Exploring Investment Banking Strategies of Zimbabwean Commercial Banks in Securing on-Lending Finance during the Multicurrency Regime (2009-2013)

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Abstract: This study sought to determine the effectiveness of investment banking strategies of Zimbabwean banks in securing on-lending finance for the period 2009-2013. Literature review provided the theoretical framework for the whole study and considered empirical evidence as well. It outlined and discussed the main investment banking activities on the capital markets. The descriptive survey was the research design adopted for the study. A representative sample of five individuals from the investments section of the Exchange control division of the Reserve Bank of Zimbabwe was selected to participate in the study. Questionnaires and interviews were used as research instruments. The study revealed that over the review period, the investment banking function of banks in Zimbabwe was ineffective in mobilizing adequate financing for on-lending to borrowers. The study highlighted the shallowness of the capital market in Zimbabwe with regard to volume and value of trades or transactions performed over the review period as well as the narrow instrument availability on the same capital market. The study recommended that structural changes are required in the economy, including a review of existing investment laws in order to align such with the objective of attracting more foreign finance to the Zimbabwean capital markets. This therefore implies committed engagement between the banking industry and government in order to prioritize the needs of the country.
Keywords: Capital markets, Investment banking solutions, capital adequacy, Risk management, intermediation

INTRODUCTION

The research sought to explore investment strategies adopted by banks in Zimbabwe in their efforts to secure on-lending finance since the adoption of the multi-currency regime in 2009 up to 2013 against a backdrop of a serious liquidity crunch bedeviling the economy.

Background of the study

Under the Zimbabwe dollar era, banks faced a myriad of challenges that negatively impacted on their operations and inevitably, financial performance. Chief amongst the causes of these woes was spiraling inflation that recorded figures as high as 231 million percent by July 2008 (www.africaecon.org). With the advent of the multi-currency regime in 2009, the dawn of a new era of economic recovery was ushered in. It signaled the resuscitation of business by many organizations which had greatly scaled down operations or closed shop all together. These businesses needed to be financed in one way or the other. Banks now had the challenge of conceiving and executing effective finance mobilisation strategies for the purposes of on-lending. In Zimbabwe, the banking sector has been experiencing challenges in raising capital to finance their own business let alone be able to raise funding for other businesses. Through their investment banking units, banks assist businesses in the raising of funds for business operations through equity or debt finance. The business funding challenges in the Zimbabwean economy motivated the researchers to seek to reveal the extent of the effectiveness of investment banking strategiespursued by Zimbabwean banks between 2009 and 2013.

Statement of the problem

Many banks in Zimbabwe have been struggling to raise minimum capital requirements set by the Reserve Bank of Zimbabwe to finance their own business. Within such an environment, the problem is ascertaining the effectiveness of the investment banking functions of financial intermediaries, focusing on Zimbabwean banks, in providing finance for on-lending during the multi-currency era between 2009 and 2013.

Research Objectives

The objectives of the study were to:
- identify the means of raising finance for on-lending which are available for use by banks in Zimbabwe
- identify the investment banking initiatives that Zimbabwean banks have been pursuing during the period 2009-2013 in a bid to raise on-lending finance
- reveal the constraints that banks in Zimbabwe face in discharging their investment banking function

Research Questions

The research questions of the study were:

- Which means/methods of raising finance for on-lending are available for use by banks in Zimbabwe?
- Which investment banking initiatives have Zimbabwean banks been pursuing during the period 2009 – 2013?
- What constraints do banks in Zimbabwe face in discharging their investment banking function?

LITERATURE REVIEW

According to Bodie *et al.* [1], firms raise much of their capital by selling securities such as stocks and bonds to the public via a capital market system. Investment banks, however, perform these specialized activities for businesses at a relatively cheaper cost.

Hartmann-Wendels *et al.*[2] define investment banking as "the set of all functions of a bank, which support trading at financial markets". The common opinion in the literature is that investment banking comprises all services which serve financial allocation opportunities, as long as they are provided via securities transactions. Broadly speaking, investment banks "assist the capital market in its function of capital intermediation". [3].The emergence of financial intermediaries is owed to the market imperfections inherent in financial markets. They act as intermediaries between providers and users of financial capital to overcome these imperfections.

Levine [4] subsumes five channels through which financial systems may have an effect on economic growth: Financial intermediaries *provide ex ante information, monitor investment, manage risk, mobilise savings* and *facilitate the exchange of goods and services*. Investment bank activities can be attributed to some of these channels, which are explained in more detail in the following.

Acquisition of ex ante information

Acquisition of ex ante information on firms or investment opportunities may involve high fixed costs for investors. Financial intermediaries can reduce these costs by utilising economies of scale in information acquisition [5] or provide higher quality information [6]. Investment banks provide ex ante information to market participants in various ways. First, within the scope of M&A advisory, investment banks specialise in information generation and value determination of companies. This information supports more efficient companies in taking over less efficient companies, which in turn should add to the efficiency of the entire economy. Second, prior to IPOs, investment banks distribute general information about the company to the public, which should reduce adverse selection costs.

Moreover, the investment bank's sell side analysts provide information about shares in the secondary market. In fixed income, investment banks perform rating advisory and issuer evaluation, also a form of information generation. Finally, the market making position, which many investment banks perform on secondary markets, facilitates the efficient use of information.

Risk Management

Three risk ameliorations connected with financial intermediaries are identified by Levine [4]: cross-sectional risk, inter-temporal risk and liquidity risk.

a) Cross-sectional risk

In the literature a classic function of financial intermediaries is the cross-sectional diversification of individual risks from projects, companies, countries etc. This diversification may have an effect on resource allocation and saving rates and consequently on economic growth [4]. One important part of investment banking which serves for cross-sectional risk diversification is the emission of derivatives or structured finance products which can be used to hedge risk. In principle, these instruments relocate various risks to agents most able and willing to bear them. This promotes economic growth by not financially ruining those economic agents not able to withstand high risk and would liquidate if investments soured. Similarly, the design of syndicated loans is a form of cross-sectional risk diversification among the loan participating banks. Finally, the securitisation of assets (into e.g. ABS, MBS) distributes risks connected with the underlying pool of assets by enabling many investors to buy the different tranches associated with different risk levels. Securitisation also permits investors to diversify geographically and reduce exposure to locally correlated financial shocks.

b) Intertemporal risk

Financial intermediaries may also serve for intertemporal risk diversification or maturity transformation by investing with long-run horizons. As shown in Allen and Gale [7], when investors have a short-lived and intermediaries have a long time horizon, a financial system based on intermediation may induce higher welfare than a market-based system and thus promote economic growth. Investment banks facilitate intertemporal risk diversification by performing a market making function and consequently lowering contracting costs. An example would be an investor holding a long-term bond and being able to sell it at a fair price.

c) Liquidity risk

Furthermore, financial systems may mitigate liquidity risk, the risk of inconvertibility of assets into a liquid medium of exchange. By pooling different illiquid assets, securitisation can reduce liquidity risk. But the market making performed by investment banks in the trade of various assets should also reduce liquidity risk. In general, information asymmetries and transaction costs can be lowered by the existence of financial intermediaries. Banks transform liquid short-term deposits and long-term illiquid investments [8]. More precisely, they can choose between low-return liquid investments (such as a deposit or a money market fund) and high-return illiquid investments (such as a corporate loan). If there are large enough frictions in financial markets [8], banks can better insure savers against liquidity risks while at the same time fostering long-run high-return investments, which would be neglected by investors due to uncertainty about their future consumption needs. Financial intermediation promotes economic growth by eliminating liquidity risk and therefore making investments in high-return illiquid asset more attractive compared to a liquid but unproductive asset [9].

Empirical Literature Review

Empirical literature on finance and growth deals with financial development in general, which may include the development of the banking sector, stock market and legal environment. Unlike with theoretical literature however, the results of these empirical studies cannot be explicitly interpreted for investment banking. Nevertheless, since investment banking can be regarded as a part of financial development, the results presented in the following may indicate a tendency for the effect of investment banking on the economy.

Cross‑Country

First empirical work on the correlation between financial development and economic growth was conducted in the form of cross-country or cross-sectional studies. The main result is that credit matters for growth in the private sector and that financial development is a predictor for future economic growth as it captures about 60 percent of overall variation [4]. Moreover, the long-run effect of financial development on growth is substantial. These positive growth effects exist both for countries with larger banking systems and for countries with more liquid stock markets [10]. If investment banking enhanced stock market liquidity (e.g. via market making activities) this would imply a positive effect on growth.

The major problem with studies analysing the effect of financial development on economic growth is the direction of causality. Financial development may foster growth, but growth may generate larger financial institutions and markets. Even worse, just the

expectation of future economic activity may give rise to a more developed financial system.

Subsequent literature addresses this issue with various econometric approaches and overwhelmingly comes to the conclusion that the direction of causality is indeed from finance to growth. Approaches such as Granger causality [11], the use of instruments for financial development such as legal origin [12] or accounting rules as a proxy for creditor rights enforcement [12] all suggest that financial sector development including more developed financial institutions and markets will result in a higher rate of sustainable growth. At the same time, the effect is small beyond a certain level of development as all countries at that level should converge in growth rates [13].

Two further important results have emerged, but have not yet been widely confirmed. First, Loayza and Ranciere [14] find a significant positive long-run relationship between financial development and output growth. In the short run, however, this relationship is mostly negative. The negative short-run relationship between growth and financial sector development emphasises the trade-off between financial development and financial stability: Extensive financial development and financial innovation may result in banking or financial crises, higher volatility of output and periods with very high or very low growth. Second, Aghion et al. [15] show that exchange rate volatility reduces productivity growth in financially underdeveloped countries and increases productivity in financially developed countries. This may be an indication that investment banking helps to hedge exchange rate risk, which in turn may have positive effects on the development of the tradable goods sector in an economy.

Industry Level / Firm Level

Another approach to tackle the causality issue is to analyse the relation of financial development and growth on industry level. Also this part of the literature confirms that financial development fosters economic growth and not vice versa. Better developed financial intermediation should help to overcome market frictions that drive a wedge between the price of internal and external financing. Industries which are naturally heavy users of external finance should benefit disproportionately more from financial development than other industries. The lower costs of external financing in financially developed countries should therefore facilitate firm growth in industries reliant on external finance. In fact, Rajan and Zingales [16] find that industries which are naturally more reliant on external finance grow comparably faster in financially more developed countries. The impact of financial development on growth by influencing the availability

of external financing is substantial. Countries with less financial development and industries more dependent on external finance would experience the biggest increase in growth. Fisman and Love [17] find that industry value added growth patterns are more correlated for country pairs with well-developed financial markets, as they are able to respond better to global shocks in growth opportunities. Moreover, financial development has a disproportionately positive effect in industries with a high share of small firms [18]. Interestingly, Beck and Levine [19] do not find bank-based nor market-based systems to be better in financing the expansion of industries dependent on external financing. Tadesse [20] however, finds that while market-based systems economically outperform bank-based systems in financially developed countries, bank-based systems perform better among less financially developed countries. Hence, one could interpret that investment banking, which is more prevalent in market-based countries, is more important in financially already developed economies while commercial banking has a superior effect in financially underdeveloped economies. Furthermore, while the overall impact of bank concentration on growth is negative, it fosters growth in industries which are dependent on external finance by easing credit access for younger firms [21]. If financial intermediation fosters productivity then investment in countries with larger capital markets should be more responsive to value added growth. Indeed, financial development is found to explain a significant part of variation of the investment-output elasticity [22]. Financially developed countries increase investment more in growing industries and decrease investment more in declining industries compared to financially underdeveloped countries. Another theoretical mechanism to confirm the direction of causality from financial development on economic growth was established on the firm level. The hypothesis is that financial development removes impediments to investing in profitable growth opportunities. Demirgüç-Kunt and Maksimovic [23] estimate the firms' potential growth rate in sales from internally available funds and short-term financing only and find that the financial development of both the stock market and the banking system has a positive effect on the firms' excess growth rates. In particular stock market turnover but not size and banking assets show a significantly positive relation.

Event Studies

Event studies represent another way to isolate the effect of financial development on economic growth without reverse causality issues. Events enhancing financial development or removing impediments are found to have an overall positive effect on economic growth. Bekaert, Harvey and Lundblad [24] analyse countries that removed capital account restrictions between 1980 and 2000. They find that the annual per capita GDP growth rate in these countries increased by an average of 0.5% to 1%. Henry [25] analyses twelve Latin American and East Asian countries which liberalised their financial systems. He identifies that the growth effect of liberalisation mainly results from increased investment and not from increased productivity.

In the period of 1970-1994, 38 US states removed branching restrictions and all states removed interstate bank ownership restrictions. Jayaratne and Strahan [26] point out that banking deregulation increased real per capita state growth by 0.6 to 1.2 percentage points. Most of this effect results from higher productivity and not from increased investment. In particular, the reforms fostered competition, which in turn increased new firm incorporations [27] and enhanced productivity growth especially for small enterprises [28]. Importantly, these liberating reforms were mainly driven by political factors and not by anticipation of future growth [29], which means that growth can be assigned to the deregulation effect in this context. Bertrand, Schoar and Thesmar [30] analyse the French banking deregulation from 1985 and find increased firm-level productivity mainly in bank-dependent sectors. A natural experiment to quantify the impact of investment banks on the real economy (corporate clients) is given in the case of the bankruptcy of Lehman Brothers. Fernando et al. [31] measure the impact the bankruptcy of the investment bank had on its corporate, non-financial clients one week after the event. The results indicate that the collapse has induced a stock decrease of slightly below 5% of Lehman's equity underwriting clients. In contrast, the event study has found no significant negative impact of the collapse on another client group (debt underwriting clients, M&A clients, market-making clients and stock market advisory clients). The authors conclude that the main value of the investment bank has been in providing access to stock market financing.

RESEARCH DESIGN AND METHODOLOGY

The research design that was adopted for this study was the descriptive survey method. This study was targeted at the investment section of the Exchange Control division of the Reserve Bank of Zimbabwe and therefore ensured, for instance, that the negative effects of the descriptive survey such as its time consuming nature were mitigated. This thus justifies the choice of the research design viz-a-viz, the context in which the study was performed.In order to safeguard the validity of the findings, the interview instrument (questionnaire) was systematically developed and pretested on a small number of people drawn from the subject population so that any ambiguities or biases in the way the questions were stated could be identified and corrected.

The population

According to Weiner et al [32] a population consists of possible observations of a random variable under study. Polit [33] says the population is the entire aggregation of cases that meet designated criteria. The population for the study consisted of the Investments section of the Exchange Control division of the Reserve Bank of Zimbabwe comprised of eight persons.

The sample

According to Dooley [34] a sample is a subset of the population. It is therefore a small proportion of the population that is selected for questioning and analysis. Weiner et al [32] says that not every member of the population is observable or measurable for reasons mainly of cost, time and possibly unit destruction. A subset of the population on which observations are made or measurements taken is referred to as a sample. A sample should be drawn in such a way that it is representative of all the members of the population. Cooper and Schindler [35] say that the ultimate test of a sample design is how well it represents the characteristics of the population it purports to represent. In measurement terms, the sample must be valid. Validity of a sample depends on two considerations, namely accuracy and precision. Accuracy is the degree to which bias is absent from the sample. Precision is the degree to which the sample fully represents its population in all respects.

The sampling procedure

The sampling method adopted for the study was the stratified sampling technique. Using this method, the population is first divided into sub-groups or strata who all share a similar characteristic. The entire population of the Investments section in the Exchange control division of the Reserve Bank of Zimbabwe, consisting of eight individuals, was divided into three sub-groups. These sub-groups are top management, middle management, as well as the non-managerial workers. The method is used when we might reasonably expect the measurement of interest to vary between the different sub-groups. In this case, top management is usually concerned with strategic issues of how to acquire financing and how best to invest it, whilst middle management will be concerned with operational matters to do with the day-to-day running of the department. Non-managerial workers will be concerned with following instructions and completing daily chores.

The study sample is then obtained by taking samples from each stratum. In a stratified sample, the probability of an individual being included varies according to known characteristics such as the level of management and the aim is to ensure that all sub-groups of the population that might be of relevance to the study are adequately represented.

The researchers chose the stratified sampling technique as it ensured that individuals chosen are representative of the whole population. This quality is quite important as it aids in the removal of bias from the sample. The use of stratified sampling also reduced the number of participants chosen for the final sample and as such reduced the workload and cost of conducting the research as well as made it easier to obtain high quality information. The preference for a small sample size was guaranteed by this researcher's initial selection of a small population size.

DATA PRESENTATION, ANALYSIS AND DISCUSSION
Data presentation

The research involved numerical data that could usefully be quantified to help the researchers to answer the research questions and meet the objectives. Such data is referred to as quantified data and quantified data analysis techniques were used to process the findings.

Response rate

Of the five questionnaires distributed, five were received back by the researchers. This shows a response rate of 100 percent which is very favorable.

Years of experience in the banking sector

Experience was an important factor to consider in this study as most experienced respondents provided more accurate and unbiased data. According to the data collected, forty percent of the respondents to the study had been in the banking industry for 6 -10 years whilst sixty percent had more than 10 years of experience in the banking sector. The indication of this is that the data provided had a high degree of accuracy and was unbiased as the respondents had relevant knowledge in the banking sector.

The respondents are seasoned bankers and were adequately skilled for their profession as shown in the table below.

Table 1: Distribution of respondents' banking industry experience

Experience (years)	Frequency	%
1-5	0	0
6-10	2	40
11-15	2	40
16-20	1	20
21+	0	0

Source: Raw Data

Current position of the respondents

This research was targeted solely at the Investments section in the Exchange control division of the Reserve Bank of Zimbabwe. Of the total respondents, twenty percent were top management, twenty percent were mid-level managers and forty percent were non-managerial employees. The entire population of the Investments section in the Exchange control division of the Reserve Bank of Zimbabwe, consisting of eight individuals, was divided into three sub-groups. These sub-groups are top management, middle management, as well as the non-managerial workers. The method is used when we might reasonably expect the measurement of interest to vary between the different sub-groups. This ensures the capture of all the pertinent issues relating to the study that naturally stem from such diversified interest groups and results in an unbiased conclusion of such study. This information is captured on the following pie-chart.
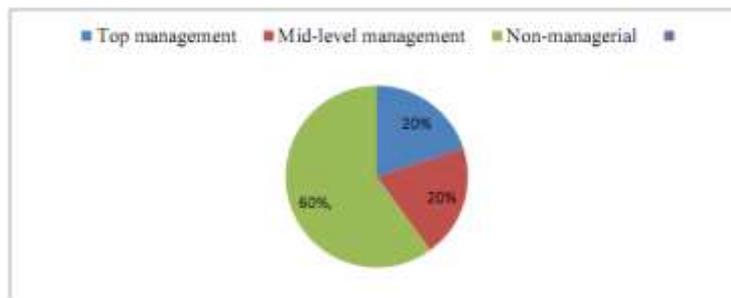
Fig-1: Employment positions held by respondents
Source: Raw Data

Level of education

The education level was relevant to establish if the respondents possessed adequate knowledge to enable them to attend to investment banking matters. It was noted that sixty percent (or 3 respondents) held undergraduate qualifications whilst forty percent (or 2 respondents) held postgraduate degrees. This showed that the respondents were qualified enough to perform their jobs and to respond to the researcher's questionnaire and interview questions.
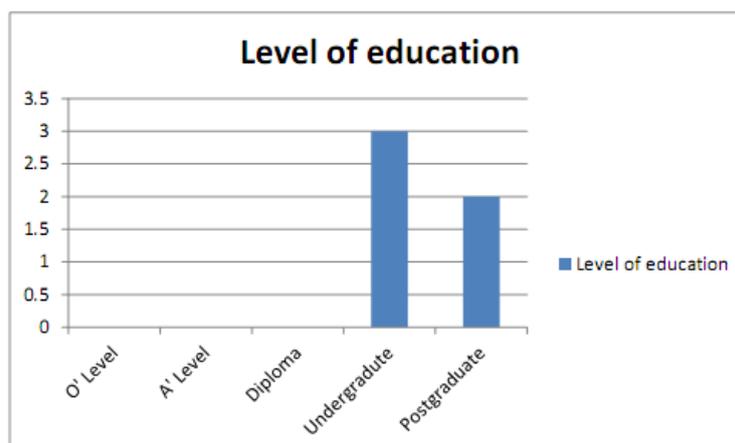

Fig-2: Respondents' education level
Source: Raw data

Availableinvestment banking instruments

The below detailed table shows that the investment banking instruments that are primarily available in Zimbabwe for use by commercial banks are mainly debt and equity finance with derivatives completing the bouquet.

Table 2: Investment banking instruments available for use by commercial banks in Zimbabwe

Instrument	Available / Not available	Percentage of respondents electing instrument
Domestic Bonds	Available	100%
Foreign Bonds	Available	100%
Equity/Ordinary Shares	Available	100%
Preference Shares	Not available	100%
Mortgage-basedSecurities (MBS)	Not available	nil
Other Asset-basedsecurities	Not available	nil
Derivatives, e.g. options and swaps	Not available	100%

Source: Raw data

Investment banking instruments used

The Zimbabwean economy has of recent years been characterized by acute liquidity shortages. Financing initiatives of Zimbabwean commercial banks have thus been heavily curtailed by the various, well documented factors that have conspired against the availability of liquidity in the economy. The table below shows that a very low number of banks have successfully conducted any meaningful investment banking initiative during the period 2009-2013.Furthermore, it can be seen that such initiatives were restricted to only three instruments. This evidences a very shallow capital market with limited product/instrument diversity/range. The business dictionary defines a product range as a complete portfolio of products that a company manufactures and/or markets. In the context of capital markets, the product range is the number of instruments that are traded in a market. The range of products may be narrow or wide (full spectrum) depending on the number of instruments that will be traded in such a market.

Table 3: Investment banking instruments used by banks to secure financing for on-lending (2009-2013)

Instrument	Number of banks actively trading	Average annual volumes of trade	Average frequency of trading e.g. once per week/month/year
Domestic Bonds	2	1	1 year
Foreign Bonds	1	1	3 years
Equity/Ordinary Shares	1	1	Ounce-off
Preference Shares	nil		nil
Mortgage-based Securities (MBS)	nil		nil
Other Asset-based securities	nil		nil
Derivatives, e.g. options and swaps	nil		nil

Source: Raw data

Constraints of effective finance mobilisation

From Table 4.4below it can be seen that the generally negatively perceived country risk and the difficulty in acquiring or raising bank's own capital are the major factors limiting the effective functioning of the capital market and thus by inference, investment banking in Zimbabwe. One hundred per cent of the respondents agreed with this view. Zimbabwe accumulated foreign debt areas running into billions of United States dollars over a decade-long economic recession characterized by galloping hyper-inflation from the period 1998-2008. This scenario resulted in several sovereign loan defaults and ultimately in Zimbabwe receiving the worst credit ratings by all major global rating agencies. Consequently, international finance partners such as the World Bank and the IMF suspended the country from receiving any further financial assistance from them. Zimbabwean commercial banks have also been experiencing challenges in raising their own capital to finance their own business let alone be able to raise funding for other businesses. In January 2014, the Reserve Bank of Zimbabwe set the minimum capital levels for commercial and merchant banks at USD100 million to be achieved by December 2020. Previously, minimum capital levels for both commercial and merchant banks

were pegged at USD25 million and had to be achieved by 31 December 2012(www.rbz.co.zw – Monetary Policy Statement, Jan 2014).Banks have struggled to meet these minimum capital levels and by June 2014, 14 out of 19 operating banking institutions excluding the Post Office Savings Bank were in compliance with the December 2012 deadline minimum capital levels. These factors have colluded in hindering commercial banks from effectively discharging their investment banking functions for the benefit of Zimbabwean businesses. Surprisingly, the unfriendly investment environment created by such national policies as the Indigenization and economic empowerment act of 2008 was cited by only forty percent of the respondents as a constraint to effective mobilization of finance by Zimbabwean banks. A marginal twenty percent of respondents indicated that the Diaspora capital market was apathetic to Zimbabwean commercial bank investment banking initiatives aimed at mobilizing finance from Zimbabweans resident in foreign lands. No respondent indicated that commercial bank management lacked initiative to mobilize financing. Evidently, much confidence is still placed in banking sector industry captains to lead their organizations.

Table 4: Constraints of effective finance mobilisation by banks for the benefit of Zimbabwean borrowers

Constraint	Frequency of respondents citing this reason	Percentage of respondents citing this reason
Unfriendly investment laws and regulations	2	40%
Generally negatively perceived country risk	5	100%
Apathetic Diaspora capital market	1	20%
Lack of management initiative	nil	Nil
Difficulty in acquiring/raising own capital	5	100%

Source: Raw Data

Size of trade

A determinant of market depth is the size of trade executed in a market. The volumes of trades in terms of monetary value can also depict how deep a market is. To establish the size of trade respondents were asked to highlight the size of trade in amounts expressed in United States dollars. Below is a table that summarises the percentages of the sample's responses on the size of trade in the Zimbabwean capital market.

Table 5: Size of trade

Instrument	1to 10 million (US$)	11 to 50 million (US$)	Over 50 million (US$)
Domestic Bonds	40%	40%	20%
Foreign Bonds	nil	60%	40%
Equity/ordinary shares	20%		

Source: Raw Data

For the instruments that were traded, their trades were worth at least five million US dollars. The highest number of respondents (one hundred per cent) was of the view that foreign bonds constituted the biggest trades by value, ranging from eleven to above fifty million US dollars.

Frequency of trading for instruments

The majority of capital market instruments available for use by Zimbabwean bank have not been employed on the market and therefore had a hundred per cent non-applicable rate. For the few instruments which were traded for instance, domestic bonds, these were traded occasionally. Less frequent use of the financial instruments showed that the market was shallow in its execution of trades. One hundred per cent of the respondents indicated that domestic bonds were issued on the market at the most, twice every yearend foreign bonds once after every three years. During the review period of 2009-2013, only one equity issue transaction was performed in a once-off transaction. This response was received from one respondent, representing twenty per cent of the respondents.

Table 6: Frequency of trade

Instrument	Once-off transaction	Twice every 1 year	Once every 3 years
Domestic Bonds		100%	
Foreign Bonds			100%
Equity/ordinary shares	20%		

Source: Raw Data

Success rate of finance mobilisation initiatives by commercial banks

One hundred percent of the respondents were of the view that the general annual success rate of finance mobilisation initiatives by Zimbabwean commercial banks was very low as indicated by the summarized information given above.

Instruments proposed for introduction in the Zimbabwean capital market

Twenty per cent of respondents suggested that the Zimbabwean capital market introduce asset backed securities and more specifically, eighty per cent were of the opinion that mortgage based securities be introduced.An **asset-backed security** (**ABS**) is a security whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets which are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors; a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can include common payments from credit cards, automobile loans, and mortgage loans, to esoteric cash flows from aircraft leases, royalty payments and movie revenues. A **mortgage-backed security** (**MBS**) is a type of asset-backed security that is secured by a mortgage, or more commonly a collection ("pool") of sometimes hundreds of mortgages. The mortgages are sold to a group of individuals (a government agency or investment bank) that "securitizes", or packages, the loans together into a security that can be sold to investors.

Often a separate institution, called a special purpose vehicle, is created to handle the securitization of asset backed securities. The special purpose vehicle, which creates and sells the securities, uses the proceeds of the sale to pay back the bank that created, or originated, the underlying assets. An incentive for banks to create securitized assets is to remove risky assets from their balance sheet by having another institution (the special purpose vehicle) assume the credit risk, so that they (the banks) receive cash in return. This allows banks to invest more of their capital in new loans or other assets and possibly have a lower capital requirement.

Table 7: Respondents' proposals on new instrument introduction

Proposed instrument	Percentage of respondents proposing this instrument
Asset backed securities	20%
Mortgage backed securities	80%

Source: Raw Data

CONCLUSION AND RECOMMENDATIONS
Conclusion

The investment banking initiatives of banks in Zimbabwe for the period 2009-2013 were not effective in securing adequate financing to further avail to borrowers. However, the data acquired revealed that not only were there very few banks involved in meaningful trades on the capital market, but the diversity/range in the instruments they traded in was limited to three instruments, namely, domestic bonds, foreign bonds and ordinary shares. This depicted a very shallow capital market. The most notable causes for this state of affairs were the generally negatively perceived country risk and the resultant difficulty that local banks were experiencing in acquiring their own capital.

Recommendations

Structural changes are required in the economy, including a review of existing investment laws in order to align such with the objective of attracting more foreign finance to the Zimbabwean capital markets. This therefore implies committed engagement between the banking industry and government in order to prioritize the needs of the country. Commercial banks should also engage in aggressive foreign bond issue on markets in friendly nations such as China, the Cayman Islands and Mauritius. The banking industry has to enhance its engagement of regional financing partners such as Afrexim Bank for the effective mobilization of foreign bond finance as such institutions provide investor confidence and comfort by way of guaranteeing Zimbabwean bank bond floats.

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