NEAR EAST UNIVERSITY
INSTITUTE OF GRADUATE STUDIES
DEPARTMENT OF BANKING AND FINANCE.

TITLE

IMPACT OF FOREIGN DIRECT INVESTMENT,ECONOMIC GROWTH ON FINANCIAL SECTOR DEVELOPMENT IN ZIMBABWE.

MSc. THESIS

PRAYER NGONIDZASHE KUWANA

NICOSIA
SEPTEMBER 2022

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APPROVAL

We certify that we have read the thesis submitted by …… titled "……. (in bold)" and that in our combined opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Educational Sciences.

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DECLARATION

I hereby declare that all the information, documents, analysis, and results in this thesis have been collected and presented according to the academic rules and ethical guidelines of Institute of Graduate Studies, Near East University. I also declare that as required by these rules and conduct, I have fully cited and referenced information and data that are not original to this study.

PRAYER NGONIDZASHE KUWANA

30/12/21.

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Abstract

The impact of foreign direct investments ,Economic growth on financial sector development in Zimbabwe.

Prayer Ngonidzashe Kuwana.
M/A Department of Banking and Finance
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The study checked the impact of Foreign direct investments, economic growth on the financial sector area development in Zimbabwe using annual dossier over the ending 1980-2005 all-encompassing. The study secondhand the Auto regressive distributed Lag (ARDL)approach to assess the linkage, whereas ECM was used to investigate short-run action. The results registered the relationship of a helpful and statistically significant long run connection between foreign direct investments, economic growth and financial sector area development that was logical accompanying different practical research., Alternatively, International trade were raise to have a quantitatively significant negative impact meaningful affect financial sector happening in the end. In the short term effect of economic growth found expected negative but statistically meaningful while that of offshore foreign direct investments, international trade and financial sector development was positive and statistically significant. The main procedure suggestion is management In Zimbabwe to push institutional subdivision through a financially located framework or through stock market publicity.

Keywords; Financial sector development, Economic growth, Foreign direct investments, ARDL ,Zimbabwe.

Abstract

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Table of content

Approval……..1
Declaration ……... ……2
Acknowledgement…… ...3
Abstract……4
Table of content…….. ……..6
List of Tables/List of figures……. …...8

CHAPTER 1

1.1Introduction……... 10
1.2Statement of the problem……. ….17
1.3 Purpose of the study……. ….18
1.4 Research Question……. ……18
1.5Significance of the study……. ….18
1.6 Limitations……. ….18
1.7 Definition of Terms……19

CHAPTER 2

Literature Review…….. 20
2.1Theoretical Framework……...20
2.2 Empirical Framework……. …….26

CHAPTER 3

Methodology and Data……. 48
3.1Data Description……48
3.2Econometrics methods……49
3.3Justification of the ARDL Approach……49
3.4 Advantages of ARDL Approach……50
3.5 Estimation Procedure ,The bounds Tests……..50
3.5.1Unit root test……..51
3.5.2Error Correction Model……52
3.5.3Diagonistic Test……52
3.5.4Augmented Dickey Fuller test……53

3.5.5Heteroscedasticity Test……...53
3.5.7Normality Test……...54
3.5.8Stability Test…… .54

CHAPTER 4

Data and results……,55
4.2Descriptive statistics results……55
4.3Unit root results……..56
4.4Cointegration test results……..57
4.5 ARDL bounds test……..……..57
4.6Long-run and Short-run……..……..58
4.7Residual Diagnostic test……59
4.8Normality test…….....60
4.9Stability test……61

CHAPTER 5

Conclusion and Recommendations…… …63
5.1Chapter summaries……...63
5.2Findings……...63
5.3Policy Implications……64
5.4Suggestions for the study……66
5.5Conclusion……..66
REFERENCES……67
APPENDICES……71

List of Tables.

Table .1 FDI,GDP and FSD relationship……..……41
Table 2 Descriptive statistics results……..……..….55
Table 3 Unit root results……..……..56
Table 4 Cointegration results…….…….…….…….57
Table 5 ARDL bound test results…….……58
Table 6 Long run and short run results……..…….59
Table 7 Residual diagnostic test results…….……60

List of figures

Figure 1 FDI net inflows…….……..16
Figure 2 GDP per capital/growth rate…….……17
Figure 3 Normality test results…….……60
Figure 4 CUSUM plot……;……61
Figure 5 CUSUM Q plot…….……61

List of Abbreviations

ARDL	Auto Regressive Distributed Lag Model
GDP	Gross Domestic Product
FDI	Foreign Direct Investments
FSD	Financial Sector Development
TRD	International Trade
OLS	Ordinary Least Squares
ECM	Error Correction Model
ADF	Augmented Dickey Fuller
PP test	Phillips-Peron test
Cusum	cumulative sum of squared
EG.	Economic growth
FD	Financial development

CHAPTER 1
Introduction

1.1 The impact of finance markets and their changing identity on commercial development have sparked a great deal of curiosity as to if they open on to productivity expansion, or this growth hastens the role of the financial sector. In addition, the view of developing countries' financial development and economic growth and an industrialized country have fascinated much research. The differences between a country that is developed that has good financial systems and capital markets with the one with bad financial system give an idea of how the dynamics of monetary and economic development will take place.The economic growth and development go back a long time (Kirkpatrick 2000) and have gained considerable attention literature, alike conceptual and empirical (Esso, 2010). Academics and policymakers have become more interested in the role of money system in industrial prosperity (Ndikumana, 2001), and various points of view have emerged. Interest in this sector has grown, albeit with mixed results, and it remains a theoretical and empirical debate (Boulika and Trabelisi, 2002).On the other perspective are those who claim that the development of the financial system is hostile to development(Van Wijnberg, 1983, Buffie, 1984). The development of the financial area facilitates the improvement of risk and the efficient allocation of resources; this can reduce the savings rate and risk and consequently lead to lessening consumer spending (Levine, 2004). This follows from the basic statement that if there is a high risk, there is high return. Moreso, Mukombero (2010)point out no link between the development of the monetary system, as well as economic expansion. According to Lucas (1988), the financial world is an “overloaded” trigger of economic growth, so any strategy to encourage financial sector development a mis-use of resources as it distracts more regulations' awareness such as improvement programs and productivity. Investment integration friendly tax reforms, export promotion; Several researchs (Gurley and Shaw, 1955,Goldsmith, 1969 Jung, 1986 Kar and Pfingsten, 2000 Boulika and Trabelisi 2004 Islam et al 2004 Guryay et al 2007) indicate an unidirectional causality of develop Finances countries whose economy are growing quick are forced to invest more in growing the monetary

system in order to stabilise their economic environment (Padilla and Mayer 2002).Study by (Won and Hsiao 2008). showed a strong mutual the relationship between FDI, economic growth and financial development for the three Newly Industrialized Asian Economies (ANIE) 1 of the first generation, but only a mediocre mutual connection between FDI and economic growth for the ANIEs of the second generation bal (2010) agreed in there own research on Pakistan with Hsiao (2008) on the mutual causal connection between FDI and economic growth. Lucas (1988) and Stern (1989) recommend that there may be no dating among monetary machine improvement and monetary increase. The different faculty of idea is that, the monetary machine develops in reaction to progressed monetary increase. According to Robinson (1952) 'in which organisation lead finance are as follows, As an economic system increase the monetary zone in response to the needs of the economic system. A quantity of studies by (Gurley and Shaw, 1955 Goldsmith, 1969 Jung 1986 Kar and Pentecost, 2000 Boulika and Trabelisi 2004 Islam et al 2004 Guray et al., 2007) recommend a undirectional causality from increase to finance. Countries, whose economies develop faster, are compelled to dedicate extra funding on enhancing the monetary machine, with a view to stabilize their monetary environment (Padilla and Mayer, 2002). Whereas there are a few trust the connection apparent to assure critical discussion'(vahombe 1998), even suggest a bidirectional causality among the (Demetriades and Hussein, 1996, Greenwood and Smith 1997 Al-Yousif 2002). According to Baggehot (1873) and Hicks (1969) improvement withinside the monetary machine performed a important position in modernizing England via way of means of easing the capital revolution . Schumpeter (1912) harnesses the significance of the banking machine in monetary increase, monetary establishments aid innovation and creativity and hence beautify destiny increase via way of means of figuring out and investment efficient investment. As a result it helps the advent of wealth, change and the allocation of capital (Ahmed, 2006). A few of the ancient discoveries on the connection among monetary improvement and monetary increase is primarily based totally on Schumpeter (1912) who asserts that the offerings supplied via way of means of the monetary intermediaries are critical for innovation and improvement. Fry in (1990) and Galbis (1977) took a huge step in addition to indicate complications

to force limits , in the banking system, also including credit score ceilings and excessive reserves necessities that have a bad effect in the improvement of the monetary area, which in the end reduces financial boom. The Zimbabwean monetary area has advanced from a highly shallow regime together with some gamers working below fantastically regulated surroundings right to a well-assorted and evolved area. Economic changes delivered withinside the 1990's resulted withinside the rest of governmental controls and brought on the inflow of recent gamers and precipitated extended opposition within the monetary area (Reserve Bank of Zimbabwe, 2005). Although Zimbabwean monetary area loved highly top of the line boom withinside the 1990's and all through the early in the new century, the arena skilled financial health and liquidity demanding situations within the closing region of 2003 which had been below-pinned via way of means of company debt levels in governance. The scenario over flowed into the year 2004, which have become one of the maximum Zimbabwe's years have been thrilling monetary offerings records as monetary unrest had established itself. withinside the economic system seeing that 2003. The turbulent monetary surroundings provided the Reserve bank of Zimbabwe with supervisory and regulatory demanding situations to instill balance withinside the monetary area. Strengthened supervisory measures had been recognized and imposed.

Furthermore, It might be argued that Zimbabwe which as soon as had a colorful economic system while it attained its independence in 1980 suits this type of billing. Zimbabwe had a extra state-of-the-art economic area than some other African countries aside from Southern Africa (UNDP). The Zimbabwean economic area passed through numerous transitions thereafter at some stage in the duration from 1980 to 2008. These ranged from intervals which have been characterized via way of means of excessive commands and a notably oligopolistic banking area. Around 1990 a craft of economic changes was made in order to liberalize the commercial area, while the authorities embrace the World Bank backed Economic Structural Adjustment Program.Later duration are defined as a time of economic restraint. It become characterised via way of means of economic area re-regulation, hobby charge controls and lending restrictions. Notwithstanding that the connection among economic

area improvement ,Foreign Direct Investment and monetary boom has obtained lots of interest from academics; now no longer lots of awareness have been granted to the economies that are maturing. Effects had been refuted . Research that used cross-phase and panel statistics commonly aid advantageous impact of economic improvement in monetary boom, research primarily based totally on time collection statistics regularly deliver contradictory effects (Karimanzira, 2011).

Analytically a little research has done in questioning the connection among financial development, FDI and GDP in Zimbabwe. In some cases, such investigations have been carried out in the structure of panel studies. Ahmed (2013) reports, among other things, a biased connection in the case of the finance sector and the advancement of the economy in Zimbabwe. Economic growth in African countries , Botswana , South Africa and Zimbabwe. Also past study had not specifically aimed on the changes of the financial area , but a driving force behind economic growth. Promote an efficient payment mechanism and provide savings and investment opportunities for savers, all that support economic expansion.Banks efficiently energize and link savings loans into the favourable investment opportunities. The FDI inflows into Zimbabwe from 1980 to 1990 were very small as a result of the unfavorable environmental policies for foreign investors, including the excess process needed to approve proposals from international investors, property restrictions that required 30% of participation of locals in some sectors, as well as the restrictive policy of profit repatriation(2011), the Zimbabwean government's policy towards international the late 1980s, investors began to shift .when faced with persistently low FDI. In 1989 the government acquire new investment codes. The aim was to expand the share of revenue after taxes that (MNEs) may take back anywhere from 50% to 100%.The Structural economic adjustment program (SEAP) funded by the IMF was externalized by the Zimbabwe government in 1990 and it included action to promote FDI. From 1960 to about 1979 there was a slight fall the percentage of bank deposit liabilities. A rise in terms of the proportion of bank deposit liabilities was seen from 1980 (after the War of Independence) to around 1989 before it is phased out and reaches around 19% in 1999 and international banks into the financial

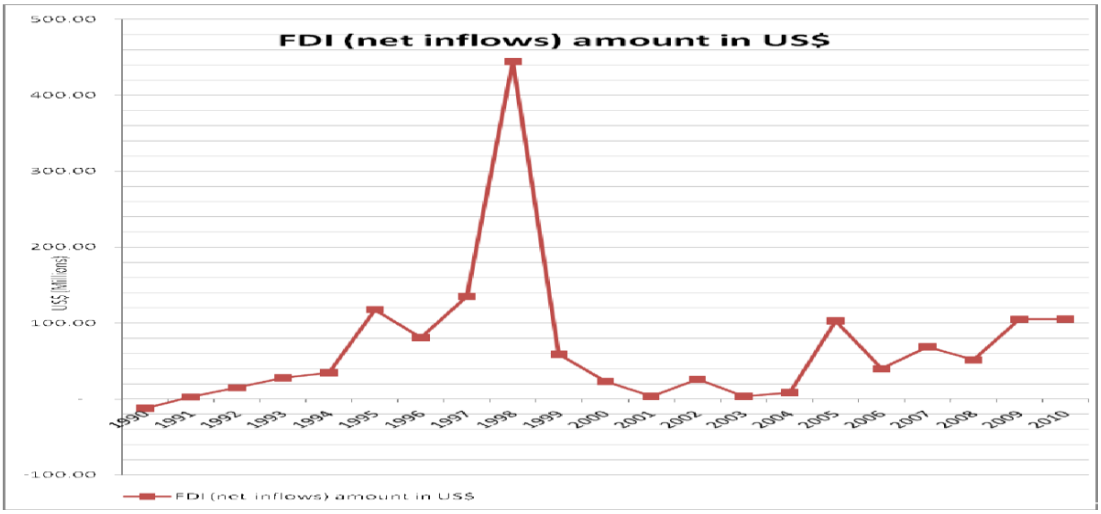
sector after the rise of the sanctions previously placed on government (Karimanzira 2011) with a huge decline from 2002 to 2008 due to inflation and An increase in the percentage of total deposit liabilities was also observed beginning in 2009 (during the dollarization period) and continuing to the present.

Zimbabwe Investment Centre (ZIC) turned into mounted as prevention keep declaration of Foreign direct investments proposals.The merchandising of FDI, in conjunction with a go back as a result of a liberal economy withinside a sharp rise in attracting fdi of more than US$ 10 million according to 12 months among 1992 to 1997 – attaining a document excessive stage of $444 million in 1997 (Mushaninga 2011). Figure 1 plans the computer network Inflows of foreign direct investment into Zimbabwe from 1990 to 2010. The World Bank claims that FDI evolved by 84% from 1980 to 1985, as long as FDI as a percentage of GDP proceeded up by 122% all along the alike ending. The ending from 1985 to 1990 proverb FDI shy from a positive US$ 2.85 heap to a negative $12.21 heap, illustrating a 528% ruin. The after five-old age ending noted a large 1064% from a negative to a positive trend in FDI net inflows 12.21 heap in 1990 to a beneficial $117.7 heap in 1995. According to the RBZ (1997) an study of the sectoral classification of private FDI from 1993 to 1997 shows that the mining subdivision has existed the big recipient of FDI, attended apiece manufacturing, and before the economic area individually (Reserve Bank, 1997). For example, in 1993, excavating and the production classifications received approximately 90% of the FDI inflows into Zimbabwe, as long as farming and marketing only taken approximately 9.6% and 4.6%, individually. Other subdivisions begun to benefit from FDI inflows by 1995, such as travel, retailing, creation and farming. Although the production area was the bigger beneficiary of FDI inflows in 1995 giving reason for about 42%, the old age 1996 proverb the excavating subdivision taking the chief FDI inflows of about 37%. This was followed by travel, that caught about 25%, and before creation and monetary subdivisions, which joint 10% each (RBZ, 1997). The old age 1997 proverb production, creation and trade taking a significant portion of the FDI inflows, at the payment of the additional business-related areas of Zimbabwe.

Foreign direct investments declined to 80% from $ 117.7 million in 1995 to $ 23.2 million in 2000, while the share of Foreign direct investments as of GDP also decreased with 79%. According to Marangwanda (2011), net FDI inflows into Zimbabwe in 1998 were more than $ 444 million; In 2001, net FDI inflows had declined to 2 million, which resulted in the conversion of Zimbabwe's monetary account from 7.1% of GDP in 1995 to a deficit of 6.5% of GDP reflected in 2002. Confidence was further shaken in 2000 when the compulsory procurement of agricultural products, made possible by a parliamentary act. The inflow of FDI into Zimbabwe increased 343% from 2000 (€ 23.2 million).While FDI's net inflows into Zimbabwe grew steadily by 3% in 2005 - 2010, their assistance to the Zimbabwean economy decreased by 23%, like that of 1,841. FDI's share of GDP in 2005 decreased to 1,410 . They are three different phases from 1985 to 2010 that describe Zimbabwe's economy is growing, and it is growing positively from 1985 to 1990 negative economic growth from 1991 to 2008 included a recovery period during 2009 and 2010. From the GDP grew by 55.82% from 1985-1990, while GDP per capita rose by 31.80% in the same period. The GDP shrank from $ 8.7 billion to $ 8.1 billion, or 20% decline. The downturn in the Zimbabwean economy continued over the period 19952000, with GDP continuing to decline by 8%, while GDP per capita fell by 13.22% over the same period. In the period 2000-2005, GDP declined from $ 6.6 billion in 2000 to $ 5.6 billion in 2005, while GDP per capita decreased by 15.90% from US $ 528 in the same period Dollars fell to $ 444. On average, between 1990 and 2005, the Zimbabwean economy contracted by 36.44% GDP, while GDP per capita also suffered by 47.Zimbabwe recorded GDP growth of 5.7% in 2009 and 8.1% in 2010. This good growth was due to improved policies, a favorable external environment and extra-budgetary donor support (Ministry of Finance). As a consequence, the economy has begun to recover increased GDP by 33.86% from 2005 to 2010 and GDP per capita by 33.85%. Barriers to economic growth remain in Zimbabwe, although 2011 GDP is supposed to be among the highest in Africa. Countries to 8 % 7.These barriers include a significant budget gap, an unproductive composition of public spending, vulnerabilities in the financial sector, a weak business exacerbated by imposing of the Indigenization Act,

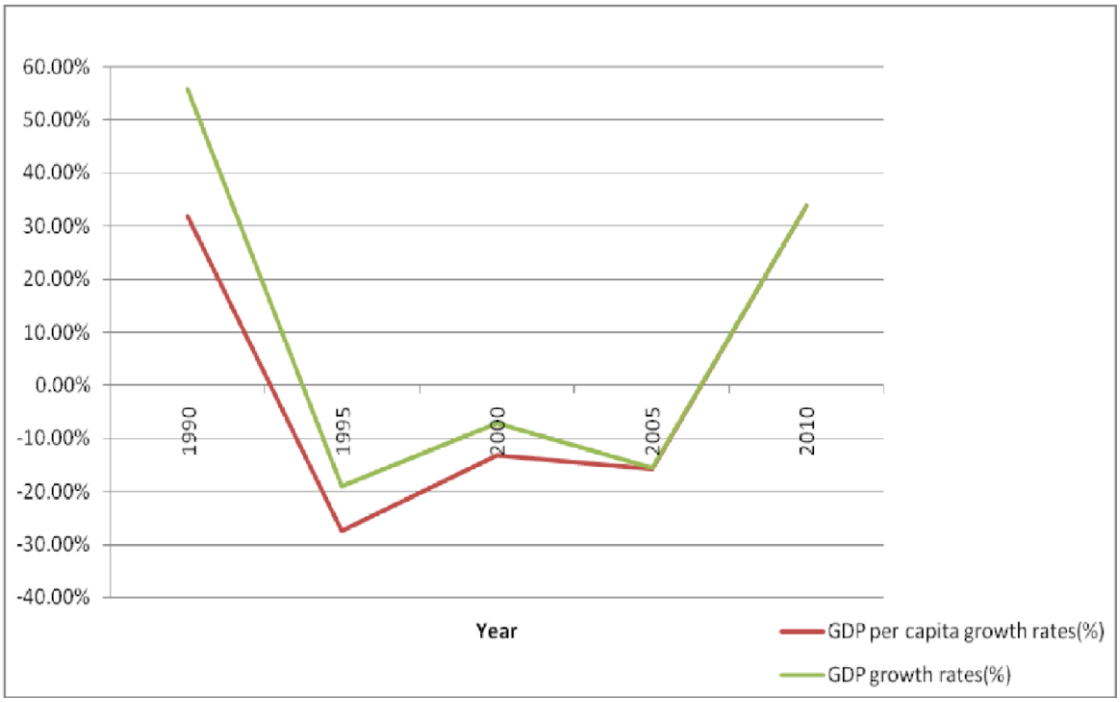
and the low savings rate (IMF, 2011). out of 189 worldwide In 2014, South Africa ranked 43 on the World Bank's Ease of Doing Business scale, Botswana 56, and Zambia 86. Since the dollar's inception in 2009, investments have been in Average of only 17% of GDP, while economic growth requires investment rate of 30% of GDP. According to Chikwape (1980), private investors represented 70% of the cumulative stock of capital at the time of independence, and foreign direct investment oversized foreign capital inflows. Zimbabwe's FDI inflows have ranged from war countries such as Burundi, the Central Africa and Libya. In an increasingly integrated economy, multinational corporations (MNC S) create foreign investment judgements relating to strategic standards such as market size and growth, geographical location sights, and so on, endowment with natural resources, level of human capital skill, availability of minimum salary , and country stability as an export platform or as a location offshoring. Zimbabwe low FDI development since the 1980s is not comprehensible and puzzling as it owns most of these funds.

Figure 1. *FDI 1990-2010 in Zimbabwe*



Source ; World Bank

Figure 2. *GDP P, growth rates (%) from 1990 -2010 in Zimbabwe*.



This paper is structured segments , Chapter 1 has the introduction and the background of the study and gives the overview of FDI, GDP and also the financial system development in Zimbabwe ,Chapter 2 is the literature review, theoretical framework and empirical review. Chapter 3 is the methodology used for the study, Chapter 4 is the presentation of data and discussions gathered .Chapter 5 is the summary and conclusion of the study.

1.2 Problem Statement.

There were extensive worldwide actions taken in the 1990s by growth and finance organizations comparable to the World Bank and the International Monetary Fund (IMF) for grown nations to end constraint and liberalize their monetary markets for the accomplishment of maintained monetary tumor. However, unrestricted finance-persuaded development is realized if the practical cause and effect connection between fiscal happening, Foreign direct investments and financial sector is famous definitely, still skilled is scarcity for a prementioned practical proof on Zimbabwe. The existent studies present contradictory proof and besides no one of bureaucracy together checked FDI,GDP and FSD in a united framework.

1.3 Purpose of the study.

Purpose of this paper is evaluating the impact of Foreign Direct investments,Economic Growth in the Financial sector development in Zimbabwe. Also checking the casual and bidirectional relationship between the FDI , GDP and FSD of Zimbabwe.

1.4 Research Questions.

i What is the ramification of Foreign Direct Investment on Financial Sector Development?
ii What is the Impact of Economic growth on Financial Development?
iii Does Financial development exhibit a bidirectional connection with Foreign Direct Investment?
iv Does Financial development exhibit a bidirectional connection with Economic Growth?
v What is the casual relationship between the variables (FDI,EG,FD)and is it significant?
vi How can the government improve FD, given the levels of FDI and GDP?]

1.5 Significance of the Study.

The research was done in fulfillment of the requirements of Masters Banking and Finance at Near East University. It assisted the researcher in Sharpening and enhancing research skills and an in-depth understanding of both theoretical and practical knowledge in the area of the study .The researcher also gained enhanced skills in identifying problems and recommending practical solutions.

1.6 Limitations.

Availability of quarterly and monthly data was not found , the use of annual series data was implied to investigate the effect of foreign direct investment and economic growth on financial sector development in Zimbabwe. While Foreign direct investments data was available prior to 1980, no economic growth data available hence the shorter sample period 1980– 2005. In 2000-2004, Zimbabwe faced hug a high price problem and in 2005 the country Its

currency was changed and and this raised measurement problems. However World Bank source used is real data for this analysis and was denominated in United States dollars (US$).

1.7 Definition of terms.

Economic Growth -is the expansion in inflation and the adjustment of market goods and services manufactured by the economy over time . It is expressed as a percentage increase in real gross domestic product, or real GDP.

Foreign Direct Investment – is a form of investment controlling ownership in a business in a country basing on other country and it also represents the intention of achieving interest by resident entity of one economy in an enterprise in another country.

Financial Development- FD it is the reduction of costs accruing knowledge, contract enforcement, and interactional activities that result in financial contracts, markets, and brokers.

Chapter 1 gave the introduction to the study. It outlined the background to the study, statement of the problem as well as the study objectives and the hypotheses to be tested. significance of the study, its limitations and definition of terms were also given.

CHAPTER 2
Literature review

2.1 Theoretical Review.

Financial development is defined in the Financial Development Reports as the institutions and practices that lead to efficient financial intermediation and markets, and also broad and deep availability to financial capital services. In addition, Khan and Senhadju (2000) also financial development is defined as a measure of the the depth of a country's financial resources market.While economic development is seen as an expansion real income per capita. Foreign direct investment can be described as an investment made to acquire a permanent stake in companies or countries that operate in an economy other than an investor and the aim of which is to just have efficient say in the running of the resident company in to have the alternative economy (IMF, 1977). The history of FDI, financial developments and economic growth comes to Schumpeter's (1912) and McKinnon's (1912) works (1973).Most of the history argues with aspects of financial quelling and financial society liberalization and borders on to what level to which they encourage economic development. Schumpeter's main point was the significance of the role those financial institutions play in promoting economic activity and technological innovation. two functions. The theoretical idea of FDI is the eclectic paradigm,which includes the work of Vernon, 1966.Dunning(1977) idea , companies invest overseas to seek advantages of ownership, location, and internalization. Specific property gaining from knowledge-based intangible assets that include rights to property, breakthroughs, and processes improvements, marketing and management skills, patents, and experiences that enable a company to participate in markets with others to be foreign (Dunning1993).Site-specific FDI is grouped in categories thus hierarchical and network-related advantages(Dunning 1995).Benefits include the labor, management abilities, and fiscal incentives and deterrents, plant economies of scale, quality, and productivity, endowment with, trading barriers that restricts the imports, and trade cost gains that make the country attractive for foreign direct investment. Internalization or network related benefits speculate on imperfections in foreign markets and reducing externalities including tariffs, trade policies, and

subventions (Vernon 1966). In most emerging regions, including Zimbabwe, foreign investors seek resources, businesses, efficiencies, and strategic advantages. Companies that are seeking for resources to invest in the have go a process of addressing concerns such as raw materials, manpower and platform (physical). According to Asiedu (2002 Sikwila 2015), low-income on southern African countries may attract little foreign direct investment. Reduce labor costs, lower production and they over take trade liberalization in developing countries like Zimbabwe. Companies seeking strategic direction need access to reprocessed, innovation, and cutting-edge technology. This type of investment is not usually found in some of the developing countries, as research and development levels are not high because of internal financial constraints. Sikwila(2015) mention that, resource-seeking companies in small, developed countries are looking for minerals from Zimbabwe and Botswana like gold. Wood in the Democratic Republic of the Congo, wood and efficiency, and skilled labor in South Africa.

McKinnon philosophical system assumes that financial advancement is hampered due to state regulations, bank rate caps, loan subventions, and high reserve criteria for the financial sector are all examples of government intervention. The connection among the financial and real sectors can segmentized in terms of causality on the basis of hypotheses, firstly no causal relationship is there ,secondly the causal relationship is the demand sequence economic growth trigger to the to demand of financial services, thirdly causal link determines the supply, ie the growth of services relating to finance will stimulate economic development, fourthly a negative causal relationship between finance and growth, fifthly Interdependence . In the literature, however, there are three main ideas on the connection between our three variables FSD,FDI,GDP. However, Khan and Seshadri (2003) emphasize that its development of GDP depends on various index of financial development are , the method of estimation, the frequency of the data and the connection. The 2nd perspective is that financial deepening is less crucial for economic growth (Robinson, 1953 Lucas, 1988). According to the third point of view, financial globalization will slow economy and increase inflation.

General liberalization causes interest rates and production costs to rise, leading to price increases.

FDI may have a favorable effect on Gdp growth. Because of the recipient economy's increased capital creation, FDI may lead to increased growth by introducing new technologies such as modern manufacturing processes and techniques, managerial skills, ideas, and new strains of capital goods . The importance of changes in technology for growth in the economy has been emphasized in the major growth literature. Helpmann and Grossman, 1991.The growth rate of small, developed countries is assumed to be extremely reliant on the extent to which those same countries are capable of adopting and implementing technological advances available in developed countries .By adopting new technologies and ideas. They might get to a point of levels of technology in the developing countries. Foreign direct investments are one channel through which less developed countries can adopt and implement new technologies and ideas.Technological advances in these countries may spread from transnational affiliates to domestic firms. The use of technological advances may be significant in regard to higher capital and labor productive output in the host nation. Spillovers can occur through show of strength or imitation, the entry of foreign firms puts pressure on domestic firms to expand their activities and invest in new technology, linkages spillovers through exchanges between transnationals and local companies, and or mentoring (domestic firms upgrade employees' skills to allow them to work with new technology) (Kinoshia,2000).

Some of the writers see the introduction of new technology and management skills requires input on workforce, high quality productive assets must be coupled with a workforce capable of understanding and implementing new technologies. Spillover effects of technology is therefore only possible minimum level or certain “threshold” the receiving country has a surplus of human resources (Bornstein 1998). This implies that FDI and organizational factors are mutually beneficial in the process of technological diffusion. Other authors contend that in the presence with well markets, the science and technology spillover process is reliable. In such situations, the environment

wherein the FDI operates ensures competition and reduces perverse incentives, which improves company-to-company information sharing. Bhagwati,1978 Some authors agree that establishing property rights, particularly intellectual property rights, is critical to attracting high-tech foreign direct investment (Maryanski 1999). Once property rights are not adequately protected in a country, foreign firms will make low-tech investments, found that low for ripple effects and productivity increases for domestic firms.

Patrick(1966) goes on to describe the coincidental relationship among macroeconomic factors in two ways. The term "demand monitoring" refers to the process of adjusting the supply of financial products in response to an increase in demand for financial assets affected by market growth. As a result, in this configuration, economic growth comes before financial development. Financial development is a result of economic growth.This consistent response is considered automatic. Financial intermediation and business development companies by introducing diversification on financial use. Thus, by channeling funds from small savers to large investors, financial innovation enables entrepreneurs to sum up business ventures that enhances and increases economic . Loan incentives can be used to categorize the mode, bank savings requirements and approved loans to critical economic sectors in developing countries.McKinnon's substitutability hypothesis is based on Keynesian and monetary theories' failure to describe the preeminence of real cash balances in the workings of stock markets in poor countries. Thus, McKinnon's substitutability theory emphasizes the connection between budgetary processes and wealth creation in developing countries.The complementarity hypothesis suggests that financial repression stifles economic growth. Patrick(1966) see credit as an engine of economic development, as discussed above, appear to be what McKinnon recognizes as economic expansion impediments. Leading form for GDP in the McKinnon and the financial industry points to strong reserve requirements as an obstacle (among other factors) to economic growth. FDI lead to GDP from the neoclassical theory, as well as intracellular growth theory. Solow and Swan's (1956) neoclassical theory is a progress on Harrod-1948 Domra's Keynesian model.Technology as engines of a country's economic growth (Kasun,

2011)study is based on a country with no space for trade, so growth is exogenous. The SolowSwan model is based on the assumption of continuous yields to scale and lowering peripheral returns on capital. These constrictive assertions imply that the SolowSwan model failed to explain technological progress and, as a result, national differences with per capita income, the explanation of the aim of national foundation on which role does FDI play in industrial prosperity is based. The area Modernization is one way that FDI heavily influences. FDI is moving production to the host country, reducing the cost of introducing technology. This is typically done reversed (Amy & Saggi, 2008). The technology transfer embedded in FDI leads to higher total factor productivity (OECD, 2016) and higher economic growth. Second, foreign investors provide urgently needed capital through MNEs in particular, multinational companies give economic resources are available that are not available to companies in the host country due to their size and financial strength (KurtishiKastrati (2013). In addition, multinational companies often use foreign one's Direct investment in order to provide foreign service customers through intra-group trade.

FDI lead economic growth by creating jobs. Foreign investment requires labor and many locals find work. More lately, the World Bank (2020) associates the impact of Foreign aid on workforce with various types of local businesses, beginning with foreign-owned local businesses. businesses, subsidiaries of multinational corporations secondly national companies that trade with MNE subsidiaries (suppliers or buyers) and thirdly national companies that are in competition with MNE partners. The empirical proof from Craigwell (2006) and Rahman (2014) shows that FDI is positively related to job creation. The job growth relationship is greater in emerging regions, where equity is scarce and labor is scarce,is plentiful, than in developed countries, resulting in higher national incomes and purchasing power for poor domestic and foreign workers. According to an Economic outlook, FDI serves as a strong incentive for competition and innovation and encourages national companies to cut costs and improve their competitiveness through increased competition. Due to competition from foreign companies, domestic companies are aimed to get better ways of production to improve the productivity and the standard of

goods and services (Andreica and Maricescu, 2011). This improves production energy and system allocation and to make local companies more competent. Good abilities are brought to the local market through vocational training, skills transfer and the change of new management and organizational practices. Workers acquire new abilities through overt and covert instruction and take them once they re-enter, bring them with them. the national labor market. therefore, promoted by a qualified experienced workforce that uses practices well (Majeed and Ahmad, 2008).

BaliamouneLutz discovered that foreign investments have a favorable effect on GDP through improved exports. Kabir(2007) shared a similar view that FDI increases export volumes and thus improves foreign exchange income. Forming marketing and sales channels and thus forming the capital-raising capacity of economies, which through FDI form an instrument for the purpose of job creation, poverty alleviation, and economic expansion (Hacke and Wood) (2013)FDI also closes the currency gap and opens easy access for local businesses on foreign capital inflows and increasing long-term investment.

FDI increase should be noticed and it is very importat because it will not always lead to economic expansion and capital formation, as is the standard position of theories. The OECD states that the FDI create a monopoly structure that leads to underutilization. System of production and a foreign-controlled economy would emerge disruptively rather than organically.Done (2013) also argues that foreign direct investment is a mechanism. for Westerners to exploit and control ermerging countries. FDI can be stressful, which can be both risky and costly economically unprofitable. FDI expands the country imports because FDI funded companies often require high equity and luxury inputs not accessible in the home nation Imports can have an impact on economic growth because of the resulting trade deficit (Fry1999). FDI can harm the host company's economic development. Do not try to find out if FDI funded companies are returning excess gains towards the firm, which negatively impacts the base of the host state pyramid (Jensen, 2008).

2.2 Empirical Review

Most of the empirical studies carried out have emphasized the determination of the causal direction of the flow inix FD, FDI and EG. One of the main results is the directed flow of causality between FD and EG in the short term. The data sets are diverse and therefore provide various outcomes that differ from panel data in subregions, developing , and a mix of developing and industrialized countries. Granger in most studies he conducted empirical study on FD and EG, a time series of data for 168 countries grouped in 8 regions of East Asia and the Pacific, Europe and Central Europe,Latin America and the Caribbean, Middle East and North Africa, South Asia, Sub-Saharan Africa and OECD with good income establishing a short-term, reciprocal causal connection in all regions among FD and EG of Africa and East Asia in which the causality is EG to FD. It suggests low growth in GDP, as well as undeveloped systems that does not generate significant EG.However, Liu (2003) divided their data set of 109 industrial and developing countries into developing and industrialized countries, resulting in a bidirectional causality way and emerging economies gaining financial advancement being able to expand economic growth. Odedokun (1996) conducted a series study of 71 developing countries and he arranged them into high income and low income .Watson statistics of first order correlation, using Ordinary Least Squares, show that FD promotes EG in 85 percent of 71 less developed countries .Odedokun concurs accompanying and Lui on account of FD effect on EG is more conspicuous in the depressed pay underdeveloped countries than in extreme gains underdeveloped countries. Dawson (2008) create singular judgments on FD effect on EG by utilizing three beginnings of progress equatings that are established aggregate result to find the beginnings of progress on a committee dossier of 44 underdeveloped countries. The first equating had FD as a supplementary recommendation EG is persistent bury alia apiece tumor in services supply. The second equating had the percentage of broad money to GDP as agent for FD. The third equation depicted a multiple economy in which finance industry production creates positive external costs in the real sector. The results show that FD benefits EG when the first and second equations are contrasted as models with fixed effect and random on EG, respectively, and that EG is used as a vpn service for Fd,it gives a underrated specified equation

for the facts of growth, implying that option measurements are required of FD produce contradictory findings regarding its empirical relationship to EG .Karimamnzira(2011) conducted a research with panel data from countries in the Middle East in use of panel causality analysis method. Their results support demand and supply monitoring hypotheses and direct causality is shown in specification to the country and the Fd.

They show these results to out state that the financial and real sectors are in most cases intertwined. They also claim that there is no solid evidence for MENA countries FD is a main determinant that's why EG Islamic banking laws are a determining factor. FD inhibitor WoldeRufael (2009) searched the random connection of investment and economic growth in Kenya with a four-variable exports and imports are used as supplemental causality in a vector framework.The three metrics are domestic banking and EG credit, total internal banking area lending and EG and EG liquid liabilities. Kenya gave conclusion that the following supply and demand hypotheses are not valid in Kenya study. The FD and TRD results show that FD lead to exports and imports, but the causality connection is very weak in the opposite direction (exports and imports FD) and furthermore, the data is inconclusive to demonstrating the 2 different relationship respectively FD, exports, and imports. Garande(2002) used a Granger test performed within a cointegration to establish a mutual random relationship between FD and EG in both the long and short term and analyzed it as an determinant of financial sectors real that stimulate development. Dolgopolova (2011)conducted good research on China applying the JJ cointegration method to determine the type of connection that happened between FD and EG ,negative and long term positive connection results among FD and EG was found. As an example, in 1991 a negative connection on FD and EG was noted .These results suggest FD is inline with the case of China, economic growth Jecheche (2011) examines the connection between FD and EG from 1999- 2008 in Zimbabwe. With the use of autoregressive distributed lag (ARDL) approach, it is believed there is a unique cointegration relationship between GDP, financial developments, investments and the deposit rate. In both the long and the short term, they show that Fd, the relationship between investment and GDP, and the real

deposit rate had a positive impact on economic growth. Financial development induces EG across increased investment. The study makes specific proposals for EG in order to boost credit supply to the private sector, particularly in rural areas where financial inclusion is limited, and advocates for the establishment of a favorable legislative structure that enables efficient lending, which is supported by reforms of the private sector and the performance of local contracts would be supported. In addition, stimulating the operations of the Zimbabwe Stock Exchange was seen as essential in order to increase funding sources short and long term. and the results of Guidotti (1995) showing the key transmission channel FD to EG is investment Instead of volume, prioritize efficiency.In this case, however, Jecheche suggests the need for a higher volume of investment within FD in Zimbabwe to stimulate EG. In addition, Jecheche Gregorio and Guidotti seem to agree that, once financial repression is lifted, an adequate regulatory framework is needed to avoid costly financial crises Studies explaining the connection on FDI and economic growth are arranged into four viewpoints. According to this view, foreign direct investment stimulates EG. Bogahawatte (2004) found that FDI has a significant and positive effect on Sri Lanka's EG in their study. Wang (2004) found that FDI does have a positive impact on Sri Lanka's EG in their study. While Wung (2004) and Balamurali (2004) concurred, his research found that FDI had a minor impact on EG.

So as to benefit from the mechanics reactions of unfamiliar direct expenditure and to sustainably promote financial development, the host nations must cultivate establishments and foundation (Wang and Xie, 2004). In addition, Eller and others. (2006) demonstrated that the influence of offshore direct investment in the FDI subdivision on business-related progress depends quite honest of financial growth in the host country. Their study erect that FSFDI in later stages was more advantageous for economic development and growth in Central and Eastern Europe distinguished to former FS,FDI stages. Eller and others. (2006) raise that the dislocation of local real capital through the effort of unfamiliar banks above the beginning of business-related incident appears to preclude economic progress in Eastern Europe. Vita and Kyaw (2009) erect related results to Eller and others. Their research displayed those

only nations whose frugalities have attained a minimum level of economic growth and assimilation volume can impose upon the development-advancing belongings of FD. Mahwekwe and Nyathi (2009) raise a significant and certain union middle from two points FDI, human capital and fiscal expanding. on financial progress in Malaysia. They further erect that the effect of FDI on business-related progress was inferior that of household finance. Because of allure interaction accompanying FDI, human capital and monetary markets and allure general affect financial development. Vu(2009) revealed in their study that the significantly definite friendship 'tween FDI and financial tumor was not equitably delivered in all business-related subdivisions. A study by Sottas(2009) raise that FDI provides to business-related tumor country by growing nationwide capital and improving effectiveness through the transfer of new electronics, commercialization and administration abilities. His research erect that FDI is a unavoidable but not a enough condition for financial growth. The range at which point the frugality can benefit from FDI inflows depends on the host country's particular environments and governmental surroundings, in addition to the opportunities for links middle from two points FDI and household property.

Ekanayake and Lidgerwood (2010) suited Adams (2009) in their research on the question of the certain and important belongings of FDI on financial progress in underdeveloped countries. In addition, a study by Hoang and others establish that FDI has a powerful affect Vietnam's economic development. Their research was expanded upon raises that supplementary capital from FDI inflows seems to be the only pathway that aids in increasing financial development. Study raises of highest quality-put paint or finish on Granger origin of FDI to financial development . In addition, the study again erects that financial tumor and happening are massively reliant quite honest FDI into Cyprus (Freidan, 2004). In contrast, Wung (2009) establish that only the inflow of FDI from production had a certain and meaningful affect business-related tumor, while the flow of FDI from non-production had a helpful but very insignificant affect the frugality would have. According to Tanggapantnam and others. (2011) skilled is an unintended relation betwixt FDI and business-related development. The research established that capital development, fiscal

incident and tangible environments are main conditions for FDI to have a definite effect on business-related development. Mahwekwe(2009) concurred the results of Tanggapantnam and others and accentuated FDI may lead to a negative impact on growth of the device in the enduring if the level of economic growth is approximately depressed. The host country's monetary system is aimed for taking the financial benefits of FDI.

Another viewpoint notes that business-related progress advances FDI; Studies in accordance with this viewpoint involve those Sun (2011). Ang (2008) erect actual GDP had a meaningful beneficial affect the rush of FDI into Malaysia. In those other utterances, the study determines evidence that GDP progress rates had a helpful affect FDI inflows into Malaysian country. A 1% increase in actual GDP increased FDI inflows into Malaysia by 0.95 percent (Ang, 2008). Sun's (2011) study again demonstrated of highest quality-habit origin betwixt financial tumor and FDI in China, a view situated Chowdhury and Mavrotas (2005), whose results accompanied of highest quality-habit origin betwixt GDP to FDI enough Chile.

The triennial state that two together FDI and financial progress are mutually advantageous; Studies that pertain this viewpoint involve those by Guhwa (2005). Skilled powerful complementary connection among FDI and financial progress in two together grown and underdeveloped regions. The study found that numbering capital, concerning details abilities, and business-related tumor would bring about more FDI and this in turn would spur more financial tumor and competition. Ang (2005) displayed that the definite equating between FDI and financial tumor is the result of an inner reaction to financial unification, outside necessarily indicating a fresh connection leads to FDI and this leads to an growth of test actions and increases the growth rate of the realm saving. Chakraborty and Nunnenkamp (2008) establish that the Granger origin at the aggregate level displayed response belongings between FDI and product, two together in the short and general in India. rather more forceful than FDI in encouraging economic tumor. In addition, Chakraborty and Nanoamp (2008) establish that the definite impact of FDI on India's financial progress is mostly enclosed to manufacturing, While no evidence of a fresh friendship in the basic

subdivision among Foreign direct investment and financial expansion in India was raise, Dash and Sharma (2011) concurred in their results that the fresh connection middle from two points FDI and financial progress is reciprocal. This was situated Marotta's (2005), whose study revealed a powerful common fresh friendship between FDI and business-related progress in two together Malaysia and Thailand. The divide into four equal parts position states that skilled is no link middle from two points FDI and economic progress; Studies that concur this viewpoint are those Pokharel (2011), Lean (2008) and Naguib (2012), Lyrid and Aperies (2008).The research by Yan and Pokharel (2010) manage not find a direct habit to label the link middle from two points investment and GDP in Nepal .Lean(2008) also establish that FDI in Malaysia's production area and business-related development were free of each other.

In particular, welcome study raises that in this place sector skilled was no temporary and general connection middle from two points FDI and GDP, or with the order reversed, from 1980-2005 production. According to Lean (2008), challenges to a degree dishonesty, cultural purchase limits need expected regulatory hurdles to trade movements and limits on capital flow address to advance the influence of foreign investments on economic development. Naguib (2012) erect a complementary judgment in investigation into the effects of FDI and privatization on financial tumor in Argentina.Wald test did not dismiss the theory that the effect of FDI on financial tumor in the temporary is zero, While the cointegration heading results too marked that has insignificant belongings on unending economic development , Lyroudi and Aperies (2008) again establish a very limited and insignificant connection between FDI and financial development. it proverbs abandoned privatization programs. In a study on Turkey, Bilgic (2007) erect no causal connection either in the short or long period of time, either betwixt financial development and FDI or 'tween FDI and economic growth .Tapera (2016) inspected various clever documents selected by African governments to intrigue FDI to achieve tenable incident. This study too distinguished direct external inflows middle from two points Zimbabwe, South Africa and Mozambique and found that measures in the way that indigenization and financial authorization, the presentation of distinguished financial zones and the introduction of miscellaneous

inducements for overseas financiers are main in order to generate a useful and reliable atmosphere for overseas financiers.O'Meara (2015) examined the main cause of FDI at the worldwide level. Industrialized and underdeveloped countries in a changeless magnitude. With the use of OLS method, the study erects those variables had connection with the length and capacity of financial venture were incentives, and human capital and business-related privilege were not pertaining to in captivating FDI. 2015 determined the motorists of FDI in African countries utilizing the Least Squares of Dummy Variables (LSDV) approach. This study establishes that extreme business-related risk in another way and significantly influences FDI in Africa. Political and Financial Risks Did Not Impact FDI Drivers. Stock market acting had a definite and meaningful affect FDI flows. The study again found that FDI pursued over opportunity, suggesting that flows from the premature ending had an affect flow from the following period.

Anyanwu (2012) checked the motorists of FDI in 35 African nations over the ending 1996-2008. This study raises that the length of the market and the flow of FDI have a meaningful certain equating. Okafor (2014) checked the determinants forceful FDI in a sample of Sub-Saharan Africa and North Africa, utilizing the linked OLS pattern and the established belongings method, and erect that appropriateness, baseness, open-mindedness to profession and calculated assets the main motorists were of FDI in SSA Azam and Luckman (2010) secondhand the OLS approach to resolve the cause of FDI in India, Indonesia, and Pakistan between 1971-2005. The results confirmed that management use, mortgage and taxes had an opposite affect FDI, while display size, household loan and open-mindedness were definite; still, the rate of swelling turned out expected insignificant accompanying surprising helpful signs. coop (2011) examined the determinants that drive important golden parties to pick the region for their business. This study evaluated financial, governmental, supervisory, foundation and finance risk variables and found that ultimate main determinants were the reduced level of dishonesty, the favorable business-related surroundings for trades, the adeptness of the organizations, friendly tax laws and see-through regulations. it more captivated golden producers.

Andreia (2011) attempted a sectorial study on the cause of Portuguese FDI utilizing OLS during 1980–2009. This study settled that exchange rates, salaries and tariff doesn't have effect on FDI. To some extent, openness and GDP definitely jolted FDI in the MS.Siphambe (2004) settled that constant governmental atmosphere, resistant macroeconomic procedures and exchange rates are meaningful cause of FDI inflows. He again raise that educated human capital and lowered violation rates engaged FDI inflows in Botswana.Hess{2000) judged the financing temperature in Southern Africa. He working a survey-type research interviewing any of associations the one cherished to purchase the Southern African Development Community (SADC). This study established that lack of transparence, doubtful governmental and business-related atmosphere, extreme tariff, dishonesty and weak foundation were hurdles to FDI in the SADC domain. The study recommended that governments endure conceive resistant governmental and macroeconomic atmosphere to engage more FDI inflows.

In the SADC domain, Okafor (2015) and Marimbe (2016) secondhand the cointegration method momentary succession dossier in their practical studies, but came near different results. Ogbokor (2016) quantitatively calculated the influence of different direct asset on the Namibian frugality. Growth accompanying cointegration methods. The study secondhand an annual basic document file from 1990 - 2014 and raise that FDI has a powerful affect financial development. Zambia documents a various outlook between 1980 to 2012. The Johansen cointegration scrutinize at and the Granger origin order had happened used to honor the connection. The belongings rooted that FDI does immediately no longer Granger reason economic boom. Studies in Zimbabwe, in addition to Zingwena (2014), Moyo (2017), and Mushavarati (2017), among remainder of something, offer authentication that FDI has a large fine effect on monetary boom. Mushavati (2013) determined the impact of FDI on GDP in Zimbabwe at few point of the referring to a specifically known amount of dealings in foreign money generation (2009 to 2012). In welcome method generally located completely at the example of optimism (determinable research), he checked (1) connecting FDI to commercial boom and (2) connecting macroeconomic variables (experts payment, swelling, hobby

charges, outside mortgage, individual capital, and computer network exports) to commercial boom (FDI all-embracing). Evidence grown in welcome paper rooted that an boom in FDI by way of habit of way of 1% led to a 24.6% boom in GDP. Moyo furthermore driven that experts payment and individual capital have a large and fine effect on gross home output. However, will increase in increase and avocation charges had existed driven to have an effect on GDP otherwise. The records curve into unconvincing at the impact of outside deficit and computer network exports on monetary boom. This power have existed by way of the calm records sample (2009-2012) contracted withinside the research.

In contrast to Moyo (2013), Musharavati (2017) study dates from before the multicurrency generation and checked the relationship 'tween FDI and financial progress in Zimbabwe utilizing the ARDL cointegration approach according to schedule succession data traversing from 1975 to 2007 hold few descriptive variables to a degree exposure to trade, public giving and land output. Like the results of Moyo (2013), the short- and complete connections demonstrated that FDI has a positive and important affect business-related development. The study directed on the impact of FDI in Zimbabwe's farming sector during 1980 to 2012, utilizing StockWatson's Dynamic Ordinary Least Squares (DOLS) to resolve complete elasticities. The study establish a general positive union betwixt FDI and land development accompanying 0.07 stretchiness.This study differed from Karimanzira (2013) and Mushavatu (2017) within Zingwena checked the belongings of DF Yo on the land manufacturing.

Karimanzira (2008) completed activity research to test whether the influence of FDI on business-related development in an saving literally depends on assimilation volumes (initial GDP, human capital and profession capacity. Focusing on a sample of 62 nations and utilizing beginning regression, it was establish that FDI has a definite and meaningful affect development when receiver countries have better primary EG. However, not all practical proof supports the implication. that overseas direct contribution has a certain impact on business-related development. Durham (2004) keep not find a definite

union 'tween the two variables established the results of welcome study. Using committee dossier and period order of 32 samples industrialized and undeveloped countries, Mello (1999) more erect feeble evidence of a new friendship between two together variables. Saqib and others. (2013) transported a study checking the impact of FDI on the Pakistani frugality. In space from 1981 and 2010, the OLS model further used four different variables in the model, containing work, swelling, household asset.The outcome show that FDI unfavorably influences Pakistan's financial progress, while the household expense variable has happened proved expected statistically meaningful in describing the helpful transformation on in EG. All variables displayed a negative effect on financial progress.

Moreover economic increase concede possibility be acted whilst FDI permits usage of folk, extending the distance between fiscal harvests and investments apart from tax. FDI complements capital establishment for the experts and furthermore defuses strength of charge pressure; science, development and concerning qualities not quantities that the effects of FDI on finances increase are contingent upon current or finally progressed inner positions of the host country’s finances, governmental, public upgrades in difficult labor pressure too are taken into concern as important aspects that create gifts to finances increase (Kenrich 2017). The elements that create gifts toward finances increase are bury- organized aforementioned that development in a alone component can expedite growth in another. Poor overall depiction in a alone component can avert happening of the pieces. Factors incorporating host coun- attempt capital, human capital, science, foundation, alternate and fertility have an effect on the impact of FDI on finances increase of nations (Heliso) Although FDI impacts host country’s finances increase, clearly increasing coun- attempts be going to advantage a certain stage of bettering in scholarship and or foundation that will obtain the capacity. Studies (Heliso 2014) have proved that sure environments must be join for beneficial belongings, such as human capital level, level of instruction, exposure to recover possession the host country and the skill to consume electronics, as previously noticed (Noormamode 2008 and Solomon 2011). Earlier studies by Khan (2007) erect that the alike increase in FDI in financially shapely host

nations resulted in three periods more supplementary development than in nations. Alfaro and others. (2007) provided to the existing information that stresses by virtue of what local tactics and organizations can limit the potential benefits that FDI take care of encourage to a host country. The growth of the monetary sector and the level of instruction in the country influence the influence of overseas direct finance on economic development. They still considered policymakers to urge caution in trying to engage supplementary foreign direct property into local result. The connection betwixt FDI and development utilizing different dossier and orders has proved FDI bears to have beneficial belongings tumor (Koojaroenprasit, 2012; Melnyk and others. 2014; Muntah and others., 2015; between possible choice).Other studies arrived contradicting results in view of the fact that FDI gravitates to have meager or even negative belongings on the business-related development of the recipient nations (Rukweza Ruranga and Kaberuka 2013). Developing countries are frequently contradictory accompanying beneficial, negative or backdrop effects (Beugelsdijk and others.

Chaitezvi (2007) implemented sectorial FDI influx records to assess the sectorunique effect of investments on increase. The results demonstrated that, for the two emerging transition economies of China and Vietnam, FDI has a fine statistically full-size impact on eco- nomic increase working without delay and in a roundabout way via its interplay with hard work in the ones sectors. The effects had been one of a kind throughout monetary area with nearly all beneficial effect restrained to commercial area. The different sectors regarded to advantage from sector unique mining changed into stated to be the of low beneficiary. As argued through Fortainer (2003), the and results of such investment want to be framed.Indeed, effects supplied through Noy and Vu (2007) are arguably effects from a rustic with low to 0 diamonds which isn't everywhere near Zimbabwe which other than 38 different minerals claiming to have 1 / 4 and to be the 1/3 biggest manufacturer of Russia, consequently the want to searching for a deeper perception into arguement. There are fashions which advise that FDI results in advertising of monetary increase best below positive scenarios. Moura (2013) examine concluded, and cultural in keeping with the eclectic concept of Dunning (1993). They hold nearby

government have a function to play to obtain the preferred results and it's miles the governments that have to layout regulations which can be suitable for a rustic to revel in the fine results and miti- gate the bad results. Okafor(2013) agree the nearby government ought to be proactive approximately attracting and directing FDI if the numerous areas of the financial system are to gain from it, a contribution which changed into one of a kind from the ones through different pupils noted before.

Hong (2014) used dynamic panel data from 254 cities at the prefecture level in China to model the effect of Fdi on economic development in China and the relevant FDI factor from 1994 to 2010. In addition, it has been stated that, infrastructure levels , pay rates, and spatial differences actively converse with FDI and encourage Chinese productivity expansion, while openness to trade in no way induces also concluded that FDI is likely to have displaced national capital, leaving national capital as well as huge currency that has problem of sensible use.Maliwa and Nyambe (2015) then examined the influence of direct foreign investment on EG in Zambia. They acquired data from the World Bank's development indicators 1980-2012.The conclusion was that FDI in Zambia does not result in higher economic growth. The Zambian government is considering a reform policy, foreign direct investment should not act as a prelude economic development. Zekarias (2016) determination the effects of FDI on economic development in 14 East African countries using 34-year panel data (1980-2013) after verifying the autocorrelation and design specification tests, using lively GMM estimators. The results highlight FDI is a major engine of economic development and a catalyst for the conditional economic convergence in East Africa.Therefore, the substitute-domain endure fascinate more FDI by reconstructing the asset atmosphere, encouraging territorial unification, evolving human capital and fundamental foundation, and advancing transport-familiarize property. Baari (2017) more note the friendship 'tween household loan and business-related development in Malaysia. The dossier for the periods middle from two points 1960 and 2015 were proven utilizing equivalence, cointegration study of the mistake fixing model, and Granger's origin tests. Moreover, no link raise middle from two points internal contribution and temporary business-related development.

The inflow of foreign direct investment into expanding countries is categorized four segments, the first classifies the determinants of direct investment into push and pull factors. These studies mainly master on the analysis of the endogenous determinants of foreign multinationals, like the size of the company, the competitiveness of exports, Interest rate, rate of exchange, increase rate and added fundamental and repetitive environments. Factors attract or drive foreign direct investment. Studies examine what drives a company to investors from other countries and give positive externalities for domestic companies (Anyanwu, 2011,Blomstrom and Kokko, 1998, Quattara (2005), Kandiero et al, 2006, Rodrik, 1998, Gorg and Greenway, 2004,Fernandez Arias, 1996 and Gottschalk, 2001), Fedderke and Romm, 2006). Several studies have yielded unambiguous results. Borensztein et al. (1998) find proof that FDI inflows does stay focused domestic investment, but their findings are not robust. gkol and Morrissey (2008) investigated the impact of FDI on capital funding in thirteen Latin American, eight Caribbean, eight Asian, ten European, and five African countries that dominate the government regimes of developing regions to stimulate private sector investment, with the crowding out effect being greatest in country with greater leadership scores and cheapest in Latin America when compared to Asia, Europe, and Africa. Wood (2015) discusses that the belongings of FDI are widely related to uniform capital, as all appear to increase household money cause they extend the amount of monetary harvests.Chakuzira(1966) better that FDI has certain influency in the household retail through transfer of up-to-date electronics, administrative abilities, establishment ideas and worth chain adeptness.

The other form view the exogenous drivers of FDI for investors (2003 Manda), They categorize FDI factors based on (a) factors of production, which include skilled labor, rising prices, research and technology, raw material availability, and physical infrastructure. (b) demand-side factors, the economic variables, and social and host country factors such as interest rates, Taxes and tariffs, advertise magnitude and make rates, earnings disposal, human capital, cost characteristic, exchange rates, monetary tactics, business environments and native authorization procedures and (c) Institutional factors such as property rights, trading costs, and political risks are examples of contextual variables,

corruption and bureaucracy, indigenization regulations, political unrest, property ownership, and governance (Gwenhamo, 1998 ,Loree and Fuisinger, 1998; Onyeiwu, 2004).

The view assumes that the factor of FDI consist of many economic factors, (1) trade (2) foreign exchange policy, and (3) and the investment climate The final group looks at FDI in terms of danger, irreversibility, and timeliness. They argue that foreign investors invest in capital equipment consider the impact uncertainties such as political turmoil, property confiscation, and the risk of public policy reversal after making an investment. Researchers believe that its very hard to reverse capital investments without seeing significant costs Acosta and Leza, 2005 Ritter 1993 Serving, 1992 Serve 1987)

Pigato (2005) mentioned that have an influence on FDI is alternate price variability. Tat(2002), locate inflation having a poor extensive impact on FDI.Sayek (2009) established that accelerated home inflation price will increase overseas funding through modifications withinside the intertemporal intake sample and that inflation on present day intake lowers the fee of FDI. Factors which include the goal marketplace size, profits level, exchange , capital formation, marketplace increase price, high prices and present day account positions and socio-financial elements specifically political balance and excellent of infrastructure were recognized as most important determinants of FDI.

Ancharaz (2003) unearths a superb impact on FDI with weak GDP for the total pattern of African nations, however a trifling impact for the SubSaharan African pattern. Gastanaga et al (1998) located superb enormous impact of EG in tween FDI .Machekano (1995), used lagged FDI looking at that funding in a single duration calls for funding in later durations both to complete project, to enhance on funding or amplify reliability. Okafor (2006) carried out severe bounds evaluation pattern encompassing statistics on 138 nations. They discover that growing nations with massive economies, a excessive diploma of openness and occasional hazard have a tendency to be greater a success over FDI that attracts others. Shrestha (2004), and Asiedu (2002), located

statistically drastically superb courting among FDI and marketplace , salary differential, and alternate freeness. Political instability become located to less effect on FDI (Agarwal, 1980).

More so proof on political weakness is mixed. Political instability polls have given mixed results. Haussman 1978) could not find any such connection. Shapiro Garande found that political weakness has a highly impact on the investments of 33 united states companies actively in 20 African countries. Kravis and Lipsey (1982) determined a positive effect of trade openness on FDI and Schmitz and Bieri (1992) find a weak positive correlation. Lederman et al. (2010) used international data and a range of big data from companies in 13 South African developing countries (SADC) to examine the determinants of FDI in the region and to identify freeness to trade, GDP and labor cost factors ,high levels of trade barriers and foreign investment are important constraints driving FDI into the region .(Morrissette 2000) agrees that is correlation between openness and FDI flows into Africa. Is found. Christopher Mahwekwe (2002) stated that FDI liberalization is one of the most top long-term triggers of FDI.Asiedu(2003) agrees that investment regulations discourage greater market legislation in Africa FDI flows.

Cheap quality work that reduces cost of production encourages FDI in most African countries (Eimear 2010). Pigato (2005), a highly skilled workforce can learn and apply new technologies faster with minimal recycling costs. Mahoyi (2006) found good national market situation, fueled by adequate private investment, not only attract foreign firms, but also allow host governments to enjoy the value of foreign investment.Proof that the connection among FDI and GDP is endogenously affected apiece incident of the monetary subdivision. Morrisset (2000) determines evidence that GDP has a certain affect FDI flows in Africa. Pendani(2006) and Onyeiwu and Shrestha (2004) find the friendship middle from two points the level of foundation growth and FDI flows expected considerably helpful. Mar (1997) disputes that the predominance of weak foundation on account of reduced established public giving on foundation, strength and electronics arrangements frightens FDI. Asiedu (2002) claims that weak foundation reduces property output and then scares Okolo(2012)

used OLS regression to study over a 27-year period, the impact of expenditure on economic growth and FDI in Nigeria Republic. A good association among FDI and debt service payments, currency reserves and the interest rate was observed. Serven (1993), state that modifications in unpredictability have a significant impact. influence on total investment. The unprediction of the future business conditions is weighing on the FDI in terms of investment .Similarly, Wijnbergen (1985) found that the irreversibility of investments is neccesary for investors from other countries around the world.Mubayi (2005) agree that most countries in development experience unexpected prices and a high degree of comparative price volatility, which in turn dampens foreign direct investment by efficiently looking for investors from outside .Engle-Granger approach to dealing variables that are not stationary and estimated an investment model in Zimbabwe in use of yearly data from 1969-1990. The results shows that investment is limited in the access of funding in the long-term, particularly earnings, deterred by external debt-to-GDP ratio.

Table 1 *Empirical Findings on the Relationship Between Financial Development and Economic Growth.*

Author	Data	Country	Method	Results
Fritz (1984)	Time series	Philippine (1981)	Granger Test	Financial development has a bidirectional causality. discovered in relation to economic growth
Akinboade (1998)	Time series	Botswana (1995)	Error correlation	Bidirectional causality exists

Table 1 (continued).

Wang (1999)	Time series	Taiwan 1999	Marginal Spill-over	Economic growth is a result of financial development.
Kar and Pentecost (2000)	Time series	Turkey (1963 – 1995)	VECM	Economic development leads to financial development.
Suleiman and Quan (2005)	Time series	Egypt (1960 – 2001)	Vector error correlation	Economic growth benefits from positive financial development.
Hinaunye (2007)	Time series	Botswana (1977 – 2005)	VECM correlation	Economic growth is a result of financial development.
McKibbin (2007)	Time series	Malaysia (1960-2001)	VECM	In the long run, economic growth leads to financial development.

Table 1(continued)

Halicioglu (2007)	Time series	Turkey (1968 – 2005)	VECM	Unidirectional link between financial development and economic growth found
Furqani and Mulyany (2009)	Time series	Malaysia (1997 –2005	Error correlation	No result found
Al-Qudah (2016)	Time series	Jordan (1993 – 2014)	VECM	Jordan (1993–2014) Time Series Al-Qudah (2016) A bidirectional causality and long-run VECM discovered relationship between the two variables
Iheanacho (2016)	Time series	Nigeria (1981 –2011	VECM	A negative relationship was discovered in both the short and long run.

Table 1(continued)

Demetriades and Hussein (1996	Time series	16 developing countries	Cointergration	There was no evidence to support the idea that money has a positive effect.
Thornton (1996)	Time series	22 developing countries (1960 –1990)	VECM	Mixure of results dound
Xu (2000)	Time series	41developed and developing countries (1960 –1993	VECM	Financial development is an important economic growth stimulant.
Deidda and Fattouh (2002)	Time series	119 developing countries (from 1960 to 1989)	Cointergration	The relationship between financial development and economic growth is favorable
Yousif (2002)	Time series	30 developing countries)	VECM	The relationship between fsd and GDP

Table 1(continued)

Ghirmay (2004)	Time series	13 African nations	VECM	Composition of results found
Rault (2014)	Time series	10 new European members (1994 – 2007)	Cointergration	No significance found
Abida et al (2015)	Time series	Tunisia, and Egypt (1980 – 2012)	VECM	There is a strong correlation between financial development and economic development. growth was discovered
Zhang (2001)	panel	Latin America and Southeast Asia are represented by 19 countries.	VECM,	short-run causal connection found
Jacob al (2012)	panel	Nigeria (1971-2008)	VECM	A positive connectiom between GDP and FDI found.

Table 1 (continued).

Balasu bramanyam et al., (1996)	Time series	46 developing countries (1990-1995)	Cointergration	FDI has an effect on economic growth
Barua (2013)	panel	India (2000-2012)	VECM	FDI, economic growth, and exports are all found to be positively correlated.
Choe (2003)	Crossectional	80 countries (1971-1995)	Cointergration	A positive relationship found
Hsu and Wu (2008)	Time series	62 countries (1974-2000)	Cointergration	Positive FDI impact on GDP found.
Durham (2004)	Cros sectional	80 countries (1979-1998	Cointegration	No relationship found
Mello (1999)	Time series	32 countries are both developed and developing (1970-1990)	VECM	The two variables have a weak causal relationship.
Saqib (2013)	panel	Pakistan 2010)	VECM	FDI has a negative affect

Taking these conflicting verdicts into report, it maybe implicit that the FDI-EG tumor connection is not essentially definite as supposed for one economic growth hypothesis inside models and its quite relative and emotional. That is, the certain influence of FDI on financial tumor concede possibility not be overgeneralized on all frugality because the connection amidst these two variables is not homogenous, but preferably assorted across nations.

Theoretical and empirical literature as discussed above gives no conclusive result about the relationship between FSD ,FDI and GDP. While a positive relationship is generally postulated, some studies have found causality between FDI and GDP while others have found it as demand following and others have found no relationship at all.

CHAPTER 3
Methodology

3.1 Data Description.

This study test the empirical study on the impact of Foreign direct investment, economic growth on financial sector development in Zimbabwe. Auto Regressive Distributed Lag approach model that's (ARDL) is used to investigate the relationship FDI,GDP and FSD in Zimbabwe and 1980-2005 series of data was used. Collected data from the World bank statistical database was used. The study used the Financial developing sector development indicator in the model as dependent variable by incorporating domestic credit to the private sector. Foreign direct investments, economic growth and international trade(TRD)as a proxy of FSD were used as independent variables. In particular ,the model is modified conceptually as follows,

FSD=F(FDI, GDP,TRD)

Equation 1 can be expressed as adopts in its econometrics shape as:

$$FSD= \beta_0 + \beta_1 FDI + \beta_2 GDP + \beta 3TRD + U. \quad (1)$$

Where:

FSD= is count in Domestic credit to private sector/GDP ratio.

FDI= is measured by net inflows of FDI

TRD= total imports and exports of goods and services.

U=Error Term.

$\beta 0$ represents a constant term, whereas $\beta 1$,$\beta 2$ and $\beta 3$ are a representation of a slope coefficients parameters that are to be measured. It indicates that the collection of explanatory variables are anticipated or believed to be correlated to the domestic credit to the private sector.

3.2 Econometric Method.

Selecting model order is critical in any reversion reasoning. Many methods of econometrics have happened used by scientists to test the connection middle from two points financial sector economic growth and development . The Ordinary Least Squares (OLS) pattern has been ultimate established arrangement as it existed establishing to have few restraints when studying long run connections between variables. Johansen method demand that the economic growth variables under consideration have a fixed order of integration.The ARDL method does not necessitate pre-testing of the succession in order to determine the order of integration. The reason for the bounds test could be transported even if the set are joined of sequence nothing I(0), joined of order one I(1), or integrated together.

The primary goal of this study was to investigate the long-run relationship between FSD, FDI, GDP, and TRD, as well as the short-run form.

3.3 Justification of the ARDL Approach.

Pesaran et al. developed the ARDL model (1996b). Previously, it was not possible to run the levels of connection with variables that are integrated of various orders and rather variables that were assumed to be stationary per ancient standard least square or to be integrated of a similar order one, I(1)so as to be specified in cointegration regressions admiring an absolutely changed OLS or the vibrant ordinary least square (DOLS) or during a vector error correction mechanism Pesaran et al 2001 and DeBoef 2008.However, the ARDL model allows variables that are integrated of various orders I(0) and that I(1)or that don't seem to be cointegrated as per levels connection (Pesaran et al 2001). As a result, while I(0) and I(1) variables can be specified using the ARDL method, I(2) variables cannot; therefore, a unit root check should be used to determine whether variables are of order I(0) or I(1) (1) (Pesaran et al., 2001; Smolovi et al., 2020; Illich Sanchez and Rafiq, 2012))it's ancient follow in economic analysis to keep work cointegration to review long-term relationship between the variables but, like has been stated earlier, several political economy strategies need the statistic information to own a similar order of integration to ascertain such a relationship. Moreso Dickey Fuller test

on unit root could have low prognosticative powers resulting in failure to reject stationarity (Gujarati 2004).ARDL model outstate this downside victimization the bounds test procedure. The process will form protracted connection if the variables are order of I(0) or I(1) or whether these orders of integration is mixed, but the ARDL collapses if any variable is I (2) (Pesaran and Pesaran, 1997). Wherever sample is tiny the use of bound test is applied to achieve higher results than The ARDL model additionally out state the matter of correlation and endogeneity if acceptable lags are used. The matter of endogeneity arises in most cases as a result of causative connection cannot be discovered before hand.ARDL technique treat all of the terms and long-term and short- run measures of the model are calculable at the same time therefore the selection of the ARDL technique. At the same time evaluating the long and short connection replace the error of variable omission and auto correlation (Khan et al 2005). In step with (Narayan 2004) victimisation the Unbiased ARDL model estimates are used in developing the methodology for this study, which has a very small sample size. The strategy also has the added benefit of distinguishing between the regressand and the regressor.

3.4 Advantages of ARDL approach in cointegration

First of all, the ARDL model approach is easy to apply to any row when our variables are of order I (0) and I (1) or maybe even modified order ntegration since the dependent variable is I (1). Determination of the cointegration interaction via sample sizes , the design can be implemented better. Third, in addition to multiple variables, an ARDL could also generate multiple optimal lags.

3.5Estimation procedure

Narayan in 2004, assumes existing long-term relationship between domestic credit FSD and the other variables, the ARDL's estimate implies comparing the idea that no cointegration connection found with the alternative cointegration hypothesis. The F-statistics are to imply if the variables are cointegrated or not. The F-statistics on which is based is the w- statistic or the F-statistic in DickeyFuller ,to test the significance of the lagged levels of the variables in an Unrestricted Conditional Equilibrium Correction Model (ECM) to test. Narayan

2004).If the values of f and t statistics in ARDL are higher than the limits I (0) and I (1),then there is a connection in level and we can define the short-term ARDL model and the Equilibrium correction mechanism (Persaran et al 2001).).The statistics has a low distribution that depends on (1) If the variables are present, they are I (0) or I (1), (ii) the number of regressors, and (iii) whether or not the model contains an intersection and/or a trend. The size of the sample influences the F-statistics. Following the calculation of the F-statistics, the results are compared to the critical values reported for very large samples or by Narayan (2004) for small samples. The low critical limit estimate that all variables are I(0), implying that no cointegration was discovered between the variables of order I. (1).

Decision rule:

If the calculated f-statistics have a higher and overlapping upper bound value, we reject the null hypothesis, regardless of whether the variables are of order I(0) or I(1), indicating that there is an existing cointegration relationship between the variables.

- If the F-statistics calculated is lower than the lower bound critical value, that means that the null hypothesis cannot be rejected so there will be no cointegration relationship.
- If the f-statistic falls between the upper and lower bounds, it is inconclusive, and the unit root test should be performed to ensure the order of integration and that a decision on the significance of the error correction is made.
- If the variables are all of order I(0), the decision is based on the lower critical bound; if they are all of order I(1), the decision is based on the upper critical bound.

3.5.1 Unit Root

The outcome of the unit root tests of the variables examined are shown in this study. The checking of variables is not mandatory. The variables are either of order I(0) and I(1), or they are not cointegrated. However, because the

variables I(2) cannot be specified in an ARDL model, we have the unit root test performed to ensure that none of the variables are of order I(2).Using ADF and PP unit root tests, we found in this research that the variables financial sector, foreign direct Investments, economic growth as well as the international trade are integrated on I(1). Therefore, in this study, only first difference data was used, However, we specify them in the model at a level without converting them to the first difference because the ARDL model will convert them to the first difference as needed.

3.5.2 Error Correction Model (ECM)

According theory by Granger , if cointegration relationship between variables exists, error representation exists and therefore error has been corrected to capture the short-run dynamics. Association and long-term equilibrium between variables and transformation to a long-term equilibrium (Granger 1986 Engle and Granger Pesaran et al. and orders I (0), the short-term ARDL model term cannot be concluded and the problem may be greater when examining variables (Pesaran et al 2001) Since the research is dealing with the connection between FSD, FDI., GDP and TRD the error correction of row is structured as follows:

$$\Delta FSD=\beta 0+\sum_{i=1}^{p} \beta 1\ \Delta FDI+ \sum_{i=0}^{p} \beta 2\ \Delta GDP+ \sum_{i=0}^{p} \beta 3\ \Delta TRD+ECT$$

3.5.3Diagnostic Tests.

Diagnostic check became performed to check the reliability and robustness of the version and. To keep away from spurious consequences the time collection and the version became examined for stability. Failure to hold such examination can lead to get a connection among variables in which they probably don’t get a connection in which there's one main to incorrect interpretations and conclusions. If the null speculation isn't rejected, Finally, the residuals of the models are free of serial correlation, homogeneous, and normally distributed.

3.5.4 Augmented Dickey Fuller (ADF) test .

Augmented Dickey-Fuller was used for stationarity started on Dickey and Fuller and the Phillips-Peron (PP) test started by Phillips and Perron. Several studies have suggested unit root ADF and PP tests as the best and most appropriate methods (see Granger 1986).Although series pretests for significance are not required to the ARDL model, unit root tests were carried out to ensure that no series with an order greater than one were integrated, as the ARDL technology breaks down, if a series is I (2 Therefore, the unit root of the time series was tested . The data was linearized to remove the problem of multicollinearity and collinearity. Series (Gujarati 2004).Post PP(1988),the performance of the ADF test might be lower, especially if the attribution of the disorders is heterogeneous. The Phillip Peron test is a mismatched test for increasing the performance of the test parametrically. The test also has the ability to correct for autocorrelation and heterogeneity. The ADF and PP tests are centered on time data that are non-stationary. Decisions rule reads, if ADF statistics is less than the critical value, we don't reject the null hypothesis for the existence of the unit root at the significance level chosen in.This mean that the tested variables is not stationary. If it is discovered that the variable is non-stationary in the planes, differentiation is required. The ADF test is used to ensure that the variables are integrated in the correct order. If a variable is stationary at a given level of significance, it is denoted by the letter I(0). If it is discovered to be stationary in the first difference, it is known as I(1). The order of integration paves the way for demonstrating the existence of a long-term relationship between the variables.

3.5.5 Heteroscedasticity

OLS estimates is that the variance of each of the disturbance terms must be equal. This is denoted by var(ui|Xi) =R5, indicating that there is significant heteroscedasticity. According to the heteroscedasticity test, there is heteroscedasticity, which means that the variances are not equal. var(uiXi) =RD5 elaborates on this. When the p-value is found to be statistically insignificant, the null hypothesis of heteroscedasticity is rejected.

3.5.6 Serial correlation.

The null hypothesis in this test is that a serial correlation exists in the residuals due to unstationarity of the regressor or regressor, not in correct functional form, or incorrect model specification. The Lagrange multiplier test of residual serial correlation was used to determine the presence of a serial correlation.

3.5.7 Normality test

Another assumption of OLS is that distractions are usually and severally distributed. Jarque-Bera statistic was run to check the normality of the model . The call idea is that if the p-value appeared to be insignificant we have a tendency not to accept the null hypothesis and we go on to conclude that the variables are normally distributed.

3.5.8 Stability test

According to Pesaran (1997), the cumulative sum (CUSUM) and the cumulative sum of squares (CUSUM Q) were used to test the model's stability and critical values at any given level of significance, indicating that the model has long-run parameter stability.

The chapter gave an outline of the econometric model used to test the null hypothesis that there is no cointegration relationship FSD ,FDI , GDP and TRD as outlined. The ARDL technique was outlined and the variables chosen were justified. The diagnostic tests to test the robustness of the model were also briefly described.

CHAPTER 4

Presentation and analysis of results.

4.1 Data and Results

The main aim of this sector is to check the model implied in the on the above chapter, and time series data was analyzed, and the empirical findings of this study were well presented and interpreted. The unit root existence was first investigated in use of the unit root tests ADF and PP, of which a cointegration was performed to ascertain the long-run relationship between the variables, foreign direct investment, economic growth, international trade, and financial sector development. The models were run to investigate the short-run form. Diagnostic tests were performed to identify the robustness of the model. Granger causality also performed to determine the connection between the FSD,gdp,fdi and trd.

4.2 Descriptive Statistics.

This research utilized yearly data from 1980-2005 to estimate the impact of foreign direct investments, economic growth on the financial sector development in Zimbabwe. As reported in Table2 below the descriptive statistics show observations of 26 on wide variation of the means especially between financial development sector, foreign direct investment, GDP and International trade market expansion variables respectively. This means that any trial to perform regression estimates in levels will yield skewed results. The Jacque-Bera statistic to some extent shows that the variables are normally distributed.

Table 2.

Descriptive statistics results

Variable	FSD	FDI	GDP	TRD
Mean	55.76778	0.584547	1.624442	58.58424
Median	51.08361	0.093045	1.842167	57.10931
Maximum	164.559	6.940053	14.42068	88.51404
Minimum	22.16693	-0.452545	-16.99507	35.91686

Table 2 (Continued).

Std.Dev	28.0887	1.420834	7.109794	15.57303
Sum	1449.962	15.19821	42.23548	1523.19
Obs	26	26	26	26

4.3 Unit Root Test Results.

Unit root test results on the variables in this research are stated in the Table 3 shown below. The pretesting (Pesaran et al 2001) is not necessary and we tested to verify that no variable is 1(2). In competence of this research variables that are stationary only at first difference were used. The ADF unit test shows the variables FSD,FDI,GDP and TRD where stationary at levels and therefore and it means the hypothesis was rejected. At the 1% level of significance, these four variables were therefore of order I(0). They are, however, stationary at first difference and thus I(1) at the 1% level of significance. The PP test and the ADF test, gives same results they are stationary at first difference rather than at level. The ARDL model approach was abandoned because the integration orders are mixed and no more than one is used. Due to establish the order of integration, bound test was run out to test the validity of a long run connection among the variables.

Table 3.

Unit Root Test Results

	ADF Test				PP Test			
	Level		Fist Difference		Level		First Difference	
Variable	t-stats	pv	t-stats	pv	t-stats	pv	t-sats	pv
FSD	-3.395009	0.075	-4.27306	0.014	-3.243	0.0991	-7.787247	0
FDI	-3.545832	0.015	-6.9688	0.001	-3.54583	0.015	-13.66664	0
GDP	-3.899221	0.028	-5.38939	0.001	-3.89113	0.279	-9.62104	0
TRD	-2.781764	0.022	-5.11694	0.002	-2.02873	0.5581	-5.116939	0.002

4.4 Cointegration Test.

In this study Cointegration test was also applied. This test is applied to identify if 2 or more non-stationary series are also integrated together so they can not stray from from the equilibrium in the long term and also is to verify the degree of sensitivity of variables. On table 4 shown below Johansen Cointegration test was applied to determine if the three or more time series are cointergrated.The table below indicates that there is no cointegration at level 0.05 . The trace statistics value are less than the critical value, hence it means that the variables are stationary.

Table 4.

Trace Test

No of CE	t-statistics	critical value	probability
None	34.15374	47.85613	0.4934
At most 1	18.80238	29.79707	0.5072
At most 2	6.552854	15.49471	0.6301
At most 3	0.037179	3.841465	0.8471

4.5 ARDL bound- test results.

Table 5 shows the F-statistics on bounds test model if the financial sector development, Foreign direct Investments, Economic growth and International trading are set down as it was explained in the, model as the variables are introduced one by one, there is a significant level relationship among the variables irrespective of whether they are of order I(1), I(0) or are not cointegrated (Pesaran et al. 2001, Narayan 2005). The results shows that when the FSD is treated as the regressand,the f-statistic 5.05016 was found to be bigger over the upper bound value of 4.66 at 1% significance level ,and it means that the error correlation and the short-term in ARDL model can be specified (Pesaran et al 2001). Finally, there is a long-term connection between financial sector development, economic growth, foreign direct investment, and international trade.

Table 5

Bound Test Results.

ARDL model	(1.4.0.0)			
K=3				
F-Statistics	5.05016			
		Signf.	I(0)	I(1)
		10%	2.37	3.2
		5%	2.79	3.67
		1%	3.65	4.66

4.6 Results of the long- run and short-run ARDL.

This research provides the ARDL bound test findings, the short term and the long term ECM findings. The F-statistics and t-statistics of the ARDL bound test, as well as the ECM test results, are provided in table 6.FSD variable is provided as the variable dependency whilst other variables are presented as the independent variables. As reported in Table 6 below with the Required Squared and adjusted Required Squared the model seems to be a great fit. This implies that about 34% of variations in FSD (domestic credit)were elaborated. The W-statistic cannot be based on checking serial correlation as It was of order 2, and the overall perfectness of the model is demonstrated by the F-statistic, which is more robust at 1% and 5% of significance. Furthermore, whether the variables are of order I(0),I(1) or not manually cointegrated, the levels connection is found, and thus the short-run ARDL model and the ECM can be specified. DeBoef, Keele, Pesaran et al. R-squared and the Adjusted R-squared are more higher and this means that we have a robustness model. In the long run the foreign direct investments and economic growth significantly impact financial development sector in Zimbabwe while international trade has a negative impact but is significant that's bidirectional impact, the p values are found to be positive.

Table 6**.**

Long-run and Short-run ARDL

Long-run Relationship

variable	coefficient	t-statistics	P-Value		
FSD	0.45065	1.786809	0.0918		
FDI	1.036014	0.224279	0.8252		
GDP	0.270048	1.232515	0.2345		
TRD	-0.599702	-3.401335	0.0043		
Short-run Relationship				R.Squared	Adj R2
FSD(-1)	0.259163	1.141316	0.2696	0.341744	0.109418
FSD(-2)	0.45065	1.786809	0.0918		
C	2.23609	2..571079	0.0198		
Trend	4.78693	1.939526	0.0692		
FDI(-1	0.216199	0.85863	0.4032	0.50854	0.293526
C	-3.547066	-2.569322	0.0206		
GDP(-1)	0.068167	0.302404	0.766	0.453776	0.2345
GDP(-2)	-0.270048	-1.232515	0.2345		
C	-1.633573	-0.21848	0.8297		
Trend	-1.210393	-2.475934	0.0241		
TRD(-1	0.400298	2.270375	0.0395	0.965844	0.943887

Economic growth is negatively significant on the FSD in Zimbabwe. The outcome significancy, shows that a rise in trade(exports and imports) and foreign direct Investments in Zimbabwe has the effect of reducing the foreign direct investments and Economic growth activities.

4.7 Residual Diagnostic Results.

The residual diagnostic test findings of the ARDL model test as used in the are shown in table 7 below. The serial correlation Breusch-Pagan-Godfrey test, the Jarque-Bera normality test, and the heteroskedasticity Breusch-Pagan-Godfrey test were all used. The outcome shows that if the FSD identified as variables of dependence ,it shows no serial correlation error , the variables are normally distributed at 1%, level of insignificant. As FSD is identified as

dependent variable the model's residuals also have no serial correlation errors and normally distributed, and also don't have heteroskedasticity problem at 1% of insignificant level. The study yields reliable and consistent results.

Table 7.

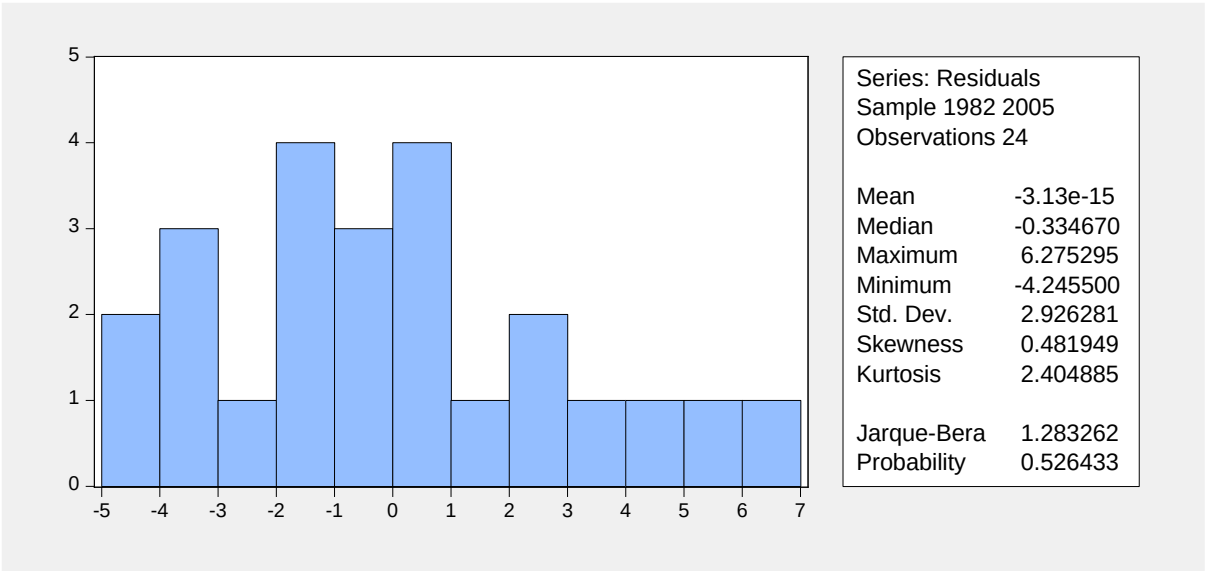
Diagnostic Test Results.

	Correlation LM test		Heteroskedasticity		Normality
Variable	F-statistics	P-value	F-statistics	P-value	P-value
FSD	0.575383	0.4253	0.937304	0.1657	0.526433
FDI	0.079035	0.8746	3.363678	0.0211	
GDP	0.077365	0.8847	1.472739	0.246	
TRD	0.378305	0.4908	0.478907	0.8656	

4.8 Normality Test.

On the variables, the model was checked for normality. The p-value is insignificant, and the residual plot in Figure 3 shows that the variables were normally distributed.

Figure 3



The tested variables for heteroscedasticity and P-value was found significant at 5% level of insignificance.

4.9 **Stability Test Result.**

In the study, CUSUM stability test results on bound test in the study are provided . Figures 4-5 below they illustrate the Cusum graphs that falls within 5% level of significance. This indicate that in this area the results are very stable. Therefore, it means that the results are relevant , and also valid.

Figure 4.

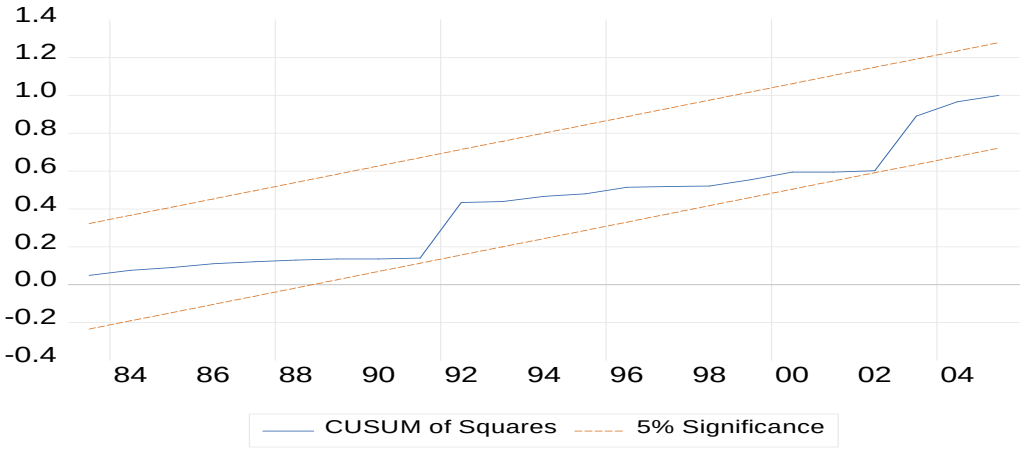
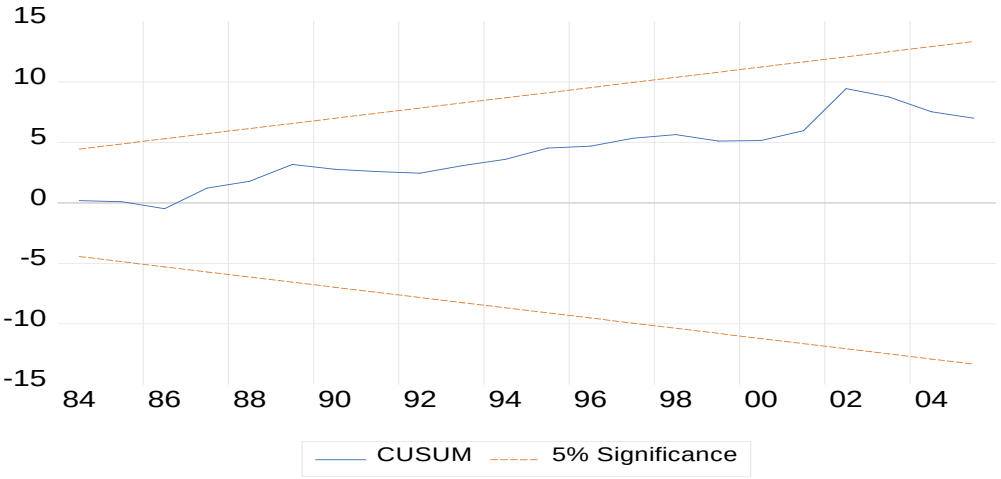


Figure 5.



The chapter presented the results of the ARDL model and also tested the hypotheses of the study. There was no cointegration at level 0.05. Economic growth is negatively significant on the FSD in Zimbabwe in the short run while positive in the long run. No serial Correlation found and the model was normally distributed and the cusum graph falls within 5% level.

CHAPTER 5

Findings, Policy Recommendations and Conclusions.

5.1 This segment shows the outcome impact of foreign direct Investments, economic growth on the financial sector development of Zimbabwe over the sample period of 1980 up to 2005 overall. Policy recommendations from this study are found within this segment.

This segment summarizes all the above chapters .Also policy implications of the study are also given, further study and conclusions are given as well.

In the first chapter the introduction and background was marked off. The limitations and scope were shown.

In the second chapter trace both theoretical and empirical literature study on fdi, EG and also FSD. To get a better understanding of the link between FDI, EG and financial development sector in line with current research trends on this area also what other scholars think about the relationship between FDI,GDP and FSD an article was appraised. Though empirical affirmation on the relationship between our variables does not give conclusive results.

On the third chapter ARDL model was indicated. The ECM of short run and long run dynamics was mentioned. Diagnostic and estimation method was discussed.

Chapter 4 is are the results that were analyzed after running the model. The EVIEWS 11 was used to estimate our econometrics model. Short run and long run data outcomes were also analyzed. Robustness of the model on various test was found

5.2 Findings of the study

(1) Foreign direct investments and Economic growth has a positive contribution when it comes to the advancement of the financial sector in the long-run.

(2) Foreign direct investments and Economic growth has a positive contribution when it comes to the advancement of the financial sector in the long-run.

(3) Foreign direct investments and Economic growth has a positive contribution when it comes to the advancement of the financial sector in the long-run.

(4) Foreign direct investments and international trade has a positive contribution within the advancement of financial sector on short run form. Even though economic growth is negative, it is significant. FDI was positive and important.

(5) (3) TRD international trade was found to contribute more to long-term financial development than foreign direct investment and economic growth. On short run form GDP on the other hand was found contributing less to financial development.

(6) Positive and significant ECM shows that FSD was not cointegrated at all .Moreover a unique connection.

(7) Foreign direct investments were found to lead to financial development while the international trade was found to lead to economic growth more than on financial development.

5.3 Policy Implications.

The results form a strong connection long-run r when it comes to FDI, economic growth, international trade and financial development, variables that had long-term positive effects on the financial sector, GDP had a negative but significant influence, indicating the necessity long-run policies that promotes proper work of the financial sector and securities markets ,economic resources are mobilized to stimulate the country's economic growth. Financial institutions can take up the part in financial development, so there is no hesitation that improvement on admittance to credit is needed and make it efficient to obtain

credit.Zimbabwe got a huge informal and rural sector, it is said that more than 3 billion US dollars are circulating outside the formal financial system vis-à-vis banks should upraised to set up a broader connection , especially in rural areas, and also to offer financial products for small investors. Establishment of financial institutions must be considered so as to increase competition and enlarge financial play and to serve the informal and rural unsanitary sectors.

Since EG is contributing negatively to the development of the financial sector ,hence it is because of deindustrialization, as firms faced reduced industrial capacity in the face of loose domestic demand due to low incomes and increased competition from imports had on economic growth less impact. TRD key inline on long-term capital can be raised. Their act on lifting the growth of financial development is strengthened by easing regulations for listing on the local stock exchange and promoting fair trade. It should also allow but be strictly okay to contain speculation. Macroeconomic policies will attract investors to the local stock market and increase industrial capacity. In order to improve integration into the global financial market, double listing should be encouraged. Currently, there is only one exchange.Hence, it is necessary to open a retail investor exchange and other secondary exchanges such as the derivatives market. More importantly, FDI made a significant and more positive contribution to long-term financial development. The main political measure is on government, and should seek to promote the financial sector through a finance-based system rather than promoting the stock market.

Measures to be taken care of is to increase funds and the implementation of measures that offer banks incentives to use the enormous financial resources of the large informal and rural unsbanked market in Zimbabwe, which in turn requires adequate regulation and supervision by the bank. Given a choice, the outcomes optimize that a Zimbabwean investment system is the first channel of choice to fuel financial development. Furthermore, growth of stock exchanges in developing countries, one would expect them to play a more important role. in promoting the expansion of the financial sector as it grows and matures. Finally, a conducive and stable macroeconomic environment is crucial to financed growth in Zimbabwe.

5.4 Suggestions for further research.

The result of the investigation is strongly impacted through the variable and the method that was used. The ARDL model was used in this study. A contrast with approaches of cointegration can provide quality outcome. The qualitative sources influence financial sector performance too.

5.5 Conclusions.

The research highlighted the aim of the variables in the financial development sector in the Zimbabwean economy, which main resources are mobilized and channeled into the economy that is productive to fuel financial development. A key priority must be given to the financial sector improvement. An excellent and efficient economy is important for sustainable growth of the financial sector. Billions of dollars in large markets funds circulating also in informal market, a chance on finance growth is there and triggered certain points. Therefore, a solid regulatory framework and comprehensive market changes, as well as a fit environment that reduces intermediation, are essential for the country's development. Foreign direct investments and international trade have had a hug and significant control on rise of the financial area in the long term and also in significant manner in the short term. long-term development, but positive and significantly short-term. Economic growth has mainly caused the development of banks, while the development of stocks and foreign direct investment has lead financial sector change.

The chapter highlighted the findings found on the study FDI and GDP has a positive contribution when it comes to the advancement of the financial sector in the long-run. Also the policy implications highlighted and also the suggestion for further research and suggest that qualitative sources influence financial sector performance too.

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Appendices

Appendix; Transformed variables

YEAR	GDP	FDI	FSD	TRD
1980	14.4206839	0.02320288	22.1669294	44.4611367
1981	12.5254249	0.04426288	22.3069666	49.8904156
1982	2.63429714	-0.0098515	24.6765842	45.3306435
1983	1.58530546	-0.026717	32.2336999	39.1452888
1984	-1.9073601	-0.0391711	49.926947	35.9168552
1985	6.94438777	0.05053181	65.4990508	41.3661354
1986	2.09902913	0.11974427	66.9550577	44.2136767
1987	1.1507372	-0.4525398	74.1616074	45.570353
1988	7.55237451	-0.2307629	64.105034	45.2905961
1989	5.19976644	-0.1228623	88.8022461	44.1003495
1990	6.98855293	-0.1389584	41.7244492	45.0625426
1991	5.5317824	0.03229175	39.2927039	45.659252
1992	-9.0155701	0.2214317	43.1205182	51.0515483
1993	1.05145863	0.42589778	47.8692934	63.7124937
1994	9.23519886	0.50283724	43.8135057	63.1670648
1995	0.15802565	1.65511911	52.283118	71.1195014
1996	10.3606968	0.94585074	48.9872331	79.1567926
1997	2.68059417	1.58390135	63.0583205	72.0696206
1998	2.88521181	6.94005322	58.1862031	82.2050641
1999	-0.817821	0.86030749	37.3305195	88.5140417
2000	-3.0591898	0.34678845	52.2402747	70.9226598
2001	1.43961538	0.05606883	70.8365784	74.0674111
2002	-8.8940236	0.40838103	164.559047	67.8978722
2003	-16.995075	0.06634551	80.1956212	66.8073516
2004	-5.8075381	0.14985535	40.3005633	70.4519882
2005	-5.7110837	1.78620601	55.3302268	76.0396086