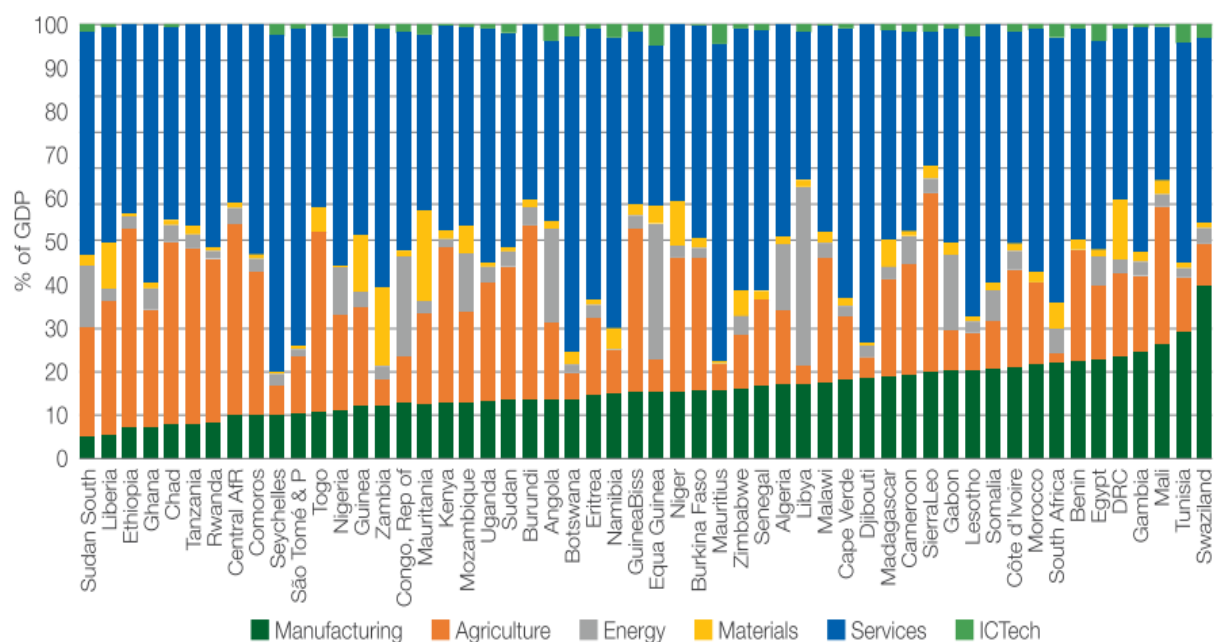
involved increased controls over both capital and labour and an enormous expansion in the size and powers of the state bureaucracy. Avril Joffe, et al (1994), also stated the following with regards the two decades up to 1992, “the manufacturing sector has been unable to compete effectively in external markets and the recent moderate growth of manufactured exports has arisen primarily from a combination of export subsidies and the recession in the domestic market. In many sectors the ability of manufacturers to compete in the domestic market has reflected the effectiveness of import controls”.

Apartheid South Africa therefore took an inward approach to dealing with economic sanctions, and like Iran it concentrated much on production of armament at the cost of other essential industries to economic development, such that, by the time it gained independence, South Africa’s manufacturing industry was relatively underdevelopment when compared to countries with similar per capita incomes. This is evidenced by total factor productivity growth in manufacturing which declined by 1.02 per cent p.a. between 1972 and 1990. (Avril Joffe, et al 1994). Further evidence was observed in manufacturing value added, employment in manufacturing, clothing and shoe industry, aggregate capital stock in manufacturing as well as the economy-wide investment which all took a downward trajectory over the two decades up to independence. It was only the most capital-intensive sectors which maintained their growth rate. For example, the sanctions-busting chemicals sector, according to Avril Joffe, et al (1994). Having looked at trends and experiences of countries with close to similar experiences as Zimbabwe, it can be concluded that an inward-looking approach to survival and development, as well as looking a different direction for investment support is best in times of economic sanctions.

2.2.2 Regional Outlook

In Africa, the manufacturing sector contributes an average of approximately 15% to GDP with the services and Agriculture industry being the main contributors to economic growth as shown on figure 2.1.

Figure 1 GDP Composition by Industry

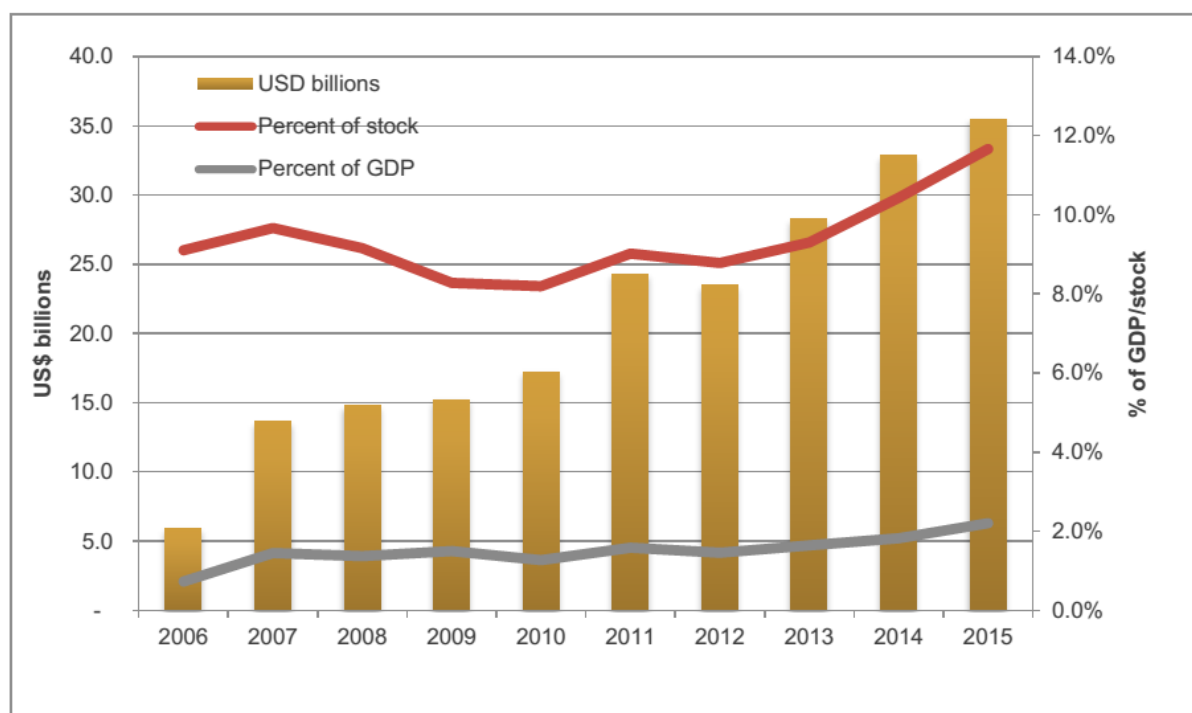


Source: IMF World Outlook Report

Zimbabwe ranked number 23 in Africa in terms of manufacturing sector contribution to GDP with a contribution of approximately 18%. The services industry dominates the country's GDP, with the manufacturing sector coming second followed by the agriculture industry.

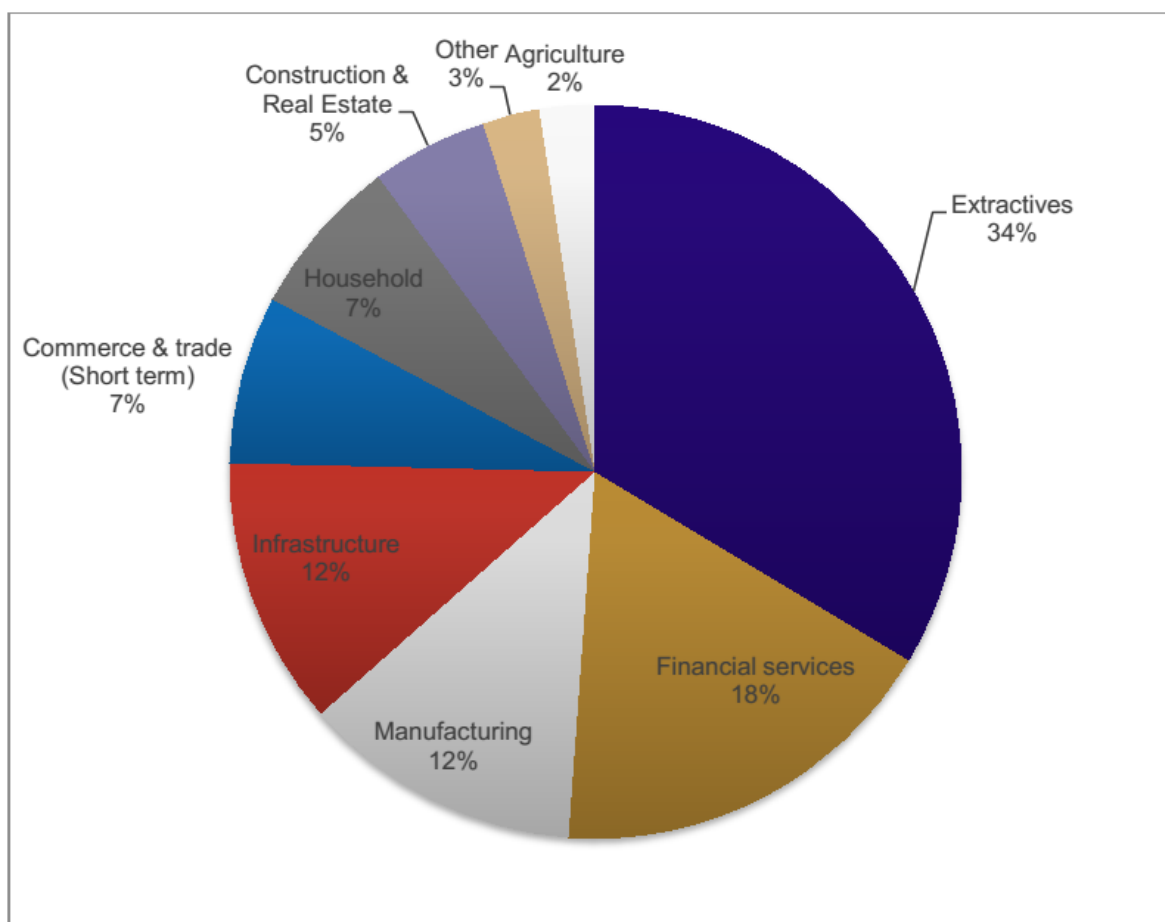
In the year 2016, Sub-Saharan Africa experienced the slowest rate of economic growth owing to the decline in global economic prices. The limitations of overreliance on the primary industry, without value-addition chains, were exposed in most sub-Saharan economies (IMF, 2017). Thus to economic transformation is achieved in these circumstances has been need to build and develop higher-productivity sectors. The manufacturing sector through mineral and agricultural processing is there to bridge this gap and participate in regional and global value chains. However, given the significant funding required to be invested in the manufacturing sector to achieve the aforementioned, there is need for private financing in the sector.

Figure 2 SSA Manufacturing Sector Financing



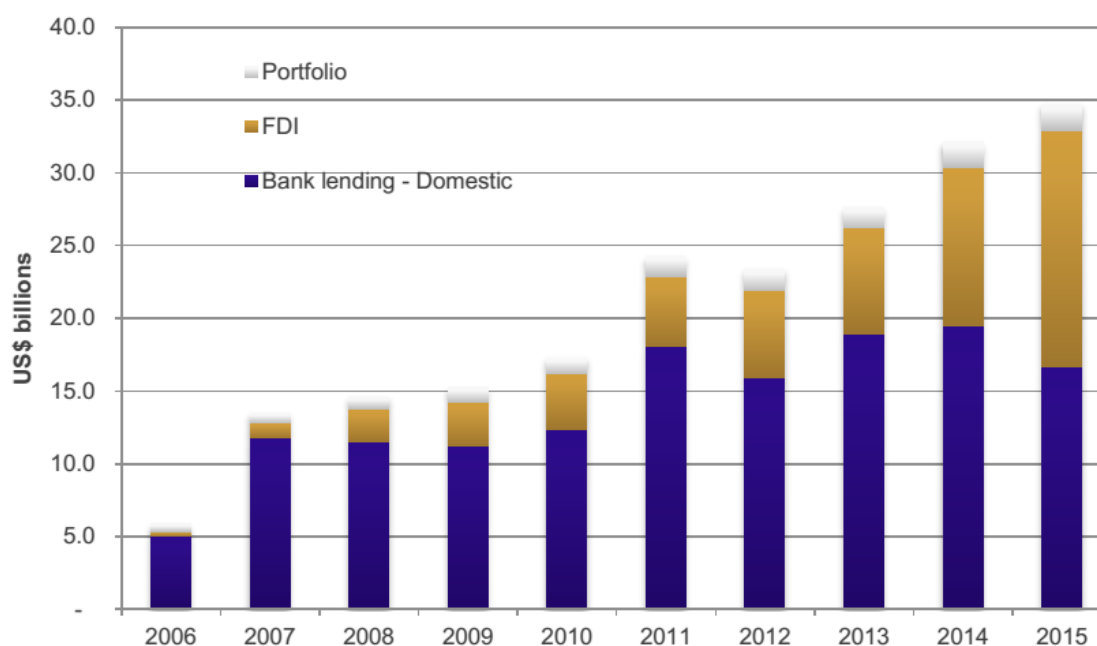
Significant financial deepening has been achieved to some extent. For example, between 2006 and 2015 private financing increased from \$65.3 billion to \$304.2 billion. Expressed as a percentage of real GDP, private financing rose from 9.0% to 22.0% over the same period. This private financing included financing through FDI, domestic and international conventional bank lending and through domestic and international capital markets. The manufacturing sector participated in this absolute growth in private financing, increasing from \$5.9 billion in 2006 to \$35.5 billion in 2015. However over the period under consideration the share of total financing to the manufacturing sector and its value relative to GDP remained stable, at approximately 8.0% and 1.5%, respectively. Additionally, manufacturing industry's share of financing remained relatively small compared with that of other sectors. In particular, the extractives and financial services sectors received more financing, with 30.5% and 17.1% of all 2015 financing stock compared with manufacturing's 11.7%.

Figure 3 Sectoral Share of Financing



There have been significant shifts in the sources of and composition of funding sources to the manufacturing sector. The most important sources of financing for the manufacturing sector over the period 2006-2015 were local bank loans and FDI, which provided 47.9% and 46.9% of financing, respectively. Portfolio investments contributions averaged 5%. Though both local bank loans and FDI as sources of financing to the manufacturing industry have increased in absolute terms, from 2011 to 2016, there has been a shift in their relative importance/contribution. FDI contributed more and more to total funding whereas domestic bank loans contributed less and less. In 2013 for example, domestic bank lending to the sector stagnated at approximately \$18 billion and then, though remaining the top source of financing to the manufacturing industry, declined to \$16.6 billion by 2015. The declining importance of domestic bank lending reflects the overall contraction in credit in the region as it has suffered from slowing GDP growth (Tyson, 2016).

Figure 4 Manufacturing Financing by Source



By contrast, FDI increased every year throughout the decade to accumulate to a stock of \$16.3 billion by 2015. Importantly, despite weak economic conditions in 2014 and 2015 in sub-Saharan Africa, these strong flows in FDI into manufacturing have continued. This has included increasing levels of intraregional, as well as international, FDI (Tyson, 2017, forthcoming; UNCTAD, 2016).

The cost of obtaining domestic financing in Africa remains generally high and this disincentivizes manufacturing companies to seek funding from local financiers like banks. High interest rates in most African countries are explained by the high levels of credit and liquidity risk as well as financial regulation factors which in turn have created an imperfect market for borrowing and or lending of funds. Cases high debt accumulation by governments (following crises and fiscal mismanagement) for example in Ghana, Mozambique and Zimbabwe have also lead to increasing lending rates (Papadavid, 2017). As a result, companies in the manufacturing sector have had to self-finance or resort to overdraft facilities (Dinh and Clarke, 2012). This compares unfavourably to manufacturing companies in China and South-East Asia which are able to purchase inputs on credit and can get huge funding to finance capital expenditure.

The manufacturing sector has always depended on external financing to remain sustainable most notably for capital intensive manufacturing needing both capital and working capital

support. Thus high cost of finance faced by manufacturing companies in the African region has led to manufacturing companies having to make unsustainable inventory decisions, disruptions in productions and extensions of payment terms to buyers (Papadavid, 2017).

Given the high cost of domestic financing, manufacturers have had to consider seeking funding from global financial markets. Most African governments as they implemented economic structural adjustment programmes post-independence, liberalised the financial markets to allow easy flow of capital into local industry in the form of FDI, private equity and manufacturing sector loans. Inflows into the manufacturing sector however, compare unfavourably to flows into the services sector with the later accounting for 45% to 55% of the total FDI inflows and the manufacturing sector accounting for 20%-30% considering the period 2010-2016 (UNCTAD, 2016b). This has been in part because of the nature of manufacturing sector output in Africa which is more of raw commodities which have been experiencing depreciating prices on the international markets. Manufacturing companies have found getting foreign capital inflows also difficult due to a number of macroeconomic, political and institutional factors. This study thus intends to uncover these challenges limiting the flow of private capital into the manufacturing sector.

2.3 Private Capital and the Manufacturing Sector- Zimbabwean Outlook

2.3.1 Manufacturing Financing Pre and Post the Multicurrency Regime

The country has been facing significant financing challenges. Conventional sources of funding have for long not been able to close the financing gap. The situation was exacerbated following the long standing sanctions imposed on the country by the United States of America and the European Union block and countries. The productive sector was severely underfunded, and the government introduced a number of financing facilities starting with the Statutory Reserves Finance Facility followed by the Productive Sector Facility in 2004. These facilities were meant to provide concessional financing to the productive sector for working and capital expenditure.

Most of the funding was to the agriculture, the manufacturing and the mining sector respectively (see table 2.1). However, most of the financing was utilized for working capital with only 15% being for capital expenditure. For the manufacturing sector specifically, a total

of Z\$892 billion was utilized with only Z\$166.5 billion being spent on capital expenditure. As a result, the productivity of the sector continued to be suppressed as there was no significant investment in new equipment and technologies.

Table 3 Sectorial Utilization of the Productive Sector Facility (2004)

SECTOR	Working	Capital	Total	Percentage
	Capital	Expenditure		Of Total
Agriculture	913	142.2	1055.2	42.72%
Manufacturing	725.5	166.5	892	36.11%
Mining	300	20	320	12.96%
Tourism	59	10.2	69.2	2.80%
Construction	22.2	1.6	23.8	0.96%
Distribution	15	0	15	0.61%
Transport	61	18.3	79.3	3.21%
Communication	0.1	11.9	12	0.49%
Health	3	0.4	3.4	0.14%
Total	2098.83	371.11	2469.91	100.00%

Source: Reserve Bank of Zimbabwe, 2018

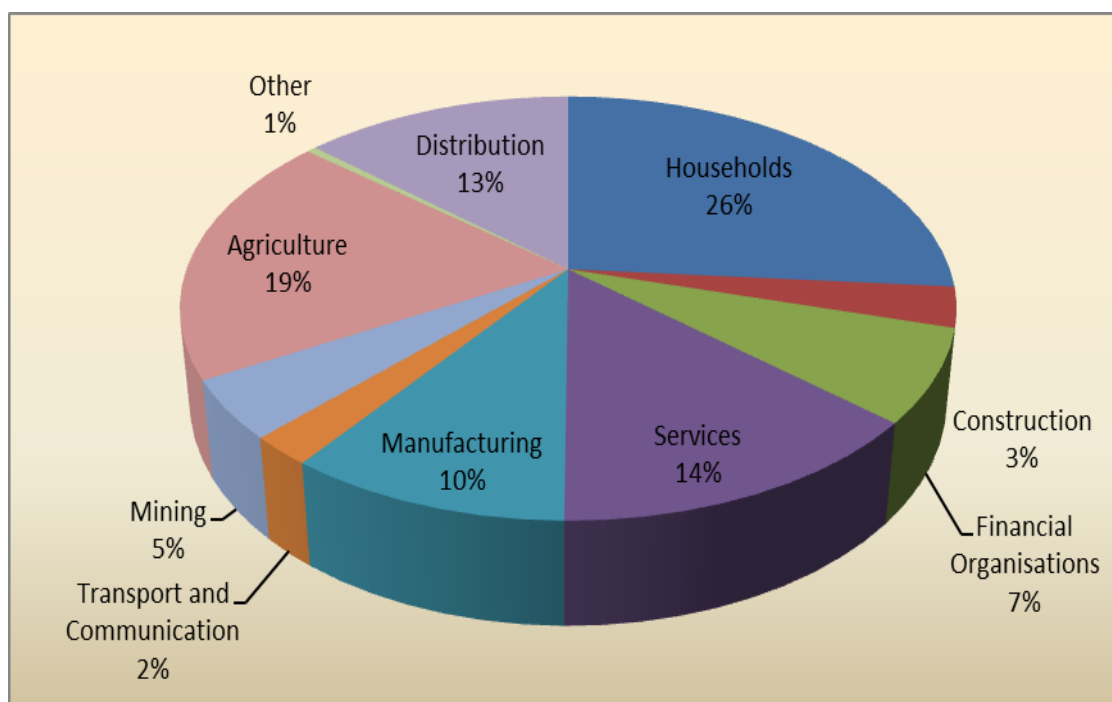
In 2007, inflation had reached hyper levels. The productive sector could not get funding from the local banking sector let alone foreign financing except for the low-risk multinational companies. In the Mid-Term Monetary Policy Review Statement of 1 October 2007 the Reserve Bank of Zimbabwe established a Basic Commodities Supply - Side Intervention Facility (BACOSSI) aimed at boosting production in the manufacturing sector through targeted financial support. Under this facility, manufacturers, wholesalers accessed production-linked financial support for their working capital requirements. The manufacturing sector got support to the tune of Z\$67,114,177,406.15. This however did not help save the collapse of industry. The country continued to experience massive de-industrialization, the BACOSSI facility could not achieve much given all the constraints that were at play in the economy. The hyperinflationary environment continued up to January 2009 when the multicurrency system was introduced to salvage the situation.

The adoption of the multicurrency system in 2009, with the United States Dollar being the anchor currency, had a positive impact on the Zimbabwean economy. The move brought the much-needed economic stability turning the hyperinflationary economy to stable inflation of

3% as of July 2011. Confidence in the government and ultimately the economy improved. However, the move incapacitated the central bank's ability to perform its functions of controlling money supply and the economy experienced a severe liquidity crunch. The capacity of banks to lend was reduced and companies faced a challenges in getting financing for their working capital and capital expenditure requirements. This was further worsened by the stringent capital requirements placed on banks following the global financial crisis. Sachikonye and Sibanda (2016), pointed out that the multicurrency operating environment characterized by foreign currency and cash shortages resulted in the shrinking of the financial services sector resulting in the rationing of credit facilities to by banks to companies.

During the 2009 to 2018 period, most productive credit was to the agricultural sector, the services sector, the manufacturing sector and the transport and distribution sector. In 2014 for example, credit was mainly channelled towards agriculture with a share of 18.85% followed by the services with a share of 16.04%). The manufacturing sector ranked that accounting for 15.95% of credit. The rest was to the distribution sector (14.59%), mining sector (7.34%) and financial organisations (4.54%) among other sectors. Notably, households accounted for 18.09% of total credit to the private sector, reflecting increased preference by banks to lend to less risky sectors, since most consumer loans are salary based and repayments are usually at source. In 2018, households accounted for the largest share getting 26.33 percent of total credit followed by the agriculture sector with a share of 19.36%. The manufacturing sector ranked 5th getting 9.96% of total credit (see figure 2.3). The inability of the manufacturing sector to access a bigger share of credit, points to the presence of industry specific constraints.

Figure 5 Sectoral Distribution of Domestic Credit-2018



Source: Reserve bank of Zimbabwe, 2018

The central bank, through the short-term facility sought to boost the productive sectors through facilitating the ability of companies to get foreign funding in the form of off-shore loans. However, the utilization level for the facility continued to decline reflecting the effects of failure by the borrowers to meet stringent conditions precedent on the facilities and availability of alternative sources of financing. Stringent borrowing requirements are also prompted by the country's external debt overhang. For the period 2011 to 2012, most of the offshore loans were to the agriculture, financial services, mining, and telecommunications sector. The manufacturing sector ranked 5th in terms of approvals (see table 4). The utilization level for the manufacturing sector was very low at 15.5% in 2011 though it improved to 19.8% in 2012. Thus the sector failed to meet the stringent requirements to make use of the facility.

Table 4 Approved ELCC Short-term Facilities Year (2011 and 2012)

Sector	No. of Companies 2011	No. of Companies 2012	Amount Approved (US\$ Million) 2011	Amount Approved (US\$ Million) 2012	Utilized Amount (US\$ Million) 2011	Utilized Amount (US\$ Million) 2012
Agriculture	16	42	457.4	976.8	293.8	446.5
Financial	31	34	955.5	1130.7	377	366.6
Mining	16	25	295.8	340.5	122.7	105.3
Tourism	7	5	22.9	14.7	3.6	2.8
Manufacturing	26	61	386	101.5	60	20.3
Telecommunication	9	5	474.9	286.4	394.9	91.2
Distribution	60	74	97.8	159	28.6	50.8
Transport	Nil	2	Nil	0.9	Nil	Nil
Energy	Nil	2	Nil	319	Nil	Nil
Total	165	250	2690.3	3329.5	1280.6	1083.5

Source: Reserve Bank of Zimbabwe, 2013

The country's ability to attract offshore lines of credit has remained curtailed due to the perceived country risk. In 2019, a decline of 21% in the monetary value of private sector external loans approved by Exchange Control, was experienced compared to 2018 performance.

Table 5 Approved ELCC Short-term Facilities Year (2011 and 2012)

Sector	2019		2018	
	Approved Amount (US\$ M)	Percentage Sectoral Contribution	Approved Amount (US\$ M)	Percentage Sectoral Contribution
Agriculture	802.9	79.1%	801.6	62.48%
Financial	119.5	11.78%	204.4	15.93%
Energy	23.1	2.28%	40.6	3.17%
Transport	11.4	1.12%	5.3	0.42%
Mining	25.9	2.55%	114.1	8.90%
Tourism	8.4	0.83%	14.1	1.10%
Manufacturing	18.8	1.85%	88.3	6.88%
Construction	2.9	0.28%	1.7	0.14%
Retail	1.0	0.10%	0.4	0.03%
Services	0.9	0.08%	12.8	0.97%
Communication	0	0.00%	0	0.00%
TOTAL	1,014.8	100.00%	1,282.9	100%

The agricultural and financial services sector were the biggest recipients of offshore loans. The manufacturing sector ranked 4th in 2018 and 5th in 2019 with sectoral shares of 6.88% and 1.85% respectively. This leaves the manufacturing sector incapacitated to upgrade their equipment and technologies. The sector thus continues to be crippled and operating way below optimal capacity.

2.3.2 The Manufacturing Sector Landscape

Zimbabwe boasts of a diverse manufacturing sector ranging from agro-processing, automotive, furniture manufacturing, welding and fabrication, construction and metals and mining. The companies have for long been geographically spread but recently concentration has been in the capital city with most of the big companies notably Shabanie Mine and Zisco Steel closing down (Mafunga, 2009). However, as the economy's downward spiral increased, most companies especially those that are domestically owned closed down. Most foreign owned companies ended up relocating (ICAZ, 2013). Generally, the challenges that have been pointed in various reports include high costs of capital, high cost utilities (electricity, water, and internet), poor infrastructure and low market demand. An avalanche of low priced imports some of which are subsidized continues to drive local products out of the market. There are also reports of products which do not qualify under the certificates of origin requirement finding their way into the country even through the official channels (ZEPARU, 2011).

According to the Global Competitive Index (2017), a metric compiled by the World Economic Forum, measuring the competitiveness of a country's products on the global market, Zimbabwe ranked 124 of 140 countries, ahead of only 5 countries (Malawi, Lesotho, Mozambique, DRC, and Angola), in the SADC regional trading bloc. The country's ranking worsened in 2018/19 dropping 4 places to rank 128th.

This scenario does not paint a good picture considering that Zimbabwe aspires to be a middle-income economy by 2030. A low Global Competitive index ranking shows that the set of institutions, policies and factors that determine the level of productivity are poorly ranked, thus, Zimbabwe has a lot of work to do to improve its business environment.

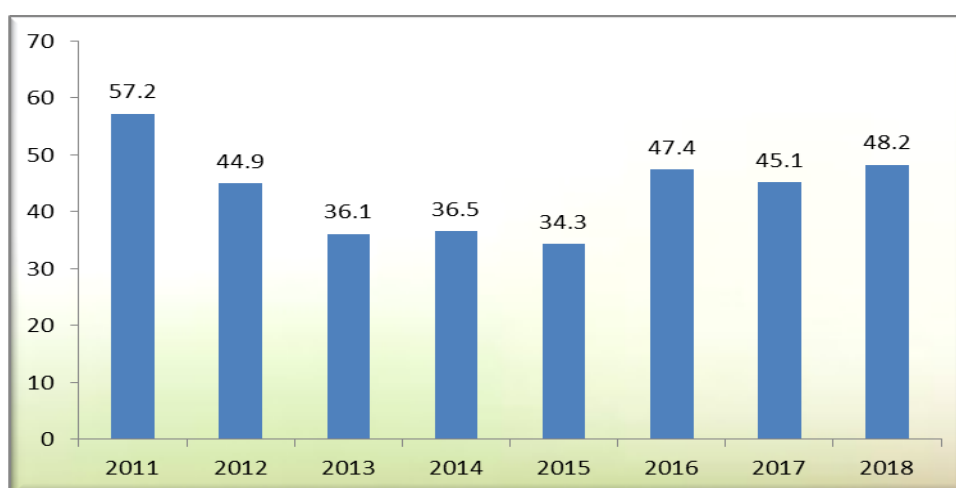
Table 6 Zimbabwe Performance Rating

	Enabling Environment				Human Capital		Markets				Innovation Ecosystem	
	Institutions	Infrastructure	ICT Adoption	Macroeconomic Stability	Health	Skill	Product Market	Labour Market	Financial System	Market System	Business Dynamism	Innovation Capacity
Sub Saharan Africa Score	47.5	46.3	29.6	66.9	48	43.4	50.4	53.8	50.4	38.8	51.1	28.4
Zimbabwe Score	43	43	33	65	38	48	38	50	50	37	41	26
Zimbabwe Rank	124	122	110	120	134	109	139	122	108	114	132	128

Source: World Economic Forum 2017

In terms of manufacturing capacity utilization, the sector witnessed a decline to an all-time low of 10% in 2008. Capacity improved to 57% in 2011 following the introduction of the multicurrency system. Thereafter, capacity utilization fluctuated, dropping to 34.3% in 2015, then rising to 47.4% in 2016 before registering a slight drop to 45.1% in 2017 (see figure 2.6). Average capacity utilization for the period between September 2017 and August 2018 rose by 3.1 percentage points from 45.1% in 2017 to 48.2% in 2018. The Zimbabwe National Industrial Development Policy targets manufacturing capacity utilization of 70% by 2023.

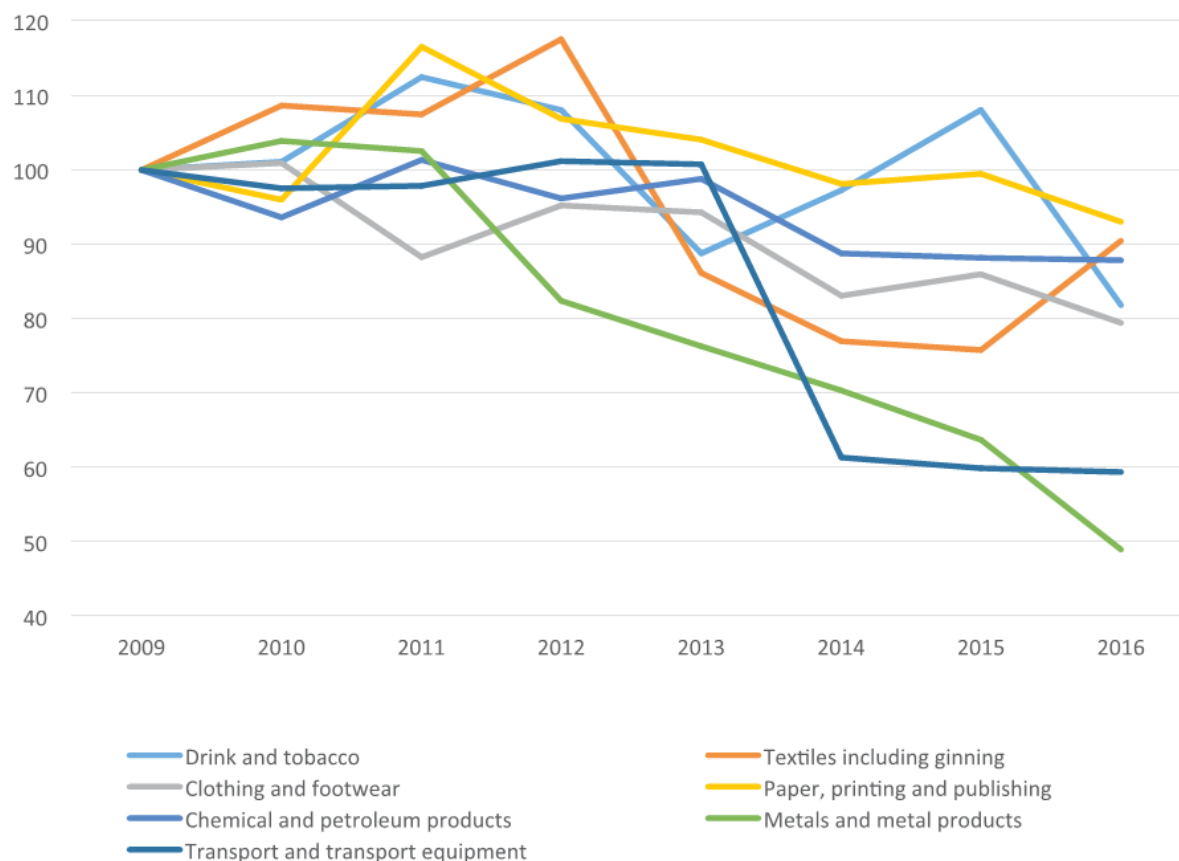
Figure 6 Manufacturing Sector Capacity Utilization



Source: CZI Manufacturing Sector Survey

Apart from low-capacity utilization levels, the manufacturing industry has also had a declining volume of manufacturing index (VMI). The industry had a VMI of 103 in 2011 but the index declined to 93 in 2016. Improvements were only witnessed in the Foodstuffs, wood and furniture and the non-metallic industries. The other 7 manufacturing sectors had a declining VMI.

Figure 7 Manufacturing Sub-Sector Capacity Utilisation



Source: Zimstats

2.4 The Role of Private Capital in Rejuvenating the Manufacturing Industry

Private capital either as FDI or private equity has been commended for investing in companies most of which banks will be unwilling to provide loans to. Of the total amount of loans availed by banks, only marginal amounts have been availed to start-up and SMEs and to distressed companies (the companies that need the funds most) and more funds have been given to big and mature companies.

The high costs of financial distress (through high financial risk) that come with bank financing especially to small and distressed companies (which is the common case in Zimbabwe's manufacturing sector) has made private capital financing more attractive. Private capital financing mostly provides both the capital and hands-on management and this results in the creation of efficient, innovative, productive, and competitive companies that are sustainable and thus stimulating economic growth (Lockett et al, 2008; Popov and Roosenboom, 2009; Ernst and Young, 2012; Frontier Economics, 2013).

In summary private capital results in the fostering of innovation, increase in investee company productivity, positively impacting on new businesses creation and creation of competitive businesses locally and internationally ultimately leading to economic growth (Shapiro, 2009; Frontier Economics, 2013).

2.5 Empirical Literature Review

Several studies have explored the determinants of private capital (either as private equity or FDI inflows in general and also specifically capital inflows into the manufacturing sector.

A study by Enu, Havi and Attah-Obeng (2013) in Ghana examined the determinants of foreign direct investment inflows. Like many African countries post-independence, Ghana experienced economic and political instability which resulted in erratic inflows of FDI. As was the case with Zimbabwe, the country implemented a number of policies including the Structural Adjustment Programme (SAP) in 1983, which Zimbabwe implemented a decade later. Findings of the study by Enu, Havi and Attah-Obeng (2013) indicate that foreign direct investment flows in Ghana, are significantly and positively impacted by currency depreciation as well as a greater level of trade openness. In the case of Zimbabwe greater a lot has been done to open up the economy to foreign investors. A number of policies and economic blueprints have been implemented in a bid to open up the economy. However, the Zimbabwean case has been unique compared to that of Ghana. The levels of economic instability reached unprecedented levels and differs in some way with that of Ghana especially noting the hyperinflationary period (2007-2008) and the case of sanctions that were imposed on Zimbabwe by key European nations and the United States of America.

A study by Majavi and Kapingura (2016) on the determinants of FDI inflows into South Africa found FDI being a function of the level of openness, the exchange rate movements, the rate of corporate tax and the size of the economy as measured by GDP. The authors applied the Johansen cointegration test and the VEC model to explore the determinants of FDI using quarterly data from 1980 to 2012. A similar study by Sikwila et al. (2012) in Botswana found FDI inflows being determined by GDP growth and trade openness. Though South Africa and Botswana are closely tied with Zimbabwe in terms of geographic closeness and trade relations, Zimbabwe differs significantly from the two in terms of the economic, political and industry specific factors. South Africa and Botswana have been relatively stable economically and politically and more developed. Zimbabwe on the other hand has experienced political and economic turmoil since independence, reaching a hyperinflationary period in 2007-2008. Politically the country has not been stable, democracy has not been achieved, and the country has been under sanctions from the Western European nations and the USA over violation of human rights. Thus results on the determinants of FDI in South Africa and Botswana thus cannot be generalised to the Zimbabwean case.

Lederman et al (2010) using data from 13 Southern African Developing countries (SADCs) to investigate the determinants of FDI in the region found labour costs, GDP, and trade openness, as the significant factors explaining FDI inflows. Morrisset (2000) provides evidence that gross fixed capital formation has a positive impact on FDI flows to Africa. A study on the determinants of foreign direct investment inflows based on data from 1980-2011 by Muzurura (2013) show that gross fixed capital formation, political stability, inflation, poor governance, corruption, policy inconsistencies and weak export competitiveness are the factors that significantly impact FDI inflows into Zimbabwe. Similarly, a study by Sikwila et al (2018) finds investment policy stability, inflation, trade openness, and growth in real domestic product to have a significant influence on the FDI inflows into the country.

Using a pooled OLS regression analysis of the determinants of FDI in Asian, African, and Latin American countries, Mottaleb and Kalirajan (2010) found out that the most significant determinants of FDI are the business environment, linkages with the global market through international trade and GDP growth. Findings by Mukim and Nunnekamb (2012), employing cross sectional logit and count-data models using data for the period 1991-2005 show that agglomeration, education, and infrastructure development are the significant positive

determinants of FDI. The results are consistent with the findings of Fonseca and Lamosas-Rosus (2018), who also found agglomeration and infrastructure development to be significant factors in the attraction of FDI.

Oino (2014), in a study of the macroeconomic and institutional drivers of private equity capital flows in emerging markets in Asia, using data from 2004 to 2013, applying the extreme bound analysis (EBA) technique, found out that private equity activity is driven mainly by high GDP growth rates, low rates of corporate taxes, high levels of investor protection and high levels of disclosure. They find lending rates, inflation, and legal costs to be likely robust determinants of private equity capital flows.

A study by Uddin et al (2016), on the role of private equity on the development of India's manufacturing sector, found out that one of the factors hindering manufacturing firms to get private equity funding is the issue of mismatches between fund requirements and what private equity firms are willing to provide. On a national level, a study by Kelly (2010) in a panel study of 17 countries in Europe, using a system GMM estimation model found out that, private equity investment inflows are influenced positively by the capitalization of stock markets, the tax and legal environment, the level of innovation and negatively by the unemployment rate. The results of their study also reveal that employment protection, research and development expenditure and fiscal research as well as development incentives had no significant impact on private equity investment activity.

Results of a study by Jenilek (2013) on the factors determining the level of private equity fundraising and investment inflows in central and eastern Europe and western Europe, using two data sets from 2002 to 2011 and OLS panel regression, points out that private equity activity is driven by market capitalization of stock markets and research and development. The results of the study thus are in support of the results by Meyer (2006a) and by Clarysse et al (2009) who also found both stock market capitalization, and research and development significant. The study also highlights interest rate levels and GDP growth to be insignificant in driving private equity fundraising and investment activities.

Proharovs and Pavlyuk (2013), in their study looking only on the potential economic drivers of private equity capital inflows, using regression and factor analysis, found a significant positive bi-directional causal relationship between private equity and research and development. The

study results also show that the level of private equity investment activity is significantly and positively affected by the level of economic development supporting the results of Gompers and Lerner (1998) and Groh and Liochtenstein (2009), as well as the level of IPO development (supporting results by Jeng and Wells (2000), Meyer (2006a). The study identified the level of de-investments to have a negative impact on private equity fundraising.

Bernorth and Colavecchio (2014) in their investigation the determinants of private equity capital flows in Europe and specifically investigating the common and differing drivers of private equity capital flows between Central and Eastern Europe and Western Europe, using EBA and panel regression techniques, found out that the level of development of the local stock market, the cost of labor, corporate tax rates, labor union strength, the level business confidence, short-term interest rate, GDP growth. GDP per capita and the level of commercial bank lending are the significant determinants of private equity capital flows.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a systematic blueprint detailing the research process from primary and secondary data collection to the analysis of the collected data. Specifically, the chapter outlines the research design and philosophy followed, sources and scope of the study variables data as well as the estimation model to be employed to analyse the data in line with the main research objective of determining the main factors constraining the flow of foreign private capital to local manufacturing firms. Justifications and or logic behind the set of methods employed in answering the research questions are also presented.

3.2 Research Approach and Design

The study employs a mixed research approach which entails use of both quantitative and qualitative research methods. A quantitative research approach entails the use of consistently logical scientific data collection and analysis methods that ensure elimination of bias and achievement of maximum possible objectivity through basing analysis data and results based on observed facts. A qualitative approach on the other hand involves the collection and analysis of qualitative data, the objective being to get deeper insights into a phenomenon as well as to generate new ideas.

The first objective of the study was to determine the macro-economic factors constraining the flow of private capital into Zimbabwe's manufacturing sector. Determination of these significant macro-economic variables required gathering of quantitative data (on FDI inflows, infrastructure development, GDP growth, business freedom and the like), and application of quantitative data analysis techniques to analyse this data and inspect the impact of each variable. A quantitative research approach was thus employed to answer this research objective. The second and third objectives of the study were to identify the industry specific constraints to, and the benefits of foreign private capital flows into Zimbabwe's manufacturing sector. This required gathering of data on the sources of financing utilised by manufacturing companies, the type of capital sourced, and the challenges faced. Both quantitative and qualitative insights were gathered to get a full view of the nature of factors constraining private capital inflows into the manufacturing sector. Thus, both a quantitative and qualitative approach were required to analyse the data.

3.3 Data Collection and Instruments

The study will make use of both primary and secondary data. The data relates to sector specific (primary data) and economy wide (secondary data) challenges facing manufacturing companies in attracting foreign private capital.

Secondary annual data for macro-economic variables and political and governance indicators (from 1995 to 2018) will be gathered from the ZIMSTATS and World Bank economic and governance indicators. Data on these variables is available on a year-on-year basis and the researcher chose to use yearly frequency data. Though the data was over a relatively short period, statistical conversion to higher frequency data was led to a higher degree of serial correlation amongst the regressors. The variables for macro-level analysis are as presented in table 7.

Table 7 Macro Analysis Variables

Variable	Variable Measurement and Description	Hypothesized Relationship
Foreign Private Capital Flows (fdi)	This is the dependent variable of the study. Foreign private capital comprises of FDI, foreign portfolio equity and foreign debt. However, this study will only use FDI as a proxy for foreign private flows into the manufacturing sector. The variable is expressed as a percentage of GDP.	N/A
Consumer Price Index (cpi index)	Is an indicator of the rate of increase in the general price level? In this study, the CPI index (GDP deflator) is used to measure overall economic stability where a higher value indicates high inflation and instability. Average inflation might be associated by a booming economy. Studies by Blomstrom and Kokko, (1998), and Greene and Villanueva (1991) have used this variable as a potential determinant of FDI.	-/+

Easy of Doing Business/ Business Freedom index (BFindex)	Indicates bureaucratic and legal hurdles faced by investors wishing to invest in the country. The index ranges from 0 to 100, with a value closer to 100 indicating higher business freedom. Schneider and Frey (1985) and Kimura and Todo (2010), Mottaleb and Kalirajan (2010)	+
Government Effectiveness Index	Is a measure of public service quality, policy formulation and implementation, and the credibility of the government in upholding the quality of these processes. The index ranges from -2.5 (less effective) to +2.5 (highly effective). Schneider and Frey (1985), Kimura and Todo (2010), Mottaleb and Kalirajan (2010)	+
GDP Growth	Measures the rate of economic growth. UNCTAD, 1998 and Kinda, 2010	+
Infrastructure Development (ID)	The variable measures the state of infrastructure development (in transport, energy, information and communication technology, water and sanitation and the like) in a country.	+
GDP per Capita	Measures how developed a country is. UNCTAD, 1998; Kinda, 2010	+/_

Source: Author's Compilation

A questionnaire was used as the research instrument for primary data collection. The questionnaire was divided into 4 sections. Section A focuses on the business background to explore issues including company size and years of operation. Section B focuses on the

financing sources being utilized by Zimbabwean manufacturing companies. Section C explores the perceived benefits of getting financing in the form of foreign private capital. Section D looks at the industry specific factors constraining local manufacturing firms to access foreign private financing. The questions were derived from literature and current trends and manufacturing sector reports. The questions were structured in a 'multiple choice questions' format with some being 'tick one' questions and some being 'tick all appropriate' questions. Also attached to the questionnaire was a consent form requiring the respondent's signature as well the instructions.

The study focused on the manufacturing companies in Willovale, Workington and Graniteside industrial areas in Harare. The researcher distributed 30 questionnaires to companies that would have agreed to participate in the study. The questionnaires were distributed via emails for convenience especially given the Covid-19 imposed restrictions on travel and gatherings. The email method is quick and effective at reaching a wider audience (Collis & Hussey, 2003). According to Szwarc (2005), the email method has several disadvantages, for example, non-response bias and the uncertainty of who responded to the survey. Furthermore, respondents may want to remain anonymous and hence do not want to return a questionnaire from their email address (Collis & Hussey, 2003). The researcher did telephone follow ups to check and assist respondents in completing the questionnaire.

3.4 Population and Sampling

The population of the study, in the analysis of industry specific constraints and the benefits of foreign capital, comprised of manufacturing firms in the Willowvale, Workington and Graniteside industrial areas. These industrial areas are located in Harare and are the three biggest industrial areas in the country and houses a wide range of manufacturing industries ranging from agro-processing, automotive, furniture manufacturing, welding and fabrication, construction and metals and mining. Purposive selection of respondents was done to pick the best units or companies that could provide as much detail as possible. The study employed purposive sampling because of its practicality and effectiveness as it allows the researcher to logically select target companies that can give the required insights concerning sector specific challenges constraining the manufacturing sector in attracting the much-needed private capital.

3.5 Data Analysis

The study seeks to answer 3 questions namely, a) what are the economy wide factors that are constraining the country to be a favourable investment destination for foreign private capital flows? b) what are the sector specific factors that are affecting companies in the manufacturing industry in attracting foreign private capital? and c) what benefits can the local manufacturing sector drive from foreign private capital financing? Macro-level co-integration and causality analysis was employed to answer the first research question and questionnaire response analysis using charts and cross-tabulations was employed to answer the second and third research question.

3.5.1 Macro Level Analysis

Macro level analysis was employed to explore the determinants of foreign private capital flows into Zimbabwe's manufacturing sector. Firstly, diagnostic tests for stationarity, multicollinearity, and serial correlation were conducted. This was done to ensure assumptions to statistical analysis of stationarity, no serial correlation and no multicollinearity were met. Meeting these assumptions ensures the reliability and validity of statistical analysis and the research findings thereof.

● Stationarity Tests

Stationarity test is the initial step in macroeconomic analysis. The objective of this test is to determine whether the variables under study are stationary or not (Garidzirai, 2019). The assumption of stationarity in the data used is essential for the analysis of time-series data. The significance of the stationarity of data in time series analysis lies in the fact that the conditions of constant covariance, variance, and mean need to be satisfied to ensure the accuracy of the estimated models and conditions. To achieve this objective, the econometrics literature prescribed the Augmented Dickey Fuller (ADF) test (Gujarati, 2009; Said & Dickey, 1984). Equation 1 below illustrates the Augmented Dickey Fuller (ADF).

Where δ represents the vector of deterministic terms while α represents the ARMA structure of the errors. In addition, ϵ_t is an error term which is assumed to be homoscedastic. Equation 2 shows the null hypothesis and an alternative hypothesis.

The ADF test assumes non-stationarity as a null hypothesis, therefore, a probability of less than 10 percent rejects the null hypothesis. This means a probability of less than 10 percent confirms the stationarity of a variable and a probability of more than 10 percent confirms the non-stationarity of a variable. Mazenda (2012) further posits that stationarity tests determine the order of integration that is used to ascertain the actual research methodology to be used in the study. The rule of thumb is that an Ordinary Least Squares (OLS) be employed if the variables under study are integrated at levels while an Autoregressive Distributed Lag (ARDL) model can be employed when the variables are integrated at different levels: a combination of $I(0)$ and $I(1)$ (Mohapatra, Giri & Sehrawat, 2016; Mongale, 2016 Tursoy, 2019). A Vector Error Correction Model (VECM) and Vector Autoregression (VAR) are deemed fit if all the variables are integrated at $I(1)$ (Bonsu & Muzindutsi, 2017; Garidzirai & Nguza-Mduba, 2019).

Stationarity test performed indicated that the variables were not stationary at level but became stationary at first difference. The error term was found to be stationary at level. Thus the variable series were integrated of order $I(1)$. Stationarity test results formed the bases for the use of cointegration tests and running a VEC Model (Bonsu & Muzindutsi, 2017; Garidzirai & Nguza-Mduba, 2019). A long run relation can be assumed in the model despite the fact that the series are drifting apart or trending either upward or downward.

● Cointegration test

Cointegration is a statistical test used to establish if a long-run relationship exists among the variables under study (Engle and Granger, 1987). The purpose of this test is to check if the variables (FDI, GDP growth, GDP per capita, infrastructure development, business freedom, and government effectiveness) are integrated in the long-run. Since all the variables in this study are integrated at the same level, a Johansen cointegration was deemed fit (Bonsu & Muzindutsi, 2017). There are two main reasons why the Johansen cointegration test is considered appropriate. First, the Johansen cointegration can identify many cointegrating vectors and it is considered one of the most appropriate cointegration for multivariate analysis (Wassell & Saunders, 2008). Second, Johansen cointegration assumes all variables as endogenous variables. Several studies such as Asaduzzaman (2019), Meyer, Manete &

Muzindutsi (2017), Pasara & Garidzirai (2020), Reza, Hongzhong & Wang, Bhuiyan & Adnan (2018) have used the Johansen cointegration with the variables that are integrated at the same order 1(1).

Worth mentioning is that the Johansen cointegration is composed of two tests namely the trace tests and Maximum Eigenvalue. The trace tests and the Maximum Eigenvalue assess the number of linear relationships in the variables under study. Banerjee et al. (1998) elucidated that trace test assesses the null hypothesis of (r) cointegrating vectors vs (n) cointegrating vectors. On the other hand, the Maximum eigenvalue test assesses an alternative hypothesis of (r + 1) cointegrating vectors. All these cointegration tests set their null hypothesis on no cointegration. The rule of thumb is to reject the null hypothesis of no cointegration if the probability values are less than 10 percent. The rejection of the null hypothesis implies the existence of a long-run relationship among the variables.

● **Vector Error Correction Model**

If the variables are cointegrating, a Vector Error Correction Model (VECM) is used to estimate the short-run analysis. The econometrics literature emphasizes the importance of the Error Correction Term that it should be negative, below 1 and its probability value should be below 5 percent (Garidzirai, Meyer & Muzindutsi, 2019). The size of the coefficient indicates the speed of adjustment, where a value closer to -1 indicates a higher speed of adjustment and a value closer to 0 indicates a low rate of adjustment towards the long run equilibrium. A positive value indicates a case where the system diverges from the long running equilibrium. The VECM equation(s) are illustrated below:

Where ΔY_t represents the change in FDI, and ΔX_t represents the change in the model explanatory variables. The parameters α_Y and α_X measure the speed of adjustment of X_t and Y_t , towards the long-run equilibrium. μ_{Y_t} and μ_{X_t} are stationary white noise processes for some number of lags l .

● **Granger Causality test**

Since one of the objectives is to determine the casual relationship among the variables, a Granger Causality test was. This test was used to determine if one variable is effective in explaining another variable (Gujarati, 2004). The rule of thumb is to accept the null hypothesis when the probability value is more than 5 percent. This implies that the variables do not granger cause each other. The Granger Causality equations are shown in the equations below:

Where, δ_1 and δ_2 are drifts. The coefficient α is relevant for testing Granger causality running from y_{2t} to y_{1t} while the coefficient π is appropriate for Granger causality test running in the opposite direction. Four findings are possible in a Granger causality test. First, neither variable Granger causes the other. In other words, independence is suggested when the set of Y_{1t} and Y_{2t} coefficients are not statistically significant in both regressions. Second, unidirectional causality from Y_{2t} to Y_{1t} , which means Y_{2t} causes Y_{1t} but not vice versa. Third, unidirectional causality from Y_{1t} to Y_{2t} that means Y_{1t} causes Y_{2t} but not vice versa. Fourth, bilateral causality between two variables, which means Y_{1t} and Y_{2t} Granger cause each other (feedback effect).

According to the above equations, the null hypothesis that Y_{2t} does not Granger causes Y_{1t} is rejected if the coefficients of α in equation (1) are jointly significant. The null hypothesis that Y_{1t} does not Granger causes Y_{2t} is rejected if the π_i s are jointly significant in equation (2). If in both equations some $\alpha_i \neq 0$ and some $\pi_i \neq 0$ then there is feedback between Y_{1t} and Y_{2t} . Usually, the standard F-test is used to determine the joint significance and hence the causal relationship between variables.

Diagnostic Tests

After performing the granger causality test, the final step was to check the robustness of the results using the diagnostic tests. These include the serial correlation and normality tests. The

serial correlation is the relationship between the current value of a variable and its past values. If serial correlation is detected, there is potential of producing biased regression coefficients. To test for serial correlation, a Breusch-Godfrey Serial Correlation LM test was employed with the null hypothesis of no serial correlation. If the probability values are more than 10 percent, then the model is free from serial correlation.

3.5.2 Industry Level Analysis

The study questionnaire covered three areas that is, the investigation of sources of financing utilised by manufacturing companies across firm size and age, the challenges faced in attracting foreign private capital and key benefits of private capital to manufacturing companies. To analyse the questionnaire responses, the study made use of descriptive statistics including the mean and, mode (measures of central tendency) and the range and standard variation (measures of variation). Cross tabulations were used to do cross examination of challenges and funding characteristics across firm size and years in operation. IBM SPSS Statistics and Microsoft Excel were used to quantitatively analyse questionnaire responses.

3.6 Validity and Reliability

The study sought to address all validity requirements (construct validity, content validity and criterion-related validity) and ensure the soundness and or correctness of the research. Validity was addressed in both the design of research instruments and the research methods. The construction of the questionnaire was done in line with literature and the economic landscape in Zimbabwe. A pilot study was also done to improve the questionnaire. Five questionnaires were pre-tested with fellow students and five with industry experts. Results of the pilot test were used to refine the questions, add questions, and remove questions which were considered biased or not important. This ensures that the questions actually measure what they are intended to measure, and they relate to the dependent or outcome variable. Reliability requirements (test-retest reliability, internal consistency, and interrater reliability) were addressed through aligning the research questions with literature and through carrying out a pilot study.

3.7 Research Limitations

The main limitation to this research is related to the issue of a small sample size. In Zimbabwe, there is no publicly available database of manufacturing sector companies. This made it difficult to come up with a sample with many manufacturing sector companies. The researcher had to rely on extensive internet search to get names of manufacturing sector companies and most of the companies do not have working websites with contact addresses and emails. This coupled with restrictions on movement due to the coronavirus pandemic made it difficult to come up with a large sample. The study, in the analysis of the data incorporated the issue of a smaller sample size and followed procedures that are in line with a smaller sample.

3.8 Research Ethics and Data Credibility

The study followed the research ethical principles of voluntary participation, informed consent, no harm, privacy, anonymity, and confidentiality as outlined in the University of Cape Town (UCT) code of ethics. The researcher seeks to take all the necessary steps to ensure the outlined ethical principles were upheld from data gathering to reporting of the analysed results. The study also references any piece of work that is not the researcher's own in line with the University's rules on plagiarism.

3.9 Chapter Summary

The chapter outlined the research methodology to be employed in the analysis of the macro and institutional factors constraining the flow of foreign private capital into Zimbabwe's manufacturing sector. The study employs a mixed research approach in line with other prior studies. The chapter to follow presents the research findings and the related interpretation of the results thereof.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the research findings regarding the firm specific and macro factors constraining the inflow of foreign private capital into the country's manufacturing sector. These were the two overarching objectives of the study. Quantitative questionnaire response analysis was employed to determine the firm specific factors and regression analysis to determine the macro factors. In this chapter, the focus is on the presentation of data and interpretation of the findings. It presents the analysis of the data ending with the regression analysis results. The results are presented, analysed, and compared with other similar prior studies on the subject.

4.2 Macro Level Analysis

The study employed quantitative analysis to investigate the macro factors constraining the flow of private capital flows into the local manufacturing sector. The study used FDI inflows as a proxy for private capital inflows into the manufacturing sector.

4.2.1 Analysis of Descriptive Statistics

The summary statistics including the mean, standard deviation, range and the Jarque Bera normality test results, for all the research data (7 variables for the period 1995 to 2018) are presented in Table 8. The results show that on average Zimbabwe receives foreign direct investment inflows worth 1% of the country's GDP annually. The FDI (expressed as a percentage of GDP) inflows exhibited low fluctuations as shown by the small margin between the maximum of 2.8% and a minimum of 0%. The low standard deviation metric of 0.009 also

confirms the little variation in FDI inflows. This can be a signal that there has not been any significant change in the fundamentals that determine FDI inflows.

The null hypothesis of non-normality for all variables is rejected except for the consumer price index variable. This is because of the high inflationary periods the country experienced from 2006 to 2008. All the other variables have probability values greater than 5% implying normality of the data. Thus, it can be concluded that the sample data used in the study was normally distributed since the Jarque-Bera p-value is more than 5 percent, thereby accepting the null hypothesis of normality.

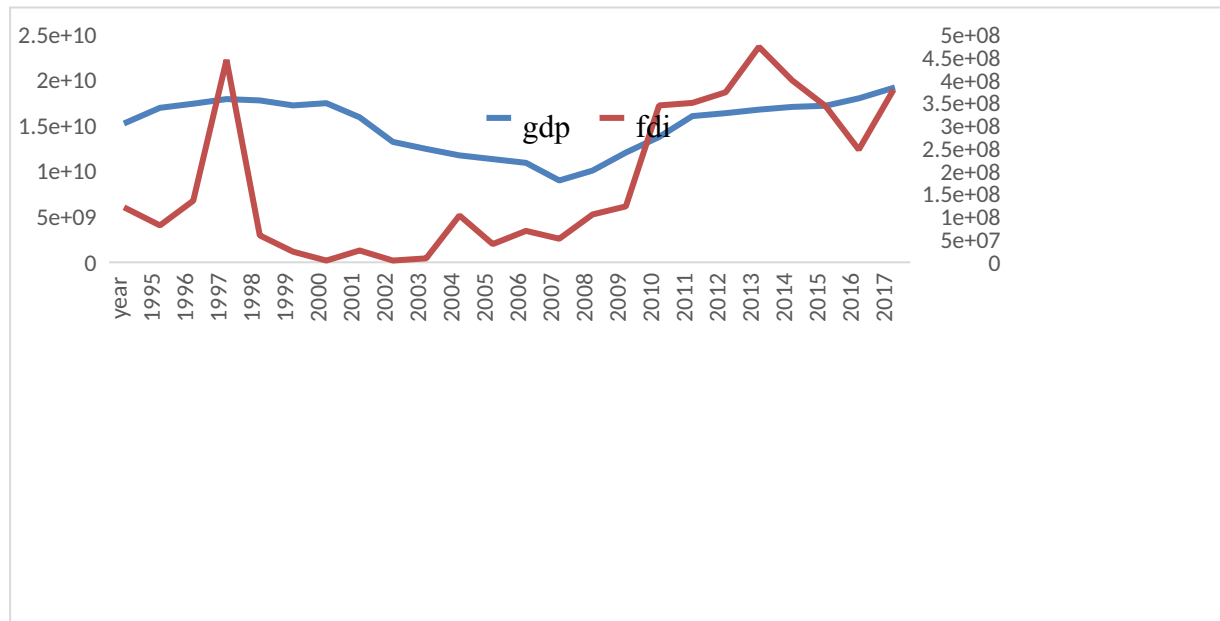
Table 8: Descriptive Statistics

VARIABLE	Mean	Max	Min	Std. Dev.	Jarque Bera Prob.
FDI	0.0113	0.0282	0.0002	0.0093	0.2944
Business Freedom	44.792	55.000	30.000	10.050	0.2193
Inf. Development	22.180	24.720	19.040	1.5589	0.6991
GDP per Capita	861.76	1683.7	356.69	435.94	0.2203
GDP Growth	0.0132	0.1967	-0.1767	0.0920	0.9926
Government Effectiveness	-0.5461	-0.1440	-0.8927	0.1844	0.7575
Consumer Price Index	158.94	439.94	97.055	89.555	0.0001

Source: Author's Compilation

FDI inflows have not been consistent as illustrated in Figure 8. The period 1999-2008, experienced the lowest levels of both FDI inflows and GDP. For this period FDI flows were below US\$150 million. Post 2008, the FDI flows peaked and the economy expanded as well owing to economic and political stability.

Figure 8: FDI vs. GDP -1995-2018



4.2.2 Correlation Analysis

Correlation analysis among the variables used in this study is presented in Table 4.5.

Table 9 Correlation Test Results

	ID_INDE X	BF_INDE X	GDPGR	GDPPC	GE_INDE X	CPI_INDE X
FDI	0.481	-0.645	0.489	0.766	-0.54	-0.426
p-value	0.017	0.001	0.015	0.000	0.006	0.038

Source: Eviews Output

The results show the presence of a strong positive relationship between FDI and gross domestic product per capita with a statistically significant correlation coefficient metric of 0.77. The gross domestic product is a proxy or measure of the level of demand in an economy. The results thus show that high levels of aggregate demand are associated with high levels of FDI and that high levels of FDI are associated with high levels of GDP per capita.

The correlation analysis results also show that infrastructure development and the level of economic growth have a positive relationship with capital inflows with correlation coefficients of 0.488 and 0.481 respectively. The coefficients are statistically significant with probability

values of 0.015 and 0.017 respectively. Contrary to common parlance, results show the presence of a negative relationship between FDI and business freedom and government effectiveness with negative correlation coefficients. However, it must be noted that correlation does not imply the presence of a causal relationship between variables hence the need to perform regression analysis. The correlation coefficients between the explanatory variables are less than 0.8, suggesting that there is no problem of multicollinearity among the variables. Therefore, the model did not drop any of the variables.

4.2.3 Stationarity Tests

This section reports the ADF stationarity test and the results are shown in table 2. The results illustrate that BF_INDEX, ID_INDEX, GE_INDEX, CP_INDEX, GDPPC, GDPGR and FDI probability values are more than 10 percent at level, thus, all the variables were not stationary at levels. All these variables were first differenced and became stationary at first level, implying that the variables used in the study are integrated at level one 1(1).

Table 10: ADF Test Results

Variable	@ Level		@ First Difference	
	t-stat	p-value	t-stat	p-value
FDI	-1.9207	0.3175	-6.3244	0.0000***
BF INDEX	-0.936	0.7578	-4.1501	0.0043***
ID INDEX	-1.9455	0.307	-5.8951	0.0001***
GDPPC	0.6862	0.989	-3.2481	0.0305**
GDPGR	-2.591	0.1091	-5.7428	0.0001***
GE INDEX	0.2434	0.9688	-7.85177	0.0000***
CPI INDEX	-1.6245	0.7653	-4.9082	0.0000***

Source: Author's compilation; **, *** represent 5 % and 1 % level of significant

As also mentioned in the previous chapter that when the variables are integrated at the same order, a Johansen cointegration is deemed fit. This is supported by several authors such as Garidzirai (2020), Asaduzzaman (2019), Meyer, Manete & Muzindutsi (2017), Pasara & Garidzirai (2020), Reza, Hongzhong & Wang, Bhuiyan & Adnan (2018). Therefore, the next step is to conduct the cointegration analysis using the Johansen Cointegration procedure.

4.2.4 Cointegration and Causality Test

Stationarity test performed indicated that the variables were not stationary at level but became stationary at first difference. The error term was found to be stationary at level. Thus, the variable series were integrated of order 1. Since the variables are integrated at order one, a Johansen cointegration test was performed and the results are reported in this section. The Johansen Cointegration test results are presented in **Table 11**

Table 11 Cointegration Test Results

Hypothesized	Trace		Max Eigen	
No. of CE(s)	Statistic	P-Value	Statistic	P-value
None	303.5639	0.0000***	133.1260	0.0000***
At most 1	170.4380	0.0000***	74.7531	0.0000***
At most 2	95.68481	0.0001***	37.6031	0.0017***
At most 3	58.08176	0.0041***	25.0170	0.1029
At most 4	33.06479	0.0203**	20.3515	0.0640*
Trace test indicates 5 cointegrating eqn (s) at the 0.05 level				

Source: Eviews Output

The trace test results indicate that there are 5 cointegrating equations significant at the 5% level. This is shown by the probability values that are less than 5 percent, rejecting the null of no cointegration. Furthermore, the Maximum Eigen Value results show 3 cointegrating equations significant at 5% level. This is illustrated by the probability values that are less than 5 percent rejecting the null hypothesis of no cointegration. Therefore, the study thus rejects the null hypothesis that there is no co-integration and concludes that there are 5 cointegrating equations. It can thus also be concluded that there is a long-run association amongst the variables FDI, business freedom, GDP per capita, GDP growth, infrastructure development, and inflation.

Table 12 Normalized Cointegration Coefficients

	Coeff	Std Errors	t-statistic	P-values
ID_INDEX	0.0631	-0.0013	-48.54	0.000
BF_INDEX	0.0039	-0.0002	-19.20	0.000
GDPGR	1.1908	-0.0247	-48.21	0.000
GDPPC	-0.0001	-0.00001	-10.00	0.000
GVTEFF_INDEX	0.1461	-0.0082	17.82	0.000
CPI_INDEX	0.0006	-0.00004	15.00	0.000

**P-value is calculated using T-statistic and 17 degrees of freedom (sample size(N)-1)*

Source: Eviews Output

Since the long run has been established, the following equation illustrates the long-run relationship among the variables.

The cointegration equation (vi) illustrates a positive relationship between infrastructure development and FDI. The results reveal that a 1 percent increase in the infrastructure development increases FDI by 0.06 percent. This result was expected since the construction of basic infrastructure stimulates economic growth, improves competition and competitiveness of Zimbabwe. The result is in sync with the studies done by Mukim and Nunnekamb (2012) and Fonseca and Liamosas-Rosus (2018). The authors posit that infrastructure development is the vehicle to FDI.

Likewise, business freedom was found to be positively influencing FDI. This result was expected and a 1 percent increase in business freedom increases the FDI by 0.06. Worth mentioning is that when the business confidence is high, the foreign investors invest more in that country both in the short-run and long-run. The results are also in line with studies done by Mottaleb and Kalirajan (2010), Muzurura (2013) and Bernorth and Colavecchio (2014) who found out that business confidence is one of the significant determinants of FDI. An increase in the government effectiveness was found to be positively influencing FDI. This result was expected and an increase in the government effectiveness by 1 percent increases the FDI by 0.14 percent. A government that puts good policies and implements them attracts the FDI. The coefficient for government effectiveness is also statistically significant showing that public service quality, policy formulation and implementation and the credibility of the government in upholding the quality of these processes plays a huge role in incentivizing capital inflows.

The statistically significant and positive coefficient for economic growth rate (GDPGR) was highly expected. The results show that a 1% increase in GDP growth will result in a 1.2% increase in investment inflows. Fast growing economies offer high returns to investment and thus incentivizes capital inflows into the country. The significance of economic growth in attracting FDI is well documented in research literature with authors including Mottaleb and Kalirajan (2010), Sikwila et al (2018), and Bernorth and Colavecchio (2014). On the other

hand, the results show that the level of economic development of a country, as measured by GDP per capita has a negative impact on FDI inflows. The coefficient of 0.0001 however is very small implying a relatively minimal impact relative to the other variables. The same applies to inflation as measured by the consumer price index. The variable has a positive impact but with a very small regression coefficient of 0.006.

The study results imply that for the country to attract more inflows of foreign capital, there is need for the development of the country's infrastructure (telecommunications facilities, transport networks, energy, and water infrastructure), improved government effectiveness and creating a business environment where businesses can thrive. Better infrastructure, business freedom and government effectiveness thus make the country a good long-term destination for foreign capital. `

4.2.5 Vector Error Correction Model

After the establishment of the long-run relationship, a VECM was estimated. The purpose of a VECM estimation is to capture the short-run relationship adjustments and the results are illustrated on table 13.

Table 13: VECM Results

Variables	Coefficient	Standard error	t-statistic	p-value
ECT	-0.968	0.2215	-4.3698	0.0005

Source: Eviews VECM Output

The results indicate a negative error correction term (ECT) coefficient of 0.97 that is statistically significant with a probability value of 0.005. A negative and significant ECT indicates that all the disequilibrium of FDI can be corrected in the long term. It implies that any source of disequilibrium in the model is short-term and will revert to the equilibrium. This is confirmed by an ECT of -0.97 and which is closer to -1 than to 0. This implies that the system speedily adjusts to the long run equilibrium.

As aforementioned, the system speedily adjusts or reverts to the long run equilibrium. Thus, the only deviation from the long-term equilibrium is due to short run deviations and will correct back to the long term equilibrium. The individual variables have statistically insignificant p-

values except for the infrastructure development variable. Thus, it can be concluded that in the short run the impact of each individual variable is statistically insignificant. The focus of this study is however on the long run dynamics which affect policy formulation.

4.2.6 Granger Causality

The test was used to establish the causal relationships between FDI and the explanatory variables. The results are as presented in table 14.

Table 14: Granger Causality Results

Null Hypothesis	Prob. of F-Statistic
Business freedom does not Granger cause FDI	0.0357
GDP per capita does not Granger cause FDI	0.0356
FDI does not Granger cause infrastructure development	0.005

Source: Author's Compilation from Eviews Output

Causality test results show that variables business freedom and GDP per capita have a causal impact on FDI and thus are useful in forecasting FDI. The F-statistics are statistically significant at the 5 percent level. This implies that changes in the level of business freedom leads to changes in FDI. In respect to GDP per capita the results imply that the size of the economy has an impact on FDI inflows, and the relationship is uni-directional with FDI having no impact on GDP per capita. The non-impact of FDI on GDP per capita can be due to the nature of the FDI flowing into the country. The results show that infrastructure development is a result of FDI more than FDI is a result of infrastructure development.

4.2.7 Model Robustness Test

The researcher performed a goodness of fit test to check the robustness on research results. An OLS regression was used to test the adequacy of the model, without taking into consideration the stationarity of variables. Model summary regression results are as presented in **Table 15**. It is important to note that there is no consensus in statistical analysis as to the recommended level of R-squared. Chin (1998) argues that a value greater than 0.67 can be considered substantial and between 0.33 and 0.67 can be considered moderate. On the other hand, Hair et.al. (2011)

and Hair et.al (2013) consider R-squared values of 0.75, 0.5, and 0.25 as substantial, moderate, and weak, respectively. The results show that the model has an R-squared value of 64.40% and an adjusted R-squared of 51.82%.

Table 15 Goodness-of-Fit Test Results

Statistic	Value
R-squared	0.6440
F-statistic	5.1244
Prob(F-statistic)	0.0036

Source: EViews Output

Therefore, the model can be deemed good and fit because variations in the model predictor variables can explain 64% of the variations in capital inflows as measured by FDI. There are numerous variables that affect FDI and given that the data span across just 25 years, adding additional variables was not considered, though that would possibly improve the R squared. The results are statistically significant with p-value of 0.004 for an F-statistic of 5.12.

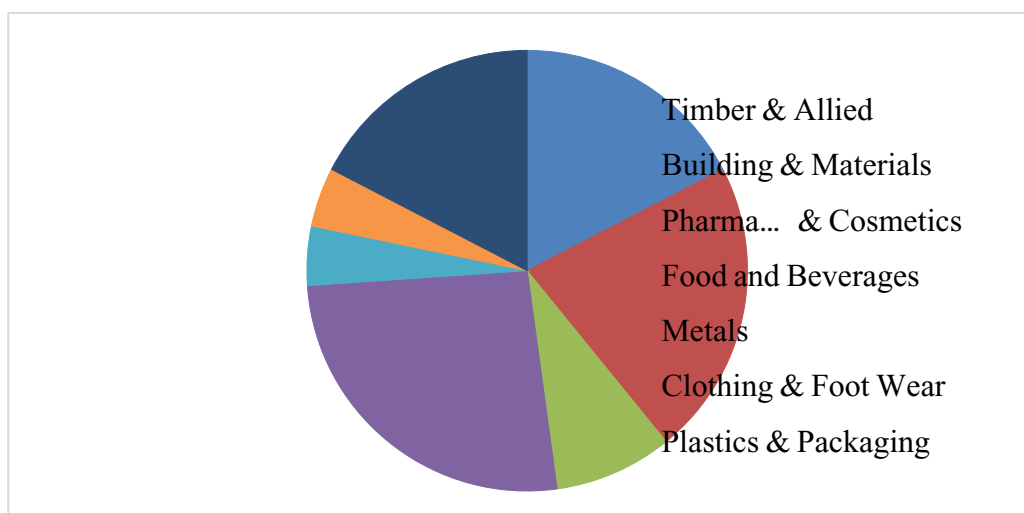
4.3 Industry Level Analysis

The study employed questionnaires to get an insight into the industry specific challenges affecting the ability of manufacturing firms in Zimbabwe to attract foreign private capital. Questionnaires were also used to understand how foreign private capital can be of significant benefit to manufacturing companies over the other more traditional local sources of capital.

4.3.1 Preliminary Results

The researcher distributed 30 questionnaires and 23 were successfully completed. These were used for analysis. The questionnaires that were returned constituted 77% of the total sample size. Table 4.1 shows the response rate from the questionnaires that were distributed by the researcher. The response outcome of the research was considered modest by the researcher and valid to represent the total sample and ensure validity and reliability of the research findings.

Figure 8: Respondents by Subsector



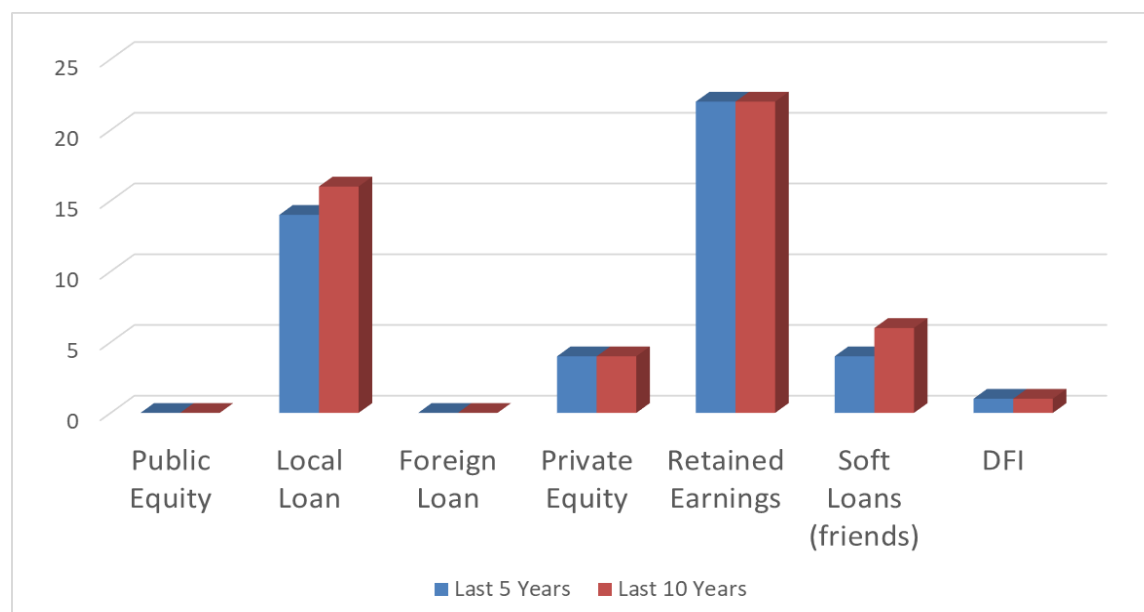
Source: Author's Compilation

The responses were from companies in the food and beverages sub sector (26%), building and materials (22%), plastics and packaging (17%), timber and allied products (17%), pharmaceuticals and cosmetics (9%), clothing and footwear (4%) and the metal and metal products sub-sector (4%). In terms of company length of operation, 7 were in operation for 5 years and less, 5 companies for 6-10 years and 11 companies had been in operation for 11+ years at the time of the survey. Thus, most of the companies were relatively companies that had been in the market for a longer period.

However, in terms of the size, most of the companies were small to medium companies with only 5 companies employing 200+ employees. Of the 23 companies, 11 reported that they are in the export market exporting a range of products and 12 are only covering the domestic market. Most companies however expressed commitment to expanding into the export market in future. 63% of the companies agreed that lack of financing is a factor that has hindered their productivity and growth. Companies highlighted that, because of lack of funding, they cannot meet their working capital requirements following the liquidity crisis crippling the banking sector. Lack of funding is also limiting the capacity of companies to invest in capital expenditure. Results show that most companies are in need for both short-term working capital funding and long-term financing to fund company growth. The main sources of funding for

manufacturing companies have been retained earnings and local bank borrowing.

Figure 9 Source of Funding Utilised



Source: Author's Compilation

All companies reported utilizing retained earnings in the last 10 years and ranked as the mostly used source of both in the last 5 years and the last 10 years. Local bank loans were the second most used source of funding. However, loans have been mostly used by the big companies with the small companies relying on soft loans from family and friends. Of the 23 respondents, 1 company has also been a recipient of funding from development finance institutions. Of the survey companies, only 4 utilized private capital and none of the surveyed companies had utilised public equity and or foreign loans.

Table 16: Funding Source by Firm Size in the last 5-years

	Public Equity	Local Loan	Foreign Loan	Private Equity	Retained Earnings	Soft Loans (friends)	DFI
Small	0%	30%	0%	10%	100%	40%	40%
Medium	0%	88%	0%	13%	88%	0%	0%
Large	0%	80%	0%	40%	100%	40%	40%
Weighted Average	0%	61%	0%	17%	96%	26%	26%

Source: Author's Compilation

As illustrated in table 17 retained earnings were the most common source of financing across all firm sizes. For small companies, the next common alternatives were soft loans from friends and relatives, financing from development finance institutions and local bank borrowings, respectively. For medium and large manufacturing companies the case is different with more use of local borrowing. More than 80% of the companies had borrowed from local banks. Large corporates have had more use of private equity (relative to small and medium companies) as a source of financing with 40% of large corporate shaving utilized this source of funding in the last 5-years.

In terms of all the surveyed manufacturing companies, retained earnings ranked highest with 96% of the companies having utilized this source of funding. Local bank loans ranked second with 14 of the 23 firms having obtained bank loans for financing. Funding from development finance institutions (DFIs) and soft loans from friends and relatives ranked 3rd and equally followed by private equity with 4 companies having obtained capital from private equity providers. None of the surveyed companies had utilised or obtained funding through public equity financing or through foreign bank borrowing.

Respondents highlighted that retained earnings offer the cheapest source of funding and that local bank borrowing is the next best alternative when retained earnings are not sufficient. Local loans have the advantage that the interest repayments match the revenues generated by companies unlike external loans where repayments are in foreign currency which increases exposure to foreign currency risk to companies. Companies however expressed that due to low profit margins and the hyperinflationary environment, any funding through retained earnings and or local loans cannot support huge investments that are capital intensive. Though foreign funding is a good alternative, respondents highlighted foreign currency exposure makes foreign debt highly risk given that the local currency is rapidly depreciating against major currencies.

4.3.3 Industry Specific Factors Constraining Access to Foreign Private Capital

The study's second undertaking was to explore the industry specific factors constraining access to foreign private capital by local manufacturing forms. Of the 23 respondents, 12 expressed that accessing foreign private capital is very difficult and 9 respondents expressed the option as very difficult. Thus 95% of the respondents find the option of financing through foreign private capital difficult.

Table 17: Chances of getting external financing by Firm Size

	Small	Medium	Large
Very High	0%	0%	0%
High	0%	13%	0%
Low	67%	50%	60%
very Low	33%	37%	40%

Source: Author's Compilation

Analysis across firm sizes shows that the challenge of accessing foreign financing is not only confined to a particular class of manufacturing firms but is common across all groups. All firms, regardless of size, agree to having challenges accessing foreign financing with more than 85% of the respondents in each size category highlighting that there is a challenge. The study thus concluded that accessing foreign private financing is a challenge for local manufacturing companies.

Respondents were asked if they consider funding mismatches as a constraint to obtaining foreign private financing and the results are tabulated in table 18. The challenge was more pronounced amongst the small to medium manufacturing companies. Surveyed companies highlighted that there is a gap between their funding requirements and what private equity funders are willing to provide. The respondents highlighted that foreign private capital providers mainly look for huge bankable projects whereas the manufacturing companies will be looking for relatively lower amounts in line with their balance sheets. Overall, 83% of the surveyed companies agreed that the issue of funding mismatches is a major constraint to accessing foreign financing.

Table 18 Funding Mismatches is a constraint to Foreign Private Financing?

	Small	Medium	Large	Overall
Strongly Agree	30%	38%	0%	23%
Agree	50%	50%	80%	60%
Disagree	20%	13%	20%	18%
Strongly Disagree	0%	0%	0%	0%

Source: Author's Compilation

Overall, 83% of the total respondents highlighted that their funding needs, in the books of private capital providers are small. The issue is more pronounced in the case of small to medium sized manufacturing firms who are mostly after funding less than US\$ 200 000.

Respondents also highlighted that, due to the macroeconomic instability in the country, local companies are considered highly risk and are at most times artificially undervalued. This makes foreign acquisitions very unfavourable to existing shareholders. Also, the industry has 90% of the companies operating informally and as such these companies are in a less position to get foreign funding especially so bank loans. 92% of survey respondents highlighted the issue of high credit risk as a major constraint to accessing foreign private capital by local manufacturing companies.

Table 19 Low credit rating negatively impacts chance of getting external financing.

	Small	Medium	Large	Overall
Strongly Agree	22%	0%	13%	35%
Agree	22%	26%	9%	57%
Disagree	0%	4%	0%	4%
Strongly Disagree	0%	4%	0%	4%

Source: Author's Compilation

Companies highlighted that the unstable business environment and the depreciating local currency makes it difficult for local companies to demonstrate sustainable profitability in US\$ terms. Additionally, local manufacturing companies are not generating enough revenues, especially export earnings to be able to settle their debts and as a result, foreign capital providers are not willing to put their funds at high risk. Of the total number of respondents, 35% were in strong agreement, 57% agreed, 4% disagreed and 4% were in strong disagreement with the opinion that the low credit rating of local companies negatively affects their ability to borrow externally.

The other constraint highlighted by manufacturing companies is the issue of a long-time lag between application for funds and getting the funding due to the paperwork required and the due diligence procedures that the funders need before availing the funds. Thus, companies are reluctant to go for private capital funding especially when in need of a quick capital injection. Survey results also reveal that the higher levels of production costs in the country and the manufacturing sector disincentivizes private capital providers to invest in the local manufacturing sector with 83% of the respondents raising the factor as a constraint.

Table 20 High production costs disincentivizes external funders to finance local manufacturing companies?

	Small	Medium	Large	Overall
Strongly Agree	26%	13%	0%	39%
Agree	13%	13%	17%	43%
Disagree	4%	4%	0%	9%
Strongly Disagree	0%	4%	4%	9%

Source: Author's Compilation

Respondents were divided on whether the level of technological advancement in the manufacturing sector is a determinant of private capital flows into the sector, with 52% highlighting the factor as a constraint and 48 percent arguing otherwise. Survey results however indicate that lack of awareness by players in the local manufacturing sector is not a factor that constraints access private to private capital. 52% of the respondents disagreed with the assertion that local companies lack awareness of private capital financing.

Companies also highlighted sanctions as a factor that has affected their operations indirectly. Companies noted that though the sanctions were targeted, the fact that they are in place, made many foreign capital funders mainly from the USA and Europe reluctant to invest in local companies. Thus, sanctions limit the ability of local companies to get foreign funding either in the form of loans or direct investment. Of the total number of respondents, 13% were in strong agreement, 43% agreed, 23% disagreed and 21% were in strong disagreement with the opinion that the low credit rating of local companies negatively affects their ability to borrow externally.

In summary, questionnaire response analysis highlighted that, funding mismatches, high credit risk, a longer time lag and high production costs as the factors constraining local manufacturing companies in accessing private capital funding.

4.3.2 Benefits of Foreign Private Capital

The study sought to explore the ways in which foreign private capital can be beneficial to manufacturing firms more than the local traditional sources of funding. Table 4.1 shows the responses from the questionnaires on the benefits which the respondents thought to come with private capital financing.

Table 21 Benefits of Private Capital

Benefit	Percentage of respondents who agree	Ranking
Improved operations (capacity utilization, value addition, exporting)	96%	1
Improved corporate image	83%	3
Technology inflow	87%	2
Inflow of skilled Personnel	41%	4

Source: Author's Compilation

Respondents highlighted 'improved operations' as the greatest benefit of accessing foreign private capital with 22 out of 23 respondents agreeing with the conclusion that private capital can lead to improved operations through better productivity, ability to export and to invest in value addition initiatives. Private equity capital is patient capital and can ride out economic downturns through infusing progressive business practices into the local manufacturing sector. 95.7% of the respondents agreed that foreign private capital has the potential to improve their operations with 4.3% of the respondents seeing no impact of this financing on their operations.

Table 22 Impact of foreign capital operations improvement

	Frequency	Percentage
Positively	22	95.7%
Negatively	0	0%
No Impact	1	4.3%

Respondents also expressed agreement with the notion that access to private capital can help local companies invest in capital expenditure and replace obsolete technologies. The manufacturing sector is crumbling from lack of foreign capital to upgrade machinery and equipment and thus they view accessing foreign private capital as a major boost or a panacea to solve the aforementioned problems. These equity providers can link the target firm to their host market thereby increasing the export market outreach of the local companies.

Table 23 Foreign capital leads to significant capacity improvement

	Frequency	Percentage
Strongly Agree	6	26%
Agree	14	61%

Disagree	3	13%
Strongly Disagree	0	0%

Of the total number of respondents, 26% were in strong agreement, 61% agreed, 13% disagreed and none were in strong disagreement with the notion that foreign private flows have the potential to increase the capacity of firms through investment value adding equipment.

Study respondents however highlighted that personnel brought in by private capital funders might not best understand the local market dynamics.

Table 24 Foreign private capital leads to skills inflow and better strategic insight

	Frequency	Percentage
Strongly Agree	3	14%
Agree	6	27%
Disagree	12	54%
Strongly Disagree	1	5%

Overall, 59% of the respondents disagreed with the opinion that the personnel brought in by private capital funders is more valuable in turning around the fortune of local companies. They argued that the foreign experience might be irrelevant if the personnel have no grasp of the nuances of the local economy though they can bring valuable diversity and corporate governance and ethics which is often lacking in most of the local companies. Of the total number of respondents, 14% were in strong agreement, 27% agreed, 55% disagreed, 5% were in strong disagreement with the notion that the bringing in of new external personnel by private capital providers as the target company is restructured increases the target company's human resources competitive advantage.

CHAPTER FIVE

DISCUSSION AND CONCLUSIONS

5.1 Introduction

Following the analysis and presentation of findings in chapter four, this chapter presents a summary of the findings in line with the objectives of this study, draws conclusions and in line with findings of his study, provides recommendation and suggestions for further research.

5.2 Discussion of Findings and Conclusions

The study had the objectives to investigate the macro and industry specific constraints to foreign capital flows into Zimbabwe's manufacturing sector as well as to investigate the major benefits of foreign private funding as an alternative to the conventional local sources of funding. On the macro level, quantitative analysis results revealed that to increase FDI inflows into the economy there is need for better developed infrastructure, high levels of government effectiveness in terms of policy formulation and policy implementation and high levels of business freedom that ensures less barriers to entry and favourable business operating environment. A positive relationship between infrastructure development and FDI. This result was in line with literature which posits that the construction of basic infrastructure stimulates economic growth, improves competition and competitiveness of a country. The result is in sync with the studies done by Mukim and Nunnekamb (2012) and Fonseca and Liamosas-Rosus (2018). The authors posit that infrastructure development is the vehicle to FDI.

The study also found business freedom having a positive impact on private capital flows. Thus, it can be concluded that when the business confidence is high, foreign investors invest more in that country both in the short-run and long-run. The results are also in line with the studies done by Mottaleb and Kalirajan (2010), Muzurura (2013) and Bernorth and Colavecchio (2014) who found out that business confidence is one of the significant determinants of FDI. An increase in the government effectiveness was also found to be positively impacting capital inflows into the country. This implies that a government that puts good policies and implements them attracts the foreign capital more. The results show that public service quality, policy formulation and implementation and the credibility of the government in upholding the quality of these

processes plays a huge role in incentivizing capital inflows.

The study also found economic growth rate (GDPGR) to be a statistically significant determinant of foreign private capital flows in line with literature. This could be so because fast growing economies offer high returns to investment and thus incentivizes capital inflows into the country. The significance of economic growth in attracting FDI is also well proven in research studies by Mottaleb and Kalirajan (2010), Sikwila et al (2018), and Bernorth and Colavecchio (2014). On the other hand, the results show that the general level of economic development of a country, as measured by GDP per capita has a negative impact on FDI inflows. This implies that foreign investment flows more to developing countries and as a country becomes more developed, private capital flows become less and less to the manufacturing sector. This could possibly be due to the idea that as countries develop, they are more supported by the services industry than the primary industry hence the flow of FDI to the former.

Analysis of survey responses showed that funding mismatches, high credit risk, a longer time lag and high production costs as the factors constraining local manufacturing companies in accessing private capital funding. In terms of the benefits of private capital funding, results revealed that private capital improves company operations (capacity utilisation, export market penetration and productivity), improves technology usage, and boosts the target company's corporate image.

Companies also highlighted that the need for foreign private capital is mainly to fund capital investments and to enter the export market to get foreign currency which is key for continued survival given the continued depreciation of the local currency. Though companies see the benefits of foreign private capital, this source of funding remains unflavoured amongst local manufacturing companies. Companies highlighted that due to the highly depreciating local currency, local companies often find it difficult to present sustainable local currency denominated profitability levels to attract private funders. Further to that, it is irrational to go for foreign loans especially so for companies that are not net exporters.

The researcher noted that though the introduction of the multicurrency system in 2009 was not the panacea to the country's economic problems, the reintroduction of the local currency did not bring the economy any good. The introduction of the multicurrency regime in 2009 brought

mixed fortunes to companies. On one hand companies benefited from macro-economic stability but those companies exporting found their exports highly uncompetitive on the global market. The reintroduction of the local currency however brought more challenges to the manufacturing companies, many citing foreign currency challenges and the continued depreciation of the local currency against the major currencies.

The researcher also noted that many companies highlighted sanctions as a factor that has affected their operations indirectly. Companies noted that though the sanctions were targeted, the fact that they are in place, made many foreign capital funders mainly from the USA and Europe reluctant to invest in local companies. Thus, sanctions limit the ability of local companies to get foreign funding either in the form of loans or direct investment.

The study thus concludes that funding for Zimbabwe's manufacturing sector is a challenge. Factors specific to the industry as well as other macro and political factors constrain the flow of private capital into the local manufacturing sector. Also, important to note is that solutions to these challenges are long term and may come with most companies having runout of business. Pulling a leaf from the experiences of other distressed economies such as those of Iran and Cuba could also be beneficial to the Zimbabwean economy. Iran's response to the western sanctions was mainly in the form of taking an inward approach to manufacturing industry development through government subsidies and import substitutions as well as to promote applied research with a view to making university research applicable to industrial needs. This, despite the long-standing restrictions on the country, helped it to become a middle-income developing economy, with a broad industrial base, a relatively well developed science and technology infrastructure and skilled manpower.

Cuba in like manner, also adopted a self-reliance approach to food production for feeding the nation, enabled by extensive rural and urban organic farming as well as looking in a different direction (from the US), for trade and investment. Since 1990 the country opened its economy to other players and welcomed some foreign joint ventures, who were granted majority ownership control of businesses as well as dominant market share, with the government restricting competition and profit margins. Coupled with opening up its economy, Cuba further enacted Law number 77 (Foreign Investment Act), passed in 1995, which allowed 100% foreign ownership of business to foreign investors, however the move by the government in 2011 of seeking a 51% or more share in joint ventures may have acted against the country,

keeping it a low-income economy to date.

An inward approach to economic development by countries under distress has thus been tried and tested and could be adopted by an economy such as Zimbabwe. Although much has been tried already in Zimbabwe, the likes of the look East policy, the 51% indigenisation policy, creation of special economic zones (SECs), youth empowerment programs, among others, most of what has been attempted was either not done to full scale or done quite ineffectively altogether. As a result, much still remains undone and in light of this, some suggestions are made in the recommendations section below.

5.3 Recommendations

- Access to funding is set to continue to be a challenge to local manufacturing companies in the short to medium term, as solutions to the aforementioned challenges usually take time to be implemented. Thus, manufacturing companies have to operate in better ways to improve their profitability and be continually sustainable. Companies must focus on improving their cost efficiency and work on targeting foreign markets so as to get access to foreign currency which is required to buy the required inputs and machinery.
- The manufacturing industry is key to Zimbabwe's economic prospects. The industry is responsible for turning the raw material (mostly minerals, and agricultural produce) the country is endowed with, into semi or finished high value goods. Without a good manufacturing industry there is no value addition, and this leads to the export of low value raw materials, low foreign currency inflows, fewer jobs and the economy's growth prospects will remain suppressed. To revive the manufacturing industry, funding is required and thus relevant stakeholders need to act now. The study recommends political and economic re-engagement. Re-engagement locally and internationally will help the government's efforts to promote the industry. The study also recommends formalisation and adherence to good corporate governance practices, incentives for the productive sector and policy consistency.
- The study finds business freedom and government effectiveness having a positive impact on the flow of foreign capital. The study therefore recommends promotion of ease of doing business and improvement by various ministries in terms of efficiency. This can involve the improvements and revision of a number of policies and procedures

concerning company incorporation and registration. There is a need to make great strides in terms of simplification of procedures that are required to start a business through decentralization of company registration offices to all cities and towns and setting one-stop shops for completing registration requirements. Procedures like tax and value added tax registration, business name clearance, and publication of incorporation notice need to be processed online to reduce time required to incorporate and register a business. These policies also need to be applied also to other categories of ease of doing business like application for business permits, property registration, tax payments and application for cross-border trading. These procedures incentivise foreign investors to invest into the country.

- The positive impact of infrastructure development of foreign capital inflows calls for the government to continuously work on improving the country's water, energy, transport, and ICT infrastructure. Given the limited resources in the government's coffers, this can be achieved through public-private ownerships which can be through co-development or through Build-Operate-Transfer contracts.
- With Zimbabwe having signed and ratified the Africa Continental Free Trade Area (AfCFTA) agreement, a ray of light can be expected as this is expected to raise income by 14 %, but economists argue that Zimbabwe still has a lot to be put in order before this can be achieved. The AfCFTA brings about an opportunity for inclusive growth and sustainable development to all African countries through the creation of an integrated continent politically and economically, with free movement of people, goods and services resulting in significant increase in trade and investment among African countries. Zimbabwe however, suffers from import deficits and low capacity production in all key sectors in particular agriculture and manufacturing, and this therefore needs to be addressed immediately if the country is to benefit from the trade pact.

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APPENDICES

Appendix 1 Consent Form

Consent Form

My name is Delia Chinodzama. I am a Development Finance Masters student at the University of Cape Town. I am carrying out a research titled "Foreign Private Capital and Zimbabwe's Manufacturing Sector". The main objective of this study is to find out the firm specific challenges faced by the manufacturing sector in attracting foreign private financing. I believe you are a key informant to my research and I wish to gather your knowledge with regards this topic, which should significantly inform my study:

Dear respondent, please take note of the following:

- *This research has been approved by the Commerce Faculty Ethics in Research Committee of the University of Cape Town.*
- *There are no known risks or dangers to you associated with this study. The researcher will not attempt to identify you with the responses to your questionnaire, or to name you as a participant in the study, nor will they facilitate anyone else's doing so. You will not be requested to supply any identifiable information, ensuring anonymity of your responses.*
- *However, due to the nature of the study you will need to provide the researcher with some form of identifiable information, nonetheless, all responses will be confidential and used for the purposes of this research only.*

The questionnaire will take approximately 30 minutes to complete

Should you have any questions regarding the research please feel free to contact the researcher (Delia Chinodzama (+263 772 443 235, fadzie18@gmail.com)).

If you are in agreement to the above provisions and notifications please do show by consenting below:

Consent: *I acknowledge that I am participating in this study of my own free will. I understand that I may refuse to participate or stop participating at any time without penalty. If I wish, I will be given a copy of this consent form.*

Signature... ..

Date... ..

Appendix 2 Questionnaire

Questionnaire

Instructions

1. This questionnaire is structured into 5 sections.
2. Where there is an answer box, indicate your response by writing or typing an "X" in the answer box.

Section A: Background Information

1. Which manufacturing sub-sector best describes your business?

Drinks, Tobacco & Beverages ☐

Plastics and Packaging ☐

Food and Furniture ☐

Paper, Printing, and Publishing ☐

Clothing and Footwear ☐

Metal and Metal Products ☐

Chemical & Petroleum Products ☐

Other (Specify) below:

2. How long has your company been in operation?

Less than 5 years ☐

6-10 years ☐

11+ years ☐

3. How many employees do you have?

Less than 50 employees ☐

51-200 employees ☐

201+ employees ☐

4. Do you export any of your products and if so which are your main export markets?

Yes ☐

No ☐

State your export markets if applicable:

5. Which top five products do you produce?

ii.)

iv.)

v.)

Have these products been present and active on the export market? Please give brief detail on

this below:

Section B: Company Financing Sources

6. Is lack of financing a factor which has hindered your operations or growth prospects?

Yes ☐

No ☐

Please briefly explain your answer below:

7. Are your financing requirements for working capital or long term capital?

Working Capital ☐

Long-term Capital ☐

Both ☐

8. Which sources of funding have you had access to or utilised in the last 5 years?

Public Equity ☐

Local Bank Borrowing ☐

Foreign Bank Borrowing ☐

Private Equity ☐

Retained Earnings ☐

Other (Specify) below

9. Which sources of funding have you had access to or utilised in the last 10 years?

Public Equity ☐

Local Bank Borrowing ☐

Foreign Bank Borrowing ☐

Private Equity ☐

Retained Earnings ☐

Other (Specify) below:

10. Which source of funding has been your most preferred source?

Public Equity ☐

Local Bank Borrowing ☐

Foreign Bank Borrowing ☐

Private Equity ☐

Retained Earnings ☐

Other (Specify) below:

Please briefly explain your choice below:

11. How accessible has been this form of financing?

Fairly easy ☐

Very easy ☐

Fairly difficult ☐

Extremely difficult ☐

Please briefly explain your answer below:

12. Which sources of funding has been your least preferred source?

Public Equity ☐

Local Bank Borrowing ☐

Foreign Bank Borrowing ☐

Private Equity ☐

Retained Earnings ☐

Other (Specify)

Please briefly explain your choice below:

13. The government has been providing financial assistance to manufacturing companies towards importation of raw materials. Have you been a beneficiary of such financial aid packages?

Yes ☐

No ☐

14. How easy or difficult has it been to get government financial assistance?

Very Easy ☐

Somewhat Easy ☐

Somewhat Difficult ☐

Very Difficult ☐

Please briefly explain your answer below:

15. How has dollarization affected the way your business is financed?

Positively ☐

Negatively ☐

No impact ☐

Please briefly explain your answer below:

16. Has the imposition of sanctions on Zimbabwe affected your chances of getting external financing?

Yes ☐

No ☐

Neutral ☐

Please briefly explain your answer below:

Section C: Benefits of Foreign Private Capital

17. How do you see your operations improving (in terms of production, capacity utilisation, value addition, export opportunities etc.) if you get foreign private capital funding?

Positively ☐

Negatively ☐

No impact ☐

Please briefly explain your answer below:

18. Foreign private capital (FDI, Private Equity, Venture Capital and External Debt Financing etc.) is said to be a boost on the company's image leading to sizable increase in the company's power in negotiating contracts. What is your take this?

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

Please briefly explain your answer below:

19. One of the challenges that the sector is facing is obsolete technology leading to high costs and minimal value addition. Do you see access to private capital improving the technology levels and resultantly innovation levels and value addition capabilities of the sector?

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

Would this not still be achievable with traditional financing sources. Please briefly explain below:

20. Private capital flows are said to bring skilled personnel on top of the capital. This in turn helps companies gain strategic human resources advantage. What's your take on this?

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

Please provide brief detail to your response below:

Section D: Institutional Challenges Constraining Access to Foreign Private Capital

It is understood that foreign private capital can be a great stimulus for the manufacturing industry given the foreign currency challenges. However, local companies seem to have great difficulty in accessing this source of capital.

21. How do you rate the chances of getting access to foreign private capital by Zimbabwe's manufacturing companies?

Very High ☐

High ☐

Low ☐

Very Low ☐

Please briefly explain your answer below:

22. There is a funding mismatch between the funding requirements of manufacturing firms and what foreign private capital providers are looking to finance?

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

In short, please state and explain what have been the preferred activities by foreign private

What possible solutions have you taken into consideration to deal with this problem? Please briefly explain below:

23. Private capital flows to higher skilled manufacturing operations, unlike in Zimbabwe's manufacturing sector?

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

If you agree, what measures have you put in place to ensure your company attracts private investment flows?

24. The industry has high credit risk and as such foreign banks are unwilling to lend to local manufacturing companies

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

Please briefly explain your answer below:

25. The industry is faced with high production costs and this incentivizes foreign capital providers to fund local manufacturing companies

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

Please briefly explain your answer below:

26. Many manufacturing companies are not actively seeking for foreign private capital financing due to lack of awareness or knowledge. Do you agree with this assertion?

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

Please briefly explain your answer below:

27. Accessing private equity is not suitable when in need of quick capital injection

Strongly Agree ☐

Agree ☐

Disagree ☐

Strongly Disagree ☐

Please briefly explain your answer below:

Section E: Feedback and lessons learnt

28. If you have used foreign private capital as a financing source, how well has the financing enhanced your operations? Please briefly explain below:

29. Would you consider seeking for this source of financing again when the need arises? Would you do anything differently? Please briefly explain below:

30. What changes are required for the manufacturing sector in Zimbabwe to become a favourable destination for private capital flows both on the micro and macro-economic level? Please briefly explain below:

The End

Thank you for your time and participation in this research, your inputs are highly appreciated and should significantly inform the study. Please note that all information collected is for the sole purpose of the study and will be treated with high confidentiality.

Appendix 3 Summary Statistics

View	Proc	Object	Print	Name	Freeze	Sample	Sheet	Stats	Spec	
				FDI	ID_INDEX	BF_INDEX	GDPGR	GDPPC	GVTEFF_IN...	CP_INDEX
Mean				0.011334	22.17958	44.79167	0.013240	861.7583	-0.546148	158.9400
Median				0.008263	21.93000	42.60000	0.016097	677.5792	-0.541150	111.9128
Maximum				0.028226	24.72000	55.00000	0.196753	1683.741	-0.144020	439.9388
Minimum				0.000218	19.04000	30.00000	-0.176689	356.6933	-0.892698	97.05489
Std. Dev.				0.009329	1.558961	10.05052	0.092052	435.9443	0.184418	89.55497
Skewness				0.434798	0.053943	-0.080776	-0.060450	0.622051	0.349590	1.769015
Kurtosis				1.700295	2.160853	1.265461	3.013385	1.784311	3.258166	5.312683
Jarque-Bera				2.445433	0.715807	3.034726	0.014796	3.025688	0.555504	17.86617
Probability				0.294429	0.699141	0.219289	0.992629	0.220283	0.757485	0.000132
Sum				0.272023	532.3100	1075.000	0.317753	20682.20	-13.10756	3814.561
Sum Sq. Dev.				0.002002	55.89830	2323.298	0.194891	4371091.	0.782230	184462.2
Observations				24	24	24	24	24	24	24

Appendix 4 Correlation Results

Appendix 5 Stationarity Test

Null Hypothesis: D(FDI) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=5)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-6.324437	0.0000
Test critical values: 1% level	-3.769597	
5% level	-3.004861	
10% level	-2.642242	

*Mackinnon (1996) one-sided p-values.

Null Hypothesis: D(ID_INDEX) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=5)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-5.895159	0.0001
Test critical values: 1% level	-3.769597	
5% level	-3.004861	
10% level	-2.642242	

*Mackinnon (1996) one-sided p-values.

Null Hypothesis: D(BF_INDEX) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=5)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.150178	0.0043
Test critical values: 1% level	-3.769597	
5% level	-3.004861	
10% level	-2.642242	

*Mackinnon (1996) one-sided p-values.

Null Hypothesis: D(GDPGR) has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=5)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-5.742896	0.0001
Test critical values: 1% level	-3.769597	
5% level	-3.004861	
10% level	-2.642242	

*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(GDPPC) has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=5)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-3.248185	0.0305
Test critical values: 1% level	-3.769597	
5% level	-3.004861	
10% level	-2.642242	

*MacKinnon (1996) one-sided p-values.

Null Hypothesis: D(GVTEFF_INDEX) has a unit root
 Exogenous: Constant
 Lag Length: 1 (Automatic - based on SIC, maxlag=5)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-7.851774	0.0000
Test critical values: 1% level	-3.788030	
5% level	-3.012363	
10% level	-2.646119	

*MacKinnon (1996) one-sided p-values.

Appendix 6 Cointegration Test Results

Date: 07/26/20 Time: 20:56
Sample (adjusted): 1997 2018
Included observations: 22 after adjustments
Trend assumption: Linear deterministic trend
Series: FDI ID_INDEX BF_INDEX GDPGR GDPPC GVTEFF_INDEX CP_INDEX
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.997645	303.5639	125.6154	0.0000
At most 1 *	0.966556	170.4380	95.75366	0.0000
At most 2 *	0.818995	95.68481	69.81889	0.0001
At most 3 *	0.679263	58.08176	47.85613	0.0041
At most 4 *	0.603495	33.06479	29.79707	0.0203
At most 5	0.384974	12.71329	15.49471	0.1258
At most 6	0.087700	2.019298	3.841466	0.1553

Trace test indicates 5 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**Mackinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.997645	133.1260	46.23142	0.0000
At most 1 *	0.966556	74.75315	40.07757	0.0000
At most 2 *	0.818995	37.60305	33.87687	0.0171
At most 3	0.679263	25.01697	27.58434	0.1029
At most 4	0.603495	20.35149	21.13162	0.0640
At most 5	0.384974	10.69400	14.26460	0.1702
At most 6	0.087700	2.019298	3.841466	0.1553

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**Mackinnon-Haug-Michelis (1999) p-values

Appendix 7 Normalized Cointegrating Coefficients

1 Cointegrating Equation(s): Log likelihood -84.86889

Normalized cointegrating coefficients (standard error in parentheses)

FDI	BF_INDEX	ID_INDEX	GDPGR	GDPPC	GVTEFF_INDEX	CP_INDEX
1.000000	-0.003861	-0.063079	-1.190826	0.000149	0.146063	-0.000599
	(0.00017)	(0.00125)	(0.02465)	(3.7E-06)	(0.00824)	(2.3E-05)

