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Public Sector Governance and Capital Investment Financing: Evidence from Zimbabwe

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Abstract: This article examined the relationship between governance and capital investment financing in Zimbabwe. Secondary data was collected from World Bank`s World Development and Worldwide Governance Indicators database, to empirically examine the relationship between the two variables, from 1996 -2020. A multiple linear regression model was used to examine the relationship. The study found a strong positive correlation between the six measures of governance and the averaged dependent variables. The R-squared of the data was 0.5165. This implies that the six measures of governance explain 51.65% of the value of the combined dependent variable. The adjusted coefficient of determination of about 32.31% is used as a stable, consistent, and reliable measure of the contribution of the independent variables to the dependent variables. Based on the estimated multiple linear regression model results, two measures of governance namely control of corruption and government effectiveness had a negative and fairly significant effect on the country's capital investment financing. However, by comparison, control of corruption had a more negative effect on the dependent variable compared to government effectiveness. This article has practical implications, especially for policy formulation and implementation in government.– The article closed the gap in knowledge by drawing attention to the relationship between governance and capital investment financing in Zimbabwe.

Keywords: Public Sector Governance; Governance; Gross Capital Formation; Domestic Investment; Foreign Remittances; Foreign Direct Investment; Capital Investment Financing; Zimbabwe

JEL classification: E22; F22; F24; F43; G21; O11; O16

1. Introduction

Globally, studies have identified capital investment financing as a critical component in economic growth and development. Several studies have been dedicated to governance-growth nexus with others addressing investment flows since the 1980s (Sardar, 1989, Kaufmann et al., 1999, Altin et al., 2017, Imran et al., 2020, Bernal et al., 2020, Azimi, 2022). The availability of capital for developmental purposes especially in developing countries has been seen as a panacea to the slow growth and development of economies. Many countries have, therefore, put in place policies and created favourable economic conditions to attract capital for developmental projects to grow their economies. However, several drawbacks have been identified by literature that acts as hindrances in attracting investment capital. Poor governance has been cited as one of the top hindrances in attracting

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investment capital. On one hand, good governance especially in the public sector has been recognized globally as a key element in attracting capital flow (Balde & Dicko, 2018, Mazenda & Cheteni, 2021, Azimi, 2022). Whilst on the other hand bad governance has been associated with capital flight, especially in developing countries. Good governance generates and boosts investor confidence. Although there is no consensus amongst researchers regarding the real cause of capital flow, good governance has been associated with capital inflows. Kaufmann, Kraay, and Zodio-Lobaton (1999), Kaufmann, Kraay, and Mastruzzi (2007), Kaufmann, and Kraay (2008), and Kaufmann, Kraay, and Mastruzzi (2010) identified six dimensions of governance that are critical in attracting global investment capital and these are control of corruption, rule of law, voice and accountability, government effectiveness, political stability and absence of violence/terrorism, and regulatory quality.

Investment capital is in the form of foreign direct investment, gross capital formation/domestic investment, and personal remittances. With the current investment models such as Private Public Partnerships, governance has been seen as a key element in attracting private finance for huge developmental projects. Developing countries in general and Zimbabwe, in particular, have failed to attract meaningful capital inflows despite having huge deposits of natural resources due to several factors, with poor governance being one of them. This study, therefore, seeks to ascertain this assertion scientifically in Zimbabwe. Although research has shown some relationships between the two, that is, governance and capital investment financing (Gangi & Abdulrazak, 2012, Fayissa & Nsiah, 2013, Orayo & Mose, 2016, Lien, 2018, Mgadmi & Moussa, 2019, Mlambo et al., 2019, Radulović, 2020, Inekwe et al., 2021, Newiak et al., 2022) there is need to examine the magnitude, significance, and direction of influence in a country such as Zimbabwe that is endowed with natural resources and debt-stricken. The importance of governance in attracting capital flows is controversial. For example, Zimbabwe has managed to attract some capital inflows even though the country is debt-stricken, sanctioned after the land redistribution programme that started in 2000 (Moyo, 2013, Maune, 2015). It is critical at this point to establish the actual drivers of capital flows into the country. Figures 1 and 2 show the trends in some of the capital investment financing and governance indicators in Zimbabwe.

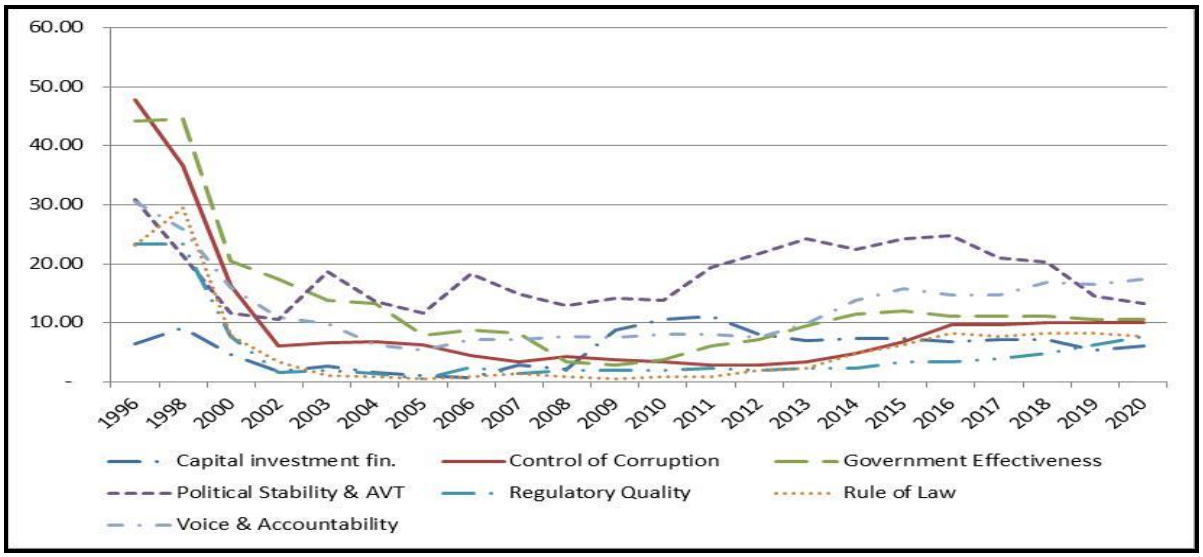

Figure 1. Capital Investment Financing and Governance indicators (control of corruption, government effectiveness, regulatory quality, rule of law, political stability and absence of violence/terrorism, and voice and accountability).

Source: World Bank`s Worldwide Governance Indicators, 2022

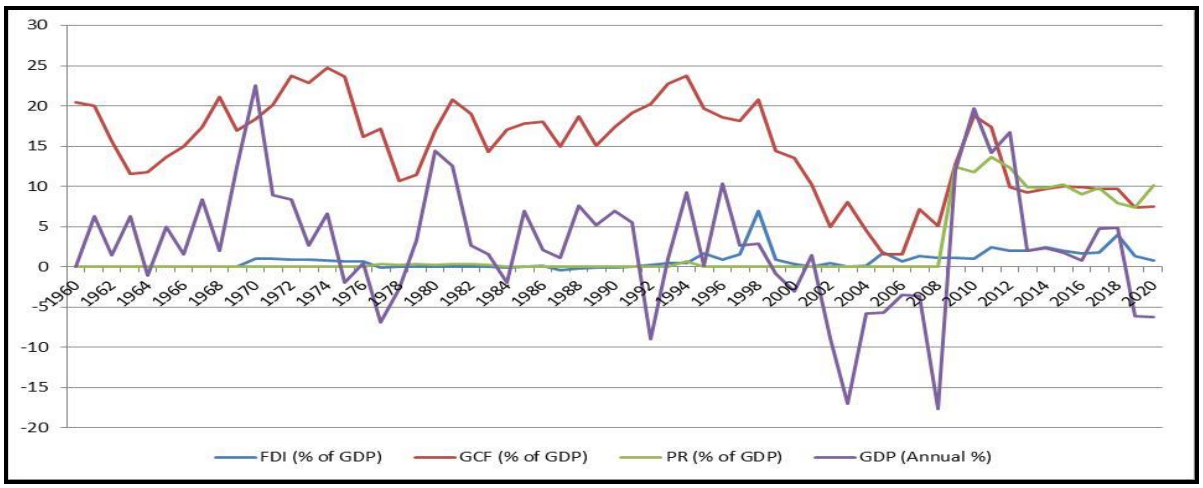

Figure 2. Foreign direct investment, gross capital formation, personal remittances, and gross domestic product in Zimbabwe, 1960-2020

Source: World Bank`s WDI (2022).

The trends show the country`s ability to attract foreign investment under all odds raising the question of whether governance plays an important role in attracting investment capital. Literature is not decisive on the importance of governance in attracting investment capital. This study, however, seeks to establish the role of governance in attracting investment capital. The results of this study will influence policy formulation and implementation.

The remainder of the article is as follows. Section two presents a review of the literature. Section three discusses the research methodology used. Section four presents, analyse, and discuss the results of the study. Finally, section five concludes the study and provides recommendations for policy formulation and implementation.

2. Literature Review

Many studies have been dedicated to the role of governance in capital investment financing globally without much consensus (Kaufmann & Krayy, 1997, Gangi & Abdulrazak, 2012, Mgadmi & Moussa, 2019, Newiak et al., 2022). Generally, governance has been viewed as a critical element in attracting capital investment globally. The difference has been in the magnitude and direction of influence in different countries (Azimi, 2022). Also, several studies concentrating on the governance-growth nexus (Kaufmann, Kraay, & Mastruzzi, 2007, Mehanna et al., 2010, Ahmad et al., 2012, Gangi & Abdulrazak, 2012, Tarek & Ahmed, 2013, Mira & Hammadache, 2018, Lien, 2018, IMF, 2018, Mlambo et al., 2019, Radulović, 2020, Azimi & Shafiq, 2020, Inekwe et al., 2021, and Azimi, 2022) with few examining governance and FDI (Wei, 2000, Gani, 2007, Zidi & Ali, 2016, Mgadmi & Moussa, 2019, and Zouhaier, 2019) while no research was dedicated to governance-capital investment financing in Zimbabwe to the researcher`s knowledge. Although there is no agreement among researchers, well-governed countries have become favourable for investors and have also become safe havens for capital. Table 1 shows some of the most important studies on governance and capital investment financing in the recent past.

Table 1. Empirical studies on governance and capital investment financing

Author(s)	***Title***	***Methodology***	***Findings***
Azimi (2022)	Revisiting the governance-growth nexus: Evidence from the world's largest economies.	Error-Correcting Mechanism Autoregressive distributed lags (ECM-ARDL)	Governance predictors and growth postulate a long-run symmetric nexus.
Maune & Chikaza (2022)	Corporate Governance Reforms in State Enterprises and Parastatals, and Capital Investment Financing in Zimbabwe.	Econometric regression model	The governance variables accounted for 52.64% of the dependent variability in foreign direct investment.
Gangi & Abdulrazak (2012)	The impact of governance on FDI flows to African countries.	Panel regression model using fixed and random effects estimation	Three governance indicators, that is, voice and accountability, government effectiveness, and rule of law were statistically significant.
Mgadmi & Moussa (2019)	The Impact of Governance on FDI Attractiveness: The MENA countries Case.	Static Panel technique	FDI play a significant role in the promotion of long-term economic growth in developed and underdeveloped countries through the creation of fixed capital.
Okechukwu (2019)	Governance and Domestic Investment in Africa.	Fixed Effects model	All the indicators of governance positively and significantly influence domestic investment in Africa, except for government effectiveness which happens to be insignificant. Also, Voice/Accountability and the Control of Corruption exert more influence on domestic investment as indicated by their coefficient values. Furthermore, economic growth is also an important factor in explaining domestic investment in Africa.
Adenuga & Evbuomwan (2012)	Dynamics of Governance, Investment and Economic Growth in Nigeria.	Vector error correction mechanism (VECM)	The error correction mechanism (ECM1) supports cointegration and suggests the existence of a long-run steady-state equilibrium between economic growth, investment and governance.
Zouhaier (2019)	Governance and foreign direct investment: a comparative study between Arab Maghreb countries and ASEAN.	Panel data regression with principal component analysis	Governance Positively and Significantly contributed to Improving the attractiveness of foreign direct investment.
Ofori & Asonngu (2021)	Foreign Direct Investment, Governance and Inclusive Growth in Sub-Saharan Africa.	Fixed effects, random effects, and the system GMM estimators.	FDI and all governance dynamics were significant in SSA.
Ricciardulli (2019)	Do Remittances Encourage Poor Governance Practices?	Instrumental variable approach	Remittances influence a government's spending practices, but do not result in substitution
Ahmed (2013)	Remittances Deteriorate Governance	Natural experiment & regression	1 standard deviation increase in remittances raises corruption by 1.5 index points, which is equivalent to a $600 decrease in per capita GDP. Remittances may enable governments to reduce their delivery of public

			services.
Cho (2020)	The Effects of Governance on Remittances: Evidence from Cross-Country Panel Data.	Pooled OLS, random effects, & Tobit estimation.	Results show a lower governance quality that induces workers to send savings to their home countries. This means that a country with poor governance quality seems to have more remittance inflows from abroad.
Giuliano & Ruiz-Arranz (2009)	Remittances, Financial Development, and Growth.	Generalised Method of Moments	Remittances boost growth in countries with less developed financial systems.
Olayungbo & Quadri (2019)	Remittances, financial development and economic growth in sub-Saharan African countries: evidence from a PMG-ARDL approach.	Pooled Mean Group and Mean Group/ARDL estimations with panel unit root and cointegration tests.	Remittances and financial development were found to have positive effects on economic growth both in the short and the long run. Unidirectional causal relationships were found to exist from GDP to remittances and from financial development to GDP.
Osina (2021)	Global governance and gross capital flow dynamics	Panel regressions & Fixed effects	Institutional quality is key to explaining the 'Lucas Paradox.' Voice and accountability, and corruption are not significant determinants of gross capital outflows dynamics.
Aysan et al. (2007)	Governance Institutions and Private Investment: An application to the Middle East and North Africa	Least square estimations technique	Results show that governance plays a significant role in private investment decisions.
Ouedraogo & Kouaman (2014)	Governance and Private Investment in sub-Saharan Africa	Dynamic panel model, GMM estimation	Burdensome regulations affect private investment while business environment improvement makes investment grow.
Morrissey & Udomkerdmongkol (2012)	Governance, Private Investment, and Foreign Direct Investment in Developing countries		Total investment is greater in countries with good governance. There is evidence of FDI crowding out domestic investment in relation to governance.
Ajide (2013)	The role of governance on private investment in Nigeria: A preliminary analysis.	ARDL Bounds Testing Approach	Political stability stood out prominently.

Source: Author`s compilation

3. Methodology

The research study employed a multiple linear regression model (MLRM) to examine the impact of six governance measures on foreign direct investment (FDI), gross capital formation (GCF), and personal remittances (PR) all combined as a percentage of gross domestic product (GDP) in Zimbabwe from 1996 to 2020. It is common practice that under MLR modelling dependent variables are collapsed into one variable, hence the rationale for turning FDI, GCF, and PR into one composite variable. The six independent components of governance used as independent variables are control of corruption, government effectiveness, political stability and absence of violence/terrorism, regulatory quality, rule of law and voice and accountability. The MLRM is a robust statistical technique which applies to both time series and non-stationary time series data with mixed order of integration. Multiple Linear Regression models have been in use for many decades, and have shown to provide a very valuable vehicle for testing the presence of long-run relationships between panel and time-series data.

The MLRM is a flexible statistical technique that can be utilised to account for long- and short-run relationships among dependent and independent variables, and even for the case of non-stationary model variables but without co-integration. The MLR model results allow us to generate regression coefficients and perform statistical tests such as ANOVA on the nature of the relationship between our endogenous and exogenous variables. The main advantages of MLR modelling are that it is more robust and performs better for small samples of data, making it suitable for most quantitative research in business, economics and finance. The study on the impact of the six measures of governance on the FDI, GCF, and PR of Zimbabwe as a percentage of the gross domestic product (GDP) was carried out under the following hypothesis:

Null hypothesis (H_0): The six measures of governance do not affect FDI, GCF, and PR.

Alternative hypothesis (H_1): The six measures of governance affect FDI, GCF, and PR.

4. Estimation Results using MLRM Technique and Discussion

The following table summarizes the MLRM results from the variables drawn into the model.

Table 2. Summary output of MLRM statistics

Regression Variable	***Regression Measure***
Multiple R measure	0.718656663
R –Squared	0.516467399
Adjusted R –Squared	0.323054358
Standard Error	2.560348401
Number of Observations	22

The correlation coefficient of the model is 0.7187. This depicts a strong positive correlation between the six measures of governance and the averaged dependent variables, FDI, GCF, and PR. The R-squared of the data, popularly known as the coefficient of determination was 0.5165. This implies that the six measures of governance explain 51.65% of the value of the combined dependent variable, and the balance of 48.35% is attributable to terms in the error term. The adjusted coefficient of determination of about 32.31% is used as a stable, consistent and reliable measure of the contribution of the independent variables to the dependent variables FDI, GCF, and PR.

Table 3, ANOVA table with regression model results

ANOVA					
	Df	***SS***	***MS***	***F***	***Significance F***
Regression	6	105.0284	17.50473	2.670282	0.057479
Residual	15	98.33076	6.555384		
Total	21	203.3591			

We also tested the MLRM results for the impact of the six independent variables on the weighted dependent variables FDI, GCF, and PR at a 5% level of significance. The F critical value of 2.57 was compared with the F calculated of 2.67. Hence the study rejects the null hypothesis and reveals that there is a significant relationship between the six measures of governance and the dependent variables, FDI, GCF, and PR averaged, at a 5% level of importance.

Table 4. Regression coefficients of the MLR model

Variable	***Coefficients***	***Std Error***	***T Stat***	***P-value***	***Lower 95%***	***Upper 95%***	***Lower 95.0%***	***Upper 95.0%***
Intercept	2.6630	2.8136	0.9465	0.3589	-3.3339	8.6600	-3.3339	8.6600
Control of Corruption	-0.3576	0.2679	-1.3346	0.2019	-0.9288	0.2135	-0.9288	0.2135
Government Effectiveness	-0.2601	0.1786	-1.4568	0.1658	-0.6407	0.1204	-0.6407	0.1204
Political Stability & AVT	0.2404	0.1251	1.9215	0.0739	-0.0262	0.5071	-0.0262	0.50716
Regulatory Quality	0.8511	0.5178	1.6436	0.1210	-0.2525	1.9547	-0.2525	1.9547
Rule of Law	0.1707	0.3674	0.4647	0.6488	-0.6123	0.9537	-0.6123	0.9537
Voice & Accountability	0.0379	0.2687	0.1412	0.8896	-0.5347	0.6106	-0.5347	0.6106

The study came up with the MLRM of the specific form Y = 2.663-0.3577COC-0.2601GVE +0.2404PSAT+0.8510REQ +0.1707ROL +0.0379VOA, where Y= The average of FDI, GCF, and PR as an average percentage of GDP for the period under review on a year by year basis, COC = Control of corruption, GVE = Government effectiveness, PSA = Political stability and absence of violence/terrorism, REQ = Regulatory Quality, ROA = Rule of law and VOA = Voice and accountability. The results show that autonomous contribution to the dependent variable was around 266.3% while a 100% increase in corruption (COC) and GVE will decrease economic performance by 35% and 26% decline in FDI, GCF, and PR respectively. These two measures of governance are the only ones resulting in a negative relationship with the dependent variables. However, a 100% improvement in PSA would give rise to a 24.04% improvement in the output variable. A 100% increase in REQ, ROL and VOA results in 85.10%, 17.07% and 3.79% increases in FDI, GCF, and PR respectively. Hence REQ and VOA have the highest and least contributions to GDP measures respectively. We are 95% confident that the intercept of the model lies between 3.33 and 8.66 while the COC falls between 0.2136 and 0.9289. We are also 95% sure that the GVE and PSA fall between 0.1205 and 0.6408 and 0.0263 and 0.5072 respectively. On the other hand, we are also 95% certain that REQ, ROL, and VOA fall between 0.2526-1.9547, 0.6123-0.9538 and 0.5347-0.6106 respectively.

Table 5. Residuals and probability output

Residual output				Probability output	
Observation	*Predicted AVR (FDI, GCF&PR % of GDP)*	*Residuals*	*Standard Residuals*	*Percentile*	*AVR (FDI,GCF&PR % of GDP)*
1	6.4455	0.0503	0.023	2.2727	0.7686
2	8.9590	0.2711	0.1253	6.8181	1.1037
3	2.8189	1.8198	0.8409	11.363	1.5529
4	0.8366	0.9661	0.4464	15.909	1.8027
5	3.4851	-0.796	-0.368	20.454	2.0988
6	1.6868	-0.134	-0.062	25	2.6887
7	1.8554	-0.752	-0.347	29.545	2.8039
8	5.7455	-4.977	-2.299	34.090	4.6387
9	4.6598	-1.856	-0.858	38.636	5.3502
10	5.4462	-3.347	-1.547	43.181	6.1445
11	5.9633	2.8055	1.2965	47.727	6.4959
12	5.8761	4.6297	2.1395	52.273	6.8543
13	7.1952	3.9550	1.8277	56.818	7.0216
14	7.2575	0.8259	0.3816	61.363	7.0947
15	7.6139	-0.592	-0.273	65.909	7.1771
16	6.7131	0.5637	0.2605	70.455	7.2769
17	7.4976	-0.069	-0.032	75	7.4290
18	7.1215	-0.267	-0.124	79.545	8.0835
19	6.5326	0.5621	0.2598	84.091	8.7688
20	7.1809	-0.004	-0.002	88.636	9.2302
21	7.1542	-1.805	-0.834	93.182	10.506
22	7.9960	-1.852	-0.856	97.727	11.150

We also tested the contribution of the residuals to the dependent variables, FDI, GCF and PR averaged, using the tests demonstrated below.

4.1. Heteroskedasticity test

We used the Breusch-Pagan-Godfrey test of heteroscedasticity. The results obtained indicate that the residuals of the estimated MLRM are homoscedastic. This suggests that there is no problem of heteroskedasticity on the residuals of the model, meaning that the results are valid and reliable, even for use in forecasting purposes.

Table 6. Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.447483	Prob. F(5,21)	0.2934
Obs*R-squared	8.287375	Prob. Chi-Square(5)	0.2426
Scaled explained SS	4.642096	Prob. Chi-Square(5)	0.6944

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 04/28/22 Time: 10:48
Sample: 22
Included observations: 154

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.092262	0.36094	0.56732	0.6700
COC	-0.233044	0.07620	-0.45938	0.6785
GVE	-0.18976	0.06325	-0.38975	0.5428
PSA	0.235060	0.01786	1.34223	0.2976
REQ	0.459804	0.29522	0.36782	0.9676
ROL	0.129120	0.10160	0.18291	0.9436
VOA	0.027878	0.04754	0.087196	0.0232
R-squared	0.491400	Mean depend var		0.09168
Adj R^2	0.466284	S.D. depend var		0.21726
S.E. of regression	0.231426	AIC		-5.9757
Sum sqd resid	0.048200	Sch. Criterion		-5.7671
Log-likelihood	158.0924	Hannan-Quinn criter.		-5.7852
F-statistic	4.477486	Durbin-Watson stat		3.4278
Prob(F-statistic)	0.244883			

4.2. The long-run and Co-Integrations Results

In the long run, the MLRM results indicate that VOA had a positive and statistically insignificant relationship with economic growth in Zimbabwe. For instance, the period before dollarization gave a negative and statistically significant relationship with economic growth in Zimbabwe, a finding in line with the works of Cheung et al. (2012). This implies that the events before dollarization damaged the Zimbabwean economic prospects. Further, the results indicated a positive and statistically significant relationship with economic growth in the dollarization era, a result that reflects the long-run findings by Meyer and Sanusi (2019), Mordecki and Ramirez (2008), Antelo and Valverde (1994), Karim, Karim, and Zaidi (2012), Shuaib and Dania (2015), and Bakare (2011). The period after dollarization turned into a negative and statistically insignificant relationship with measures of capital investment financing in Zimbabwe, namely FDI, GCF, and PR. However, the error correction had a weak positive and statistically insignificant relationship with economic growth in Zimbabwe. The results signify that in the long run, this system could go back to equilibrium, that is in the event of structural shocks the system could attain equilibrium again as shocks dwindle. Further, the error correction model used suggests that there is the possibility of some co-integration relationship among the independent variables factored into the MLR model.

Table 7. MLRM co-integrating and long-run form

Dependent Variable: VOA
Selected Model: MLRM (1, 0, 0, 0, 0, 0)
Date: 04/28/22 Time: 11:01
Sample: 22
Included observations: 154

Co-integrating Form:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(VOA)	0.060498	0.038496	0.046438	0.16574
D(PBD)	-0.159830	0.087929	-1.81635	0.07181
D(PDD)	0.681601	0.160819	6.858345	0.0000
D(PAD)	-0.034074	0.068154	-0.45451	0.68589
Cointeq(-1)	-0.431053	0.068843	-6.26137	0.00000

Cointeq = AV(FDI, GCF and PR) - 0.127260*VOA -0.376726*PBD + 1.5231566*PDD - 0.072084*PAD + 22.542366

Long Run Coefficients:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(VOA)	0.127260	0.077280	1.556348	0.1348
D(PBD)	-0.376726	0.189616	-1.847264	0.0649
D(PDD)	1.523156	0.254810	6.192998	0.0000
D(PAD)	-0.072084	0.156376	-0.463202	0.6768
C	22.542366	0.778537	28.678975	0.0000

5. Conclusion and Recommendations

Based on the estimated MLRM results we conclude that two measures of governance namely COC and GVE have a negative and fairly significant effect on the country's capital investment financing measured in terms of FDI, GCF, and PR. However, by comparison, COC had a more negative effect on the dependent variables compared to GVE. On the other hand, we conclude that PSA, REQ, ROL, and VOA had a positive impact on all measures of Zimbabwe's capital investment financing in the period under review. By comparison, the positive contribution of the four measures of governance is not the same. It is noted that REQ has the highest contribution, followed by PSA, and ROL while VOA has the least. Based on the long run and co-integration tests performed by the study on VOA, we also conclude that the period before dollarization (PBD) had a negative and significant influence on FDI, GCF, and PR as measured capital investment financing. This development implies that PBD substantially reduced the growth prospects for Zimbabwe. The study further concludes that the period during dollarization (PDD) had a strong positive and statistically significant relationship with VOA and the country's economic growth and development potential. This indicates the fact that VOA and dollarization affected positively the economic growth prospects of Zimbabwe in terms of FDI, GCF, and PR. as a country. The period after dollarization (PAD) like PBD has negatively impacted the country's economic prospects although the effects were not statistically significant.

The constant term of the MLR model used by the study resulted in a positive and statistically significant relationship with capital investment financing in Zimbabwe in the period under review

measured by FDI, GCF, and PR. In the long run, though, the study concludes that Zimbabwe's economy will reclaim equilibrium after the shocks would have evened out.

The study ends by recommending that the Government of Zimbabwe should separate political and economic activities or policies to curb nepotism, corruption, fraud and other forms of misappropriations to be able to lure both domestic and foreign direct investment (FDI). The Government of Zimbabwe should not politicise economic fundamentals such as the currency and exchange rate regimes, and demand and supply-side policies. By so doing it will be able to attract new capital formation and adhere to the requirements of governance and ethics to realize the injection of new capital needed to finance the country's development process to achieve real economic growth and sustainable development in the foreseeable. Finally, the Reserve Bank of Zimbabwe (RBZ) and its affiliates such as banks and similar financial institutions must be given autonomy or independence to operate free of political influence to meet their mandate. The Bank and its affiliates should therefore be able to lobby the Government through the parent Ministry of Finance and Economic Development for total autonomy, democratization, and liberalization of the financial system to achieve efficiency and effectiveness in their mandate of financial service delivery to the citizens and business community.

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