JISRA
JURNAL ILMU SOSIAL, POLITIK & HUMANIORA

VOLUME 5 NO 2 2021

Attracting the Foreign Direct Investment (FDI) Using Financial Network: A Case in Zimbabwe

M. Matimura [1)], C. G. Cheong Kiat[2)], and R. A. Rahadi[3)]
[1)] Holistic Peace and Development Zimbabwe, Zimbabwe
[2)] Risk Management Consultant, T.S.D. Consulting LLP, and Risk Management Advisor AI KAIGO Pte Ltd, Singapore
[3)] School of Business and Management, Institut Teknologi Bandung, Indonesia

Abstract

The purpose of this study is to investigate the critical reasoning and to develop a research framework on how to attract foreign direct investment (FDI) to rebuild the country from the economic slump caused by previous government failure. By applying a trusted financial network such as Sardex, business owners would be able to access FDI. By applying performance metrics based on The Morgan Stanley Capital International – Environmental, Social, and Governance or MSCI-ESG risk factors and principles of responsible investment, the study can measure the efficiency and the productivity of the proposed financial network. Experiments will be carried out to determine how efficient and productive ZimNet is in assisting Zimbabwe to attract FDI. This research is one of the first studies investigating the critical reasoning and developing a research framework on attracting FDI for the country's economic rebuilding. This study would also be the first to measure the efficiency and productivity of the proposed financial network.

Key words:

Digital Business, Sustainability Management, Foreign Direct Investment, FDI, Sardex, Financial Network, Zimbabwe

1. Introduction

1.1 Zimbabwe's Location and its People

Zimbabwe (as seen on the map) is a landlocked country sharing boundaries with South Africa to the south, Mozambique to the East, Botswana to the West and Zambia to the North. According to the CIA Factbook, 99.4% of Zimbabweans are of African descent, 0.4% other, and 0.2 are unspecified (CIA Factbook, 2018). In her postscript on Zimbabwe, Chengetai Zvobgo said about 70% of 12 million were the Shona tribe and the second-largest tribe Ndebele had 16%. The Shona people's outstanding achievement was the construction of the Great Zimbabwe, from which the name Zimbabwe was derived. Zvobgo said:

The Shona people's outstanding achievement is the monument at Great Zimbabwe, after which the country is named. The word 'Zimbabwe' derives from the Shona dzimba Dza mabwe (houses of stone). Great Zimbabwe was the residence of a powerful ruler in the south-eastern interior of Africa, surrounded by his family's houses, of the families of his tributary rulers and the officials of his court. The walls of Great Zimbabwe were not designed as a fortification; they

were built primarily to display the state's power and symbolized the achievements of the ruling class (Chengetai J.M. Zvobgo, 2009).



Figure 1 Adapted from the CIA Factbook, March 20, 2018

(https://www.cia.gov/library/publications/the-world-factbook/geos/zi.html)

The rest consisted of other minority groups. There has been unprecedented human migration from Zimbabwe to other countries in Africa and beyond in the recent past decade. The CIA Factbook describes this phenomenon in the following terms:

In the 1990s and 2000s, economic mismanagement and hyperinflation sparked a second, more diverse emigration wave. This massive out-migration – primarily to other southern African countries, the UK, and the US – has created various challenges, including brain drain, illegal migration, and human smuggling and trafficking. Several factors have pushed highly skilled workers to go abroad, including unemployment, lower wages, a lack of resources, and few career growth opportunities (CIA Factbook, 2018).

Political stability enhances economic growth as foreign direct investment is likely to increase and flourish in a state of peace and stability. The political challenges that have been affecting Zimbabwe since the 1990s culminating in the forced resignation of the former President Robert Gabriel Mugabe in November 2017, have left the Zimbabwean economy in total collapse and millions of Zimbabweans in Diaspora.

1.2 A Brief History of Zimbabwe

In 1888 Cecil John Rhodes, a British national and owner of the British South Africa Company (BSAC), entered Zimbabwe via South Africa. He tricked Lobengula, the Ndebele King, into signing an agreement that led to the colonization of the territory between Limpopo and the Zambezi Rivers. In 1895 he named this territory Rhodesia. Later, in 1898 the BSAC named it Southern Rhodesia. While government representatives have colonized most African countries, Zimbabwe was instead colonized by a private company belonging to a business person interested in securing mining rights and total control of the African continent. Cecil Rhodes' dreamt about connecting the entire African continent from Cape to Cairo (South Africa to Egypt, South to North) through a railway line (Chengetai J.M Zvobgo, 2009).

The Shona and Ndebele people, realizing their land and power loss, resisted colonialism through insurgence. In 1893 November, Lobengula fled his compound, escaping the BSAC advancing army. Lobengula never managed to return to rule his people again. The Ndebele army resisted British colonialism but were defeated due to inferior firepower.

1.3 Political Context

The political history of Zimbabwe is a history of violence and war. With Cecil Rhodes' arrival and his British South Africa Company in the 1880s till 1980, both the colonists and native populations employed violence to reach their objectives. The former used violence to possess land and control the later. The natives turned to violence to resist and regain their lost land, freedom and heritage. The Ndebele resistance to colonization was violent and received violent military repression, leading to the fall of Lobengula, their king. The Shona and the Ndebele people also staged more uprisings against colonialism but only received their independence in 1980. Attempts to unite the Shona and Ndebele fighters during and after independence proved very difficult, leading to the split into two liberation movements. Patriotic Front Zimbabwe African People's Union (PF ZAPU), predominantly Ndebele, operated from Zambia and Zimbabwe African National Union-Patriotic Front (ZANU PF) predominantly Shona operated from Mozambique. In post-Independence Zimbabwe, more violence broke out in the Matabeleland and Midlands Provinces, a military operation known as Gukurahundi, a Shona word referring to the early rains that swept away the chaff before springtime. This result was the codename for Zimbabwe's post-independence government-led military operations in Matabeleland and Midlands provinces against perceived dissident activities in these regions. Cameron Hazel, lamenting the British government's willful blindness to innocent civilians' massacres, claims that between 10000 and 20000 people were killed. At the same time, many more were beaten up and tortured. Shari Eppel, a Zimbabwean human rights advocate and forensic anthropologist, estimates the total number of unarmed civilians who died at the Fifth Brigade's hands throughout the Gukurahundi period to be 'no fewer than 10000 and no more than 20,000'. Thousands more were beaten, tortured and raped. The arbitrary arrests, detentions without charge, torture, summary executions and rape, which the Ndebele suffered, created an atmosphere of fear and mistrust, which persists to this day between the people of Matabeleland and the Government of Zimbabwe (Hazel Cameron, 2007).

The end of the Gukurahundi operation resulting in the unity between PF ZAPU and ZANU PF, entrenched ZANU PF dominance until the emergence of an opposition party Movement for Democratic Change (MDC) party, in 1999. ZANU PF responded violently against MDC leadership and supporters. In 2008, MDC Presidential candidate Morgan Tsvangirai defeated Robert Mugabe of ZANU PF. However, he refused to hand over power. Election results were delayed by

six weeks. The Southern Africa Development Community (SADC) leadership mediated in the conflict leading to the formation of a Government of National Unity upon signing a Global Political Agreement (GPA). The GPA ran from 2008-2013, whereby elections were held. In November 2017, Zimbabwe's President Robert Mugabe was deposed by his then deputy Emmerson Mnangagwa. Mnangagwa got military assistance to force Mugabe to resign.

1.4 Economic Context

Zimbabwe's Central/Reserve Bank of Governor, Dr John Mangudya, gave his 2018 first half Monetary Policy Statement. announcing with great optimism that "the country is now open for business." The Governor wrote the following Statement:

The Statement comes when the economy is experiencing renewed hope and confidence ushered in by the new economic dispensation, following the formation of a new leaner cabinet by His Excellency, the President, in November 2017. This renewed hope and confidence would need to be supported by going back to basics to restore business confidence and foster discipline within the national economy. Accordingly, this Monetary Policy Statement seeks to buttress this confidence trajectory by putting in place measures that gradually liberalize the foreign currency market to indicate that the country is 'open for business.

Zimbabwe sits on a geological land space, the Great Dyke whose abundant mineral deposits are almost inexhaustible. So far, 60 known minerals are mined. Zimbabwe's Ministry of Mines, assessing the country's mineral potential, noted:

Zimbabwe has a vast and highly diversified mineral resource base dominated by prominent geological features, namely, an expansive craton, widespread greenstone belts (also known as gold belts), the famous Great Dyke, Precambrian and Karoo basins and metamorphic belts. As a result of its suitable geology, the country has vast mineral potential characterized by about 60 economic minerals whose commercial profitability has been proven (John P. Mangudya, 2018).

According to the Africa Development Bank's, the business environment remains challenged. "Impediments to investment include limited resources and high cost of capital, dilapidated infrastructure, obsolete technologies, and power and water shortages. These factors and more have impacted negatively on Zimbabwe's global ranking on the ease of doing business. The World Bank's 2018 Ease of Doing business from 1-190 has remained very low. It is currently at 159 out of 190 (African Development Bank, 2013-2015).

According to the United Nations Development Programme's 2016 Human Development Report:

Zimbabwe's HDI (Human Development Index) value for 2015 is 0.516— which put the country in the low human development category—positioning it at 154 out of 188 countries and territories. The rank is shared with Papua New Guinea (p. 2)." Nothing much has changed since 2015. Otherwise, there has been a deterioration as more economic and political challenges have continued to batter the population, still hoping for severe reforms to transform their lives. In terms of attractiveness as a foreign direct investment destination, Zimbabwe is ranked in the same group of the lowest ten countries in Sub-Saharan Africa that include Central Africa Republic, Liberia, Somalia, Eritrea, Equatorial Guinea, The Gambia, Sierra Leone, Guinea and Sao Tome and Principe (Quantum Global Research Lab, Africa Investment Index, 2018, p. 6). Zimbabwe is leading here as the best in the group of the least attractive in the region. There is

still much work to do for the policymakers to pull Zimbabwe out of this negative image that scares away investors (United Nations Development Programme, 2016).

This event was the story and context both politically and economically before 2017 November. Looking into the future, what is Zimbabwe's possibility for transformation?

2. Research Framework

To embark on the lifelong journey of political and economic reforms in Zimbabwe, trust must be established between the populace, government and foreign direct investment (FDI). This action is best done through a financial network as a platform to attract FDI. The proposed financial network will be known as Zimmer. One good example to learn from is Sardex from Sardinia Island. For money, trust is based on beliefs about how others use money within a specific system. It is specific to the community. It depends on values and reciprocal expectations.

However, for Sardex, trust works at two levels. First, the starting point to join the network and towards the Sardex organization (direct). Second, as a transaction's lubricant between members (indirect). Trust is tightly related to social capital in its two main definitions. Research on social capital underscores either social structures or cultural aspects, which are two different approaches. It can be the network of relations at your discretion with resources that can be activated to pursue a goal through weak and robust or bonding and bridging ties. Alternatively, it refers to a general trust (civics) distinctive to specific contexts, which allows your neighbours checking on your house when you are on vacation or your kid safely crossing the street in your absence. The first relates to belonging to different networks that can positively provide resources for action or negatively bound him or her in close relationships. The second refers to relatively constant attitudes of trust within the community, facilitating cooperation and reciprocity.

As a member of the finite network, it influences how firms behave in how they face uncertainty, which helps establish relations of trust needed for trading. Sardex necessitates the creation of ties among members that are strangers beforehand, leveraging a pre-existing level of social capital or, mostly, to fill the void of its absence. Cultural and social embeddedness of economic action are evident in low levels of social capital and pre-existing networks. Sardex is an integrated network of economic and social bonds where the harmonious balance of self--interested and cooperative actions are achieved.

A simple idea then evolved in different yet complementary parts of an ecosystem. The main ones are described below:

- Sardex.net (Sardinian Exchange Network) is a novel economic space-born with specific goals: empowering proximity-based and trust-based relations; fostering economic empowerment of a defined local territory; creating a resilient and vibrant community; and defining a more equitable environment for trading. It is made up of relations between its members (businesses, sole traders, workers). It is a dynamic social body whose attributes make it stronger and more resilient than the sum of its nodes.
- Sardex.net is the URL of the network. It has a robust online presence that mediates economic interactions and complements the social and face-to-face interactions,

enabling the network to scale up to the whole island and to support interactions between members who do not know each other through other channels.

- Sardex (SRD) is the trade credit or trust unit created and used by the network members ('unit of account' and 'medium of exchange'). This credit unit is not convertible into any other currency. It can only be spent and acquired through economic participation in the network and is digital (electronic). It is issued as mutual credit without interest. It is one of the many tools and services provided to the network service provider's network (e.g. brokering, business networking events, community management, online services, helpdesk).
- Sardex s.r.l. is the for-social-benefit company that kick-started, manages, and develops Sardinia's network operations. It is subjected to existing regulations and has to operate at a profit. Profit is not its main priority and only a by-product of value provisioning. Its focus is on providing excellent service, maintaining the network integrity while increasing its reach (value for each participant) and optimizing continually for the future by ongoing review of praxis or processes.

All the experience gathered locally in Sardinia has been cohesively integrated then formalized into a working model called 'Circuito di Credito Commerciale™'. This model is replicated outside Sardinia in mainland Italy in different regions by local networks following the Sardex.net principles sharing the same software infrastructure and governance. Sardex.net/C3, as a social innovation enterprise, is vibrant and dynamic, so the blueprint is always under discussion (internally and externally) and test (in protective and selected areas first) against real working conditions of businesses, workers, and consumers.

3. Methodology of Research

By applying performance metrics based on The Morgan Stanley Capital International – Environmental, Social, and Governance or MSCI-ESG risk factors and principles of responsible investment, the study can measure the efficiency and the productivity of the proposed financial network.

3.1 MSCI-ESG Risk Factors

MSCI ESG Ratings research aims to answer the following questions:

1) Of the negative externalities that companies generate, which issues may turn into unanticipated costs for companies in the medium to long term?
2) Conversely, which ESG issues affecting an industry may turn into opportunities for companies in the medium to long term?

More specifically, the MSCI ESG Ratings model seeks to answer four critical questions about companies:

1) What are the most significant ESG risks and opportunities facing a company and its industry?
2) How exposed is the company to those key risks and opportunities?
3) How well is the company managing key risks and opportunities?
4) What is the company's overall picture, and how does it compare to its global industry peers?

Environmental, social, and governance risks and opportunities are presented by large scale trends (e.g. climate change, resource scarcity, demographic shifts) and the nature of its

operations. Companies in the same industry usually face the same significant risks and opportunities, although individual exposure can change.

A risk is material to an industry when it is probable that companies in a given industry will suffer heavy costs connected with it (for example: a regulatory ban on a critical chemical input requiring reformulation). An opportunity is material to an industry when it is probable that companies in a given industry could monetize it for profit (for example: opportunities in clean technology for the LED lighting industry). The MSCI ESG Ratings model focuses only on issues that are determined as material for each industry.

Each industry's material risks and opportunities are identified through a quantitative model that looks at ranges and average values for each industry for externalized impacts such as carbon intensity, water intensity, and injury rates. Companies with unusual business models for their industry may face lesser or additional vital risks and opportunities. Company-specific exceptions are permitted for companies with diversified business models, facing controversies, or based on industry rules. Upon identification, these Key Issues are assigned to each industry and company.

To arrive at a final letter rating, the Key Issue Scores' weighted averages are aggregated, and their industries normalize companies' scores. Each company's Final Industry-Adjusted Score corresponds to a rating between best (AAA) and worst (CCC) after any overrides are factored in. Such assessments of company performance are not absolute. However, they are explicitly intended to be relative to a company's industry peers' standards and performance.

3.2 **Principles of Responsible Investment**

The Principles of Responsible Investment are as follows:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Different investors carry out possible actions.

4. Result and Discussion

Experiments will be carried out to determine how efficient and productive ZimNet is in assisting Zimbabwe to attract FDI.

5. Conclusion

Zimmer will be an excellent platform to attract FDIs addressing the political and economic reforms of Zimbabwe. Specific efficiency and productivity measures on ZimNet to attract FDIs will be determined once it goes live.

REFERENCES

Cameron Hazel (2017): The Matabeleland Massacres: Britain's Willful Blindness, The International History Review, p.1.

Littera, Giuseppe, Sartori, Laura, Dini, Paolo and Antoniadis, Panayotis (2014) *From an idea to a scalable working model: merging economic benefits with social values* in Sardex. In: Inaugural WINIR Conference, 11-14 September 2014, Greenwich, London, UK.

Mangudya J.P (January 2018), Reserve Bank of Zimbabwe 2018 Monetary Policy Statement: Enhancing Financial Stability to Promote Business Confidence, p. 4.

MSCI ESG RATINGS METHODOLOGY, April 2018

Principles for Responsible Investment: An investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact

The Central Intelligence Agency (US) Fact Book, March 2018

Zvobgo Chengetai J.M (2009) A History of Zimbabwe 1890-2000 and Postscript, Zimbabwe, 2001-2008, Cambridge Scholars Publishing, Newcastle (pp.3-5).