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**WHY ON EARTH SHOULD FOREIGN BANKS INVEST IN AFRICA'S FINANCIAL SERVICES
SECTOR?
EVIDENCE FROM FINANCIAL MULTINATIONALS IN GHANA**

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ABSTRACT

While sub-Saharan African countries have been able to attract some degree of resource-seeking FDI due to their abundant natural resources, financial FDI inflows have proved to be elusive for the region, in spite of the widespread financial sector adjustment programmes which offer attractive incentive packages for financial MNCs. Literature surrounding the determinants of FDI inflows has mainly focused on manufacturing and real production activity. We analyzed the root causes of the weak administrative and institutional framework in Africa's banking industry, using Ghana as a case in point. Focusing on two financial MNCs as case studies, this paper validates the significance of a thorough qualitative investigation in evaluating the explanations as to why most foreign banks do not invest in sub-Saharan Africa, and the few that do, have relatively insignificant operations. The study also reveals that despite the far-reaching reforms, there are several structural constraints and deficiencies placed on financial MNCs which affect the size of the business they can conduct and their future investment decisions. One of the major issues prior to the financial sector reforms in Africa was disintegration and the restructuring was not designed to create an attractive location for foreign capital; hence the low financial FDI inflows to Ghana in particular and Africa in general.

Keywords: Foreign direct investment (FDI), multinational Corporations (MNCs), institutional reforms, regulatory factors, emerging economies, and sub-Saharan Africa.

INTRODUCTION

Financial markets play an important role in providing the needed finance to support private sector development initiatives in emerging economies. Although recent developments in the African financial markets is indisputable, for the major part there is the need to maintain development efforts, improve the banking sector to mobilise savings which are trapped in the informal sector (Lwiza and Nwanko, 2002), and revise policies aimed at attracting foreign direct investment inflows into African financial markets. This is important because recent developments in the sector could partly be attributed to the contributions of foreign financial institutions (Mmieh and Owusu-Frimpong, 2009; Ezeoha and Cattaneo, 2011). Rugman and Collinson (2006) and Goldberg (2003) prove that the attraction of financial FDI is generally seen as an important source of capital which supports emerging economies in achieving economic development. Wezel (2004) also indicates that most emerging economies such as Asia and Latin America have, through liberalisation, significantly increased their share of financial FDI inflows in their efforts to achieve sustained growth.

Although several African countries have also responded by undertaking financial sector reforms geared towards the attraction of financial FDI, sub-Saharan African countries (SSACs) fall short in establishing and maintaining the required environment for these investments to thrive. Further revisions of these economic policies have been

formulated and applied, similar to those implemented by the Asian and Latin American economies, the results, however, have been contradictory. Long-established causes of these factors have been analysed by several authors who see them to be the influence of the Breton Wood institutions as well as occasional slippages in policy implementation (Aryeetey and Killick, 2000; Debrah, 2002; Gockel and Ackoena, 2003). This study, therefore, makes a case for the weak institutional framework as the major cause and attempts to critically examine the root causes of the weak institutions in Africa using Ghana as a case in point.

The justification for using institutional philosophies as the starting point for this study is that there is ample evidence that weak and dishonest institutions remain one of the major causes of lower overseas investments in the African financial services sector (Nkontchou, 2010; Mmieh and Owusu-Frimpong, 2004; Suchman, 1995). Specifically, the objectives of this study are to:

- ❖ examine the progress made so far in the transition from financially repressed state to reform and post-reform, with a view to verifying the current structural/fundamental limitations affecting the sector; and,
- ❖ analyse the impact of institutional weaknesses on the performance of Africa's financial services sector.

This study is important in two ways. Firstly, the authors of this study believe that this study would be useful to academics, researchers, foreign banks operating in Africa and those wishing to operate in the sub-region in the foreseeable future. Secondly, this study makes an important contribution to knowledge by filling the gap in discussing the reasons why most financial MNCs do not invest in sub-Saharan Africa and the few that do, have relatively insignificant operations. This study focuses on sub-Saharan Africa in general, and Ghana in particular. The study is organised as follows. The next section presents a review of literature on institutional frameworks for financial sector liberalisation. The third section deals with the methodology followed by a discussion of the empirical evidence and data analysis. The final section provides the conclusion, limitations and directions for future research.

LITERATURE ON REASONS FOR INSTITUTIONAL WEAKNESSES

According to Ezeoha and Cattaneo (2011), institutional factors could influence the efficiency of financial markets as well as financial FDI inflows. As Kostova and Zaheer (1999) argue, the degree of legitimacy of supporting institutions could support or adversely affect a country's financial system. North (1992), indicates that institutional theory is based on the idea that individual agents in a market are influenced by external factors which are known as institutions. In this regard, institutions are humanly devised constraints that shape human interactions. These constraints could characterise the structure of political, economic and social interactions. An institutional framework consists of formal rules and informal constraints. Formal rules consist of the laws, obligations and rights set by the institutions which influence interaction by forming a framework in which exchange can take place, reducing both uncertainty and transaction costs in the process. Informal constraints are norms, values, taboos, traditions, and other informal rules of the game (North, 1991). The institutional framework, therefore, sets the framework in which economic interaction takes place and influences the economic performance of financial institutions operating in a country as well as the country itself.

Based on the above analysis, therefore, an efficient financial sector requires a number of important institutional developments including financial market liberalisation and development, efficient regulation and supervision which can enhance efficient allocation of resources. Effective institutions would also enable a good match between those with capital to invest and organisations and individuals who are looking for investors. Other institutional factors that have been examined in previous work as major determinants of non-financial FDI include trade openness, infrastructure, and degree of government corruption, amongst others. Trade openness portrays the ease with which investors can freely move capital in and out of an economy (Shrestha and Onyeiwu, 2004). Ezeoha and Cattaneo (2011) indicate that a more open economy attracts more foreign capital. As Law and Habibullah (2009) cite, an open economy helps to minimise the power of political and economic élites who take advantage of others in order to promote competitive markets. Ang (2008) and Asiedu (2006) agree that there are positive effects of openness on financial sector development.

In Africa, the concept of building strong institutions has been seen as a critical component of economic development but the strategies to build these institutions has eluded sub-Saharan Africa. Governments and scholars have grappled with, all to no avail. The institutional concept of financial market development has also been tackled

from different angles including economic and sociological perspectives (Aryeetey, *et al*, 2000; Gockel and Akoena, 2003), and there is still no clear initiative to build stronger institutions to support financial markets in sub-Saharan Africa. Moreover, fieldwork and literature conducted in the past has primarily focused on developed economies. There has been a recent empirical focus on Asia, but despite these efforts, it is not clear how these theories apply in the African setting to enable financial multinationals to trust in and accept the transparency and the efficiency of the system to protect their investments.

This study, therefore, examines this gap and addresses the question of what accounts for the structural and institutional weaknesses of the financial markets in Africa. We, therefore, use institutional philosophies (See Ezeoha and Cattaneo, 2011; North, 1991; Aryeetey, *et al*, 2000) for a comprehensive overview as a theoretical starting point, and we augment these with insights from the much touted economic reform programmes (ERPs) in Africa to assess whether or not these adjustment efforts have yielded the requisite results.

In the analysis, however, foreign investors' perceptions of the legitimacy of institutional factors (for Africa in general and Ghana, in particular) such as the degree of corruption, legislation, access to information, taxation and incentives, and bureaucracy will be discussed in subsequent sections. One of the main causes of weak institutions is corruption and we provide an overview of such in the next section.

IMPACT OF CORRUPTION ON AFRICAN FINANCIAL INSTITUTIONS

Holmes, Feulner and O'Grady, (2008) define corruption as the failure of integrity in the system. This is tantamount to distortions by which individuals are able to gain personally at the expense of the whole. Degree of government corruption is observed to have some impact on FDI inflows. Whilst corruption has been seen as an important institutional weakness, there are empirical divisions as to how it affects a country's financial system. For example, Ezeoha and Cattaneo (2011) observe that corruption impedes progress in economic and social development and also undermines investor confidence in a country's financial sector. Al-Sadig (2009) supports this view by indicating that corruption scares away foreign investors as it is considered illegal and causes inefficient operational use of and allocation of capital resources. But Egger and Winner (2005) disagree, theorising that corruption is good because by acting as a *helping hand*, it can sometimes be an incentive for inward FDI flows. Using 73 developed and less developed countries for the time period 1995-1999, Egger and Winner (2005) found

a positive relationship between corruption and FDI, and even concluded that corruption can indeed be a stimulus for some kinds of FDI. Other theories focus on the degree of financial sector development as an influence in increasing financial FDI inflows (Arestis, 2005). Taking cues from these theories, we present the *strategic approach*.

THE STRATEGIC FRAMEWORK

Having reviewed institutional theories, the authors of this study present a *strategic approach* which simultaneously addresses the structural and institutional weaknesses and supports the development of a country's financial markets. This study argues that this strategy is appropriate for the development of the financial sector in Africa due to three reasons: firstly, the lack of an independent incentive environment and market actors that are sufficiently strong for the financial sector to develop by themselves; secondly, the lack of institutions that are capable of determining the pace and strength of emerging issues and matching those issues with suitable strategies; finally, the need for flexibility that enables the use of efficient training, infrastructure and choice of technology that is most suited to local conditions which is also *in-situ* and on a par with the level of economic development.

The proactive approach used in this study was first introduced by the World Bank (1994), and also applied by Popiel (1994). The approach basically considers the legal and institutional framework of most developing economies as inadequate to support a modern financial development process. The World Bank (1994) indicates that these inadequacies included outdated legal and inconsistent regulatory strategies. These deficiencies, arguably, became the forerunner to the poor enforcement of laws. Besides, it creates difficulties in debt collection, monitoring and control, resulting in the unwillingness of financial MNCs to enter into certain types of financial markets.

Drawing on ideas from the proponents of political and institutional risk factors, Arun and Turner (2002) maintain that the main causes of the decline in the competitiveness of financial services in emerging markets are risk and institutional inefficiencies. Some of these risks included: the sharply negative real deposit rates which deterred savers from holding financial assets; the currency appropriations of 1979 and 1982 in Ghana, Nigeria and beyond; the freezing of bank accounts; and, the decree authorising the government to demand details of customers' bank accounts from banks. All served to erode public confidence in holding domestic currency and using the financial system. This encouraged the use of informal financial intermediaries and the

holding of savings in the form of physical assets such as buildings and construction materials and foreign assets (Gockel and Brownbridge, 1998). As a consequence, pre-reform policies had the effect of reducing significantly the size of the financial services sector, reducing competition and making the financial market respond to the needs of the state rather than those of the productive agents.

Furthermore, studies conducted by Inanga and Ekpeyong (2004) and Gockel and Akoena (2003) indicate that financial sector reforms in Africa have tended to focus on achieving macro-economic goals rather than the development of the private sector which supports economic growth initiatives. Evidence of these failures in Nigeria, was presented by Soyibo (1994a). His work indicated a lack of finance for both formal and informal sectors: in Malawi (Chipeta and Mkandawire, 1992); in Tanzania (Kipokola, 1993 cited in Inanga and Ekpeyong, 2004); in Ethiopia (Aredo, 1993) and in Ghana, the success story of the African financial sector reforms still face problems with private sector access to credit (Aryeetey, *et al.*, 1998; 2000). The mutual relationship between the private sector and the financial system has not been effectively reinforced.

In view of these factors, this study argues that both evolutionary and proactive strategies are the best methods for developing an effective financial system. Agreeing with Popiel (1994), *evolutionary approaches* allow the financial system to develop gradually within the economy. Here, we argue that the role of the government is just to provide improvements or changes in laws and regulations that enable a free functioning environment for the market actors. We also argue that a forward-looking approach to regulation that is adjustable to changing trends in the markets is the key requirement in using this approach successfully. The proactive approach provides legal, regulatory and prudential frameworks which synchronously protect and accelerate financial market development through *market mechanisms*, institutions and financial instruments set up for such purposes. The study will now provide an overview of the financial sector reforms which took place in Ghana. We focus on Ghana because other countries in the sub-region followed a similar route with regards to World Bank hand-outs on structural adjustment programmes and financial sector reform.

FINANCIAL SECTOR REFORMS AND FINANCIAL FDI INFLOWS

The primary objective of Africa's financial sector reforms was to improve financial service delivery and facilitate the development of a monetary policy aimed at

supporting the growth of the private sector (which is seen as the engine of growth for developing economies).

Prior to 1983, Ghana for example, operated a tightly regulated financial system and the impact on economic growth was found to be dismal (Mmieh and Owusu-Frimpong, 2004; Gockel, *et al.*, 1998). African governments adopted financial sector interventions based on thoughts of promoting economic growth. Principal among them were interest rate controls, directed credit to priority sectors and government involvement in providing bank loans below market interest rates to finance its activities, most of which were in unprofitable sectors (Debrah and Toroitich, 2005). In addition, most governments in the SSACs attempted to finance public sector deficits by creating money, but that also resulted in inflationary spirals and negative interest rates on deposits.

Seck and El-Nil (1993), therefore, categorise African financial reforms into three areas based on their intended objectives for the reforms. Firstly, countries whose aim was to improve their monetary control included Botswana and Mauritius. The second category had aims to improve mobilisation and allocation of domestic savings and included Zaire and Kenya. The third category had aims to improve the banking system and included The Gambia, Sierra Leone and Burundi. On the other hand, Ghana, Nigeria, Kenya and Zimbabwe had aims spanning across these three categories. Judging from the above, one can fittingly critique that institutional imperfections, the level of economic development and the financial conditions of individual economies shaped the outcomes of the reforms.

Ghana, for example, turned to the IMF for assistance to reshape the macro-economic structure in the mid-1980s. One of the policy packages which were part of the entire reform agenda was to strengthen the institutions that regulate the financial sector. Mmieh, Owusu-Frimpong and Mordi (2012), argue that the introduction of FINSAP sought among other things: (i) to reform the banking sector to ensure the appreciation of the value of the customer and provide customer satisfaction; (ii) overhaul the regulatory framework and improve bank supervision; (iii) develop the money and capital markets; (iv) increase exports and sustain GDP growth of at least 5% per annum; (v) control inflation through appropriate fiscal and monetary policies; and, (vi) liberalize the foreign exchange market (FEM).

We, however, argue that there are several structural factors that affect foreign capital inflows. The interesting aspect though, is that in spite of the weaknesses, the

reforms have stimulated a greater search for competitiveness that is currently revolutionizing the financial services sector in most countries such as Kenya, Ghana and Nigeria. More so, Ghana's financial sector reform agenda, has witnessed an influx of financial MNCs locating their businesses in the Ghanaian banking sector *for operational purposes*. This is because most banks use Ghana as a hub but the amount of investment is insignificant. To examine the reasons for such failures, we adopted an inductive methodology for the data collection.

METHODOLOGY

Data collection conducted for this study was, therefore, completed in two main stages. First we analysed public information on financial MNCs in Ghana in terms of their perception of the business environmental factors. Secondly, chief executive officers, directors, managers and non-managerial staff and policymakers were interviewed. In every financial MNC, and all parastatals which were chosen for the study, the principal investigator ensured that key personnel with authority to influence investment decisions, or who were part of the initial investment decision were interviewed. This is because their perceptions were deemed extremely important to gathering enough evidence about the causes of the structural and institutional weaknesses.

We followed Bryman and Bell's (2007) argument which concedes that qualitative research is an epistemological position described as interpretivist, meaning that, in contrast to the adoption of a natural scientific model in quantitative research, the stress is on the understanding of the social world through an examination of the interpretation of that world by its participants. This further implies that social properties are outcomes of the interactions between individuals, rather than phenomena *out there* and separate from those involved in its construction. Our main focus is to emphasise the representation of reality through the eyes of the participants. As a result, we sought to focus on the respondents and it is their reflections and opinions that guided the research. This enabled us to gain a deeper understanding of not just the structural weaknesses, but also the reasons for the institutional weaknesses. Ghana was chosen because it is representative of most countries in the sub-Saharan region which adopted similar World Bank and International Monetary Fund Structural Adjustment programmes (SAPs) by deregulating most of the government-controlled businesses (State-Owned Enterprises –

SOEs/Public Sector Enterprises – PSEs) and embarking on several supply side policies to improve their financial system.

The study adopted group interviewing of managers where the need arose. During the interviews, some respondents preferred that their responses were not recorded into an audio device and hence recording was done with pen and paper. This approach to data collection is in line with Bryman and Bell (2007) and Saunders, Lewis and Thornhill (2009), who argue that research choices must be driven by the underlying objectives of the study. In this study, the research strategy adopted was driven by the research objectives, time and the philosophical underpinning surrounding the research process.

Furthermore, the process by which managers in different organisations understand their environment and appreciate the factors (usually external) that influence their investment decisions is complex. This is because the process requires understanding of past experiences, the current trends or present circumstances and future expectations. This implies that the researchers needed to gain this information by having an interaction with the personnel of financial MNCs in order to understand their business processes. Nevertheless, this raised questions regarding the ability of the researchers to generalise the findings of research that aims to capture complex social situations. Saunders, Lewis and Thornhill (2009), however, argue that the uniqueness of organisations could render generalisation less valuable. Throughout the process of data collection, however, appropriate procedures were taken to minimise bias and inaccuracies due to the presence of the principal investigator on site for three months.

The sample was purposive and personal networks and snowballing sampling was also used to identify respondents. Respondents were comprised of 4 managing directors/CEOs, 17 departmental directors, 28 heads of department, and 22 non-managerial staff from the *two case study banks* used in this study. Besides these, 33 respondents were interviewed from regulatory bodies, government departments and economic policy analysts responsible for financial sector development. In total, 104 respondents participated in this study. The duration of the interviews was between 1 to 2 hours. Interview questions were open-ended and they were divided into six major themes which covered (i) explanations for institutional limitations of the private sector; (ii) administration of the incentives provided by the government through reforms; (iii) reasons for the structural problems associated with the repatriation of profits; (iv) reforms to the process of dispute settlement and arbitration through commercial courts;

(v) reasons for the weaknesses of the supervisory processes; and, (vi) the impact of financial literacy on future investment decisions.

Responses were analysed and categorised under the objectives of the study to enable coherence, consistency and thematic analysis of the results. We used open coding into themes and then combined similar themes related to the main areas of the study. Comparison between the themes and their respective theoretical issues are therefore discussed in the analysis section. The authors of this study present the anonymous case studies used in this study.

CASE STUDIES

The first financial MNC (bank A) used in this study is a relatively new financial MNC operating in Ghana. The second (bank B), on the other hand, has experienced the length and breadth of Ghana's ERPs. The purpose of the choice of these case studies is to dichotomise the impact of the financial sector adjustment programme (FINSAP), financial sector adjustment credit (FINSAC) and financial sector strategic plan (FINSSP) in respect of the ease of operations of financial institutions in different time-frames. The overall purpose, therefore, is to understand the institutional and administrative weaknesses as well as progress made so far after the reforms.

BANK A

Bank A was chosen for this study because it has a history of operating as a wholly owned domestic financial institution. Bank A's operations started as a purely Ghanaian-owned merchant bank. It was incorporated in the late 1990s under the Companies Code 1963 (Act 179), licensed by the Bank of Ghana in the late 1990s to carry out the business of merchant banking under the Banking Law 1989, PNDCL 225 and commenced operations just before the end of the decade. The major focus of bank A, therefore, was on construction financing. Subsequent to seven years of operations, bank A acquired a Universal Banking Licence by inviting in the mid-2000s, a strategic investor from a neighbouring country to take 51% of its equity. The strategic investor was a major shareholder in a bank in its country of origin. This move brought in international banking specialists to support the restructuring process of the banking activities of bank A in Ghana. It is argued in this study that this paved the way for the bank to have a different approach to banking. In line with Debrah and Toroitich's (2005) work, privatisation

removed the bank from the hands of unqualified and dishonest managers who were appointed due to their political affiliations.

Currently, bank A is fully exploiting the synergies that are available within the group following the development of a new innovative approach to banking. Presently, the total asset valuation of bank A is estimated at US\$136 million. Bank A met with ease the US\$41 million minimum capital which was required by the Bank of Ghana as a regulatory measure to streamline the activities of the banking sector in Ghana in 2010. The bank's medium- to long-term vision is to become the leading financial institution in the country. As a result, it provides innovative and customer-focused solutions to customers' needs and has introduced concepts that are aimed at improving customer satisfaction within the financial services sector in West Africa.

The total assets of the bank, as of June 2009, were estimated to be approximately US\$272 million (Public Agenda, 2009). This bank chooses its business locations strategically, focusing on cities with strong commercial centres and an industrial presence. For example, Tema and Kumasi form the hub of manufacturing and export; Accra, Kumasi, and Takoradi are the major commercial centres and so the bank has established branches in these strategic locations. By the end of the first quarter of 2008, the business office (branch) network had expanded to twelve and has been projected to reach twenty business offices in all major markets in the country by the end of 2011. Ten more locations were earmarked for development from 2012-2013, in order to provide the bank with a wider coverage. The prime aim is to reach every region of the country in the medium term and reach out to emerging commercial and business centres in and out of Ghana. The services now provided by bank A following the foreign involvement by an overseas investment company have been expanded. Most of these services were not available in Ghana's financial services sector until the arrival of overseas financial institutions.

BANK B

This financial institution has one of the greatest histories of operating in Ghana as a wholly owned foreign bank. It has experienced the length and breadth of Ghana's financial sector and institutional reforms. Bank B, therefore, represents a perfect snapshot of how banks can succeed even in extremely hostile business environments. As of 1979, three financial institutions owned large shareholdings in this bank. Presently, no shareholder has an interest of 5% or more. This financial

institution, together with its subsidiaries and associated businesses, has offices in many countries and employs over 50,000 staff (of which over 6,000 are from the country of origin and over 760 from Ghana).

During the nationalisation of private banks and the establishment of public sector banks by the Ghanaian government, bank B was among a handful of banks which were not nationalised. The Bank of Ghana (BOG) determined the structure of bank interest rates, including minimum interest rates for deposits and maximum lending rates. The priority sectors identified received preferential lending rates with riskier sectors, such as agriculture, being accorded a preferential rate. This implied that the supply and demand of financial services were not determined by market forces. But, despite the credit directives, bank B was able to resist most of these pressures. Whilst most public sector banks had huge non-performing loans (NPLs), due to the sectoral credit directive issued by the BOG based on the indigenisation decree, banks with foreign equity participation (including bank B) avoided incurring significant levels of loan losses and were by and large profitable. Bank B was reasonably able to circumvent unadventurous lending policies and evaluated loan applications according to strict commercial criteria. This supports the argument that foreign banks in general, are more efficient users of capital than domestic financial institutions in the SSA (Aryeetey, *et al.*, 2000).

The bank has recently provided financing to micro-finance companies in support of cottage industries and small businesses and also launched a consumer education programme as part of its aim to advocate financial literacy among its stakeholders in Ghana. Bank B is known for operating in a tumultuous environment, including Ghana, for many years. It has been argued that bank B lacks a truly domestic network and identity because the banking group's progress has been largely dependent upon developing countries' economic and political conditions at home - a position that is not envied by many banks (Mbendi Ghana Profile, 2012).

Since the early 1990s, bank B focused on developing its strong area dominance in Africa and has also changed its way of doing business on the continent. It can be argued in this study that this is purely as a result of the entry of several banks coupled with the competitive and aggressive atmosphere within which these banks operate. Bank B is now open to do business with a wider range of customers and is setting up branches in areas where it has not previously done so (about 10 years ago). Currently, bank B focuses on consumer, corporate and institutional banking as well as the provision of

treasury services. Since 2000, bank B has accomplished numerous objectives with a number of strategic alliances and acquisitions, which have extended customer choice, significantly improved geographic reach and widened the product range that the bank offers. These services ensure that bank B contributes significantly to the economic development of SSACs. This leads to the analysis of the empirical evidence.

ANALYSIS OF DATA

Evidence from the fieldwork undertaken in Ghana revealed that, currently, both the case banks perform a substantial role by introducing a full range of corporate banking services such as insurance, investment and other international transactions mostly required by foreign investors operating in different sectors. Furthermore, the presence of these banks has encouraged the entry of other foreign companies in various sectors (sometimes as a result of *follow-the-client*) in ways that is beyond just providing international financial services (Contractor, Kundu and Hsu, 2003).

Banks A and B have been serving as important points of call for foreign investors in other sectors in terms of information and facilitation, business advisory and consultancy services, informing prospective investors of available incentives, purchasing of accommodation and transfer of assets. In addition, the two case banks have improved the services available to domestic customers by offering a variety of product mixes tied with a good customer service which had previously been perceived as a luxury by many Ghanaians. The empirical research also revealed that banks A and B have introduced a zero-based account, online banking and telephone banking which prompted other domestic and foreign banks to improve their services. In addition, the financial services sector in Ghana is undergoing rapid change which is driven partly by technological changes and the growth of competing non-banking financial institutions. Most banks do not think that the non-bank financial sector is a threat to their activities. There are also high spreads between lending rates and deposit rates.

In spite of the progress following the reforms, most banks are faced with several constraints in trying to undertake their activities in Ghana. An assessment of Ghana's institutional reforms have been analysed in this paper, in terms of how these institutions have supported effective provision of credit to the private sector, effective regulation of the incentives provided by the government, ease of profit repatriation, how regulatory institutions enrich competition in the sector and the processes of settling commercial matters. The study finally questions if the objectives of the institutional reforms have

been achieved; and if not then what explanations might account for this. Themes that emerged from the research questions are discussed in subsequent sections.

HOW DO INSTITUTIONAL LIMITATIONS AFFECT AFRICA'S BANKING SECTOR?

One of the main objectives of Ghana's reforms was to efficiently mobilise and allocate resources to the private sector. Respondents from banks A and B argue that the reforms lacked *proper planning and implementation* and that has affected the size of financial FDI inflows as well as the amount of multinational financial institutions which are willing to lend to the private sector. In addition, the regulators have failed to create *supporting institutions* aimed at meeting the changing and emerging needs of a sector that is constantly changing due to internal and external forces, some of which are global. The study also found that Ghana's financial sector reforms did not take into account the methods for formalising the informal sector in order for them to gain access to credit. In this vein, an officer at the Global Markets department of bank B argues:

...I think that the objective of the liberalisation was good but poor implementation affected FDI inflows into Ghana due to lack of resources. In addition, the restructuring was not done holistically. For example, there is no system to check the credit score of our customers and there is no system set up for the banks to be able to communicate with each other. Due to competition, banks hide their activities from each other. There is no synergy between the banks. If the authorities expect us to give credit to the private sector, we need to be able to conduct a credit reference for customers to reduce our risk.

A respondent from the private enterprise foundation asserted lack of credit is rampant among Ghanaian businesses, part of which is due to the formal nature and processes of the banks.

I would say that access to credit is one of the most frequently mentioned challenges facing Ghanaian businesses. ...If you ask them to rank the challenges facing their company or their business, most likely, access to credit would be number one. They are greatly worried because they are unable to get credit. They complain that the banks are difficult in giving out credit. We have done a lot about it. The banks too have issues with the borrowers, the borrowers too have issues with the banks and we have to find a way of solving it and we've done a number of seminars in an attempt to bridge the gap.

In addition, interest rates were partially liberalised in 1987 with the removal of maximum and minimum lending rates to enable banks to provide credit at rates more affordable by the SMEs. Case financial multinationals indicate, however, that volumes

of their credit to the private sector are given to businesses that are already doing well in order to avoid risks associated with the informal sector. Fry (1997) and McKinnon (1988b) argue that liberalising interest rates would enhance the achievement of allocative efficiency. In this instance, there is clear evidence of misallocation of resources. Moreover, prior to the financial sector reforms, there were great disparities in interest rates and this still seems to exist. In other words, although stakeholders of the financial sector have responded positively to interest rate liberalisation, interbank rates are far different and the regulators have no means of managing it. In response to this issue, an economic researcher at the BOG argues that:

All through the reform years deposit rates were negative because high rates of inflation during the reform, together with a re-imposition of interest rate ceilings, brought about the negative deposit rates and the situation has led to a poor savings culture. As you know, availability of cash within the banking system affects the cost of borrowing money.

There has also been a re-emergence of non-performing assets, limited credit facilities to the private sector, and a high rate of investment in government securities (designed to hedge against risk) compared to loans to the private sector, a low rate of savings and poor credit information. This implies that more banks would rather invest in Treasury bills and other short-term financial instruments rather than providing credit to the private sector because of the risk involved. A manager of Agricultural Sector Lending at bank B indicates:

Last year, we had to write off huge sums of our loans to the private sector as bad debt because we focused on lending to the informal sector and that has increased the size of our non-performing assets. We had one of the largest non-performing assets in the industry for this financial year. Moreover, the financial sector reforms need to be reviewed to take into account current challenges faced by both the financial institutions as well as the private sector when it comes to the issue of credit.

Similarly, a senior official at the Ministry of Trade supported the view that there is a need to review the policy to support financial institutions and the private sector.

When you start a reform, the eagerness is there, people are ready...but now it seems we have come to a standstill so other countries have taken over. An example is Rwanda; after the war they have reformed their economy. Now in Rwanda, one can register a company in a day with all the necessary steps to get credit and consultancy support from the banks to formalise their activities. When

we started the financial sector reforms in Ghana, initially all stakeholders were keen on its implementation and progress was very fast but now progress is very slow. Currently, we are trying to identify why we haven't made much progress in terms of attracting huge investments in the sector (at least to provide funding for the booming oil industry) so that we can address those issues.

In much the same vein, a senior economic consultant at the Ministry of Finance also indicated that:

Due to the slow progress with the registration and formalisation of companies, we have advised the Registrar General to open up Regional Offices all over the country, so that people don't have to troop all the way to Accra to get one signature on their forms which could be done online. Through the private sector strategy with the Ministry of Trade we are able to link up now with the Registrar General and the Tax Office so the moment you register a company, the Tax Office gives you a Tax Identification Number and also introduces the business to banks that specialise in providing support to the kind of business.

Credit to the private sector relative to the growth of financial institutions reflects the poor performance of the financial sector in resource mobilisation. Furthermore, the bulk of the credit channelled to the private sector is mainly directed towards short-term investments and foreign exchange speculation. Part of the reason for this is the uncertainty surrounding lending to a private sector that is highly informal, has higher default rates and unpredictable business performance. In addition, the government has introduced an interest free credit which is given to support the growth of the private sector. This means that most banks are finding it hard to match the interest rates based on market forces to that of free government grants to the private sector. This is exemplified by the following statement by an official at the Private Sector Lending department in bank A:

Moreover, the government is introducing loans that are interest free and in most cases they do not pay back. This situation somewhat affects the ability of the private sector to sustain themselves through financial discipline and proper planning. This does not help the private sector to formalise their activities. This is a distortion of the free market system whereby prices are determined by the market forces. As long as the government engages in interest free loans and proper planning to get that money back in order to use it to fund other initiatives, it renders the private sector perpetually ineffective. Market distortions by the introduction of free loan schemes for the private sector affects the growth of the economy and the ability of the financial services sector to efficiently function in the system.

In Ghana, the introduction of new loan schemes by the government are usually politically motivated and in reality such loans are given to the cronies of the ruling government typically to get votes or to prove that the régime is doing something positively in support of the private sector. But many years of such activities have proven ineffective and have also added to the national debt. *Political money* affects the development of the financial services and creates distortions of financial prices. Considering the work of McKinnon (1991) and Shaw (1973) and building on the work of Schumpeter (1911), they argue that government involvement and intervention in the banking system restrains the quantity and quality of financial FDI flows and other forms of investments.

HOW DO INCENTIVES PROVIDED BY THE GOVERNMENT AFFECT AFRICA'S BANKING INDUSTRY?

For some time now, Ghana has come to understand that the private sector is the engine of growth and the role of government is to facilitate measures that will support the growth of private businesses. As a result, the government has come out with the necessary policies and incentives, but currently it is clear that the incentives are not *properly co-ordinated* to reflect the needs of the private sector. Incentives include tax holidays, capital allowances, and exemptions from customs duty. Many of these incentives have a narrower focus in terms of the benefits to foreign banks and the Ghanaian government. According to case bank A, which is a new entrant, compared to other countries in the sub-region, Ghana provides lots of incentives to attract foreign capital but the administration and co-ordination of the schemes has been inept. Similarly, an independent financial consultant to the Ministry of Finance asserts:

The Ghana government offers incentives that are equal to or better than what is found elsewhere in the sub-region. However, the problem is always the inefficient administration of these incentives, e.g., how the GIPC and other government agencies serve prospective foreign investors.

Other respondents indicated that Ghana does not get an equivalent return for giving all the incentives to foreign companies. For instance, a retired investment banker and consultant to the government on managing oil revenues highlighted that there is the need to measure what Ghana gains after giving these incentives.

The amount of money Ghana spends on the administration of the incentives is huge. For example, the staffing of these initiatives

becomes very crucial by providing employment to the youth, but apart from that ...what does the government and the people of Ghana get after spending money promoting and providing these subsidies. I think we need to see the reciprocities because most of them borrow money from our system to run their companies anyway. FDI inflows into the financial services sector can have an impact on Ghana when the financial MNCs are really contributing to the growth of Ghana's economy and not taking advantage of the system to achieve their profitability motives. What Ghana needs is a well-capitalised, efficient and competitive financial sector.

Furthermore, an interviewee from a government ministry notes that:

We give incentives and guarantees to attract investors but I think some of them get it on a silver platter. Also, most of them don't pay anything much to us. After the PNDC régime, we had the PNDC Law 116 to attract investors because during that period, the country became dormant; nobody wants to come in because of the military régime. So, incentives were given away easily. What happened was that those who were then here prior to this were given a lot of attractions to stay. Up till now, some of these companies are here for all these years, and their files are dormant, they don't pay anything back to the government. XXX Company has been in the system since 1987. Whatever they are doing, we expect them.....I think they might be in XXX industry and their equity stands in millions, but you will be surprised if I tell you their current contributions in terms of corporate tax is negligible. And this is done on the account that they provide jobs to Ghanaians.

Even though incentives given to attract FDI inflows into Ghana have been reviewed, most of them are still *outdated and the rest under consultation*. There is, therefore, a case for providing meaningful and strategic incentives and also ensuring that foreign banks that get them make meaningful contributions to government revenue.

WHAT IS THE IMPACT OF PROFIT REPATRIATION POLICIES ON AFRICA'S FINANCIAL SERVICES?

Part of the reforms was the removal of restrictions on how much profit MNCs can repatriate back into their country of origin. Currently, there are no restrictions regarding the conversion and subsequent transfer of funds but there are a lot of bureaucratic processes involved which are very time-consuming and inconsistent in terms of delivery. A lack of ICT systems to handle these transactions makes it even more arduous for investors. As mentioned above, the foreign exchange system has also been liberalised as part of the financial sector reforms and, hence, exchange rates are determined by market factors. But inflation and a consistent depreciation of the

Ghanaian currency in comparison to all major trading currencies affects overall profit levels. The Ghanaian currency can easily be exchanged for all major foreign currencies. Section 27 of GIPC Act 478 guarantees the unconditional transferability (by using any authorised dealer bank in freely convertible currency) of dividends, technology transfers fees, interest payments, and remittances of sale by banks, although there is a growing concern about the cost of these bureaucratic processes. A member of staff at the Treasury department of bank B indicated:

...it used to be very difficult to repatriate funds abroad and even though there have been regulatory reforms, there are other prevailing difficulties such as the processes and procedures and the regulatory requirements for repatriation. The cost of profit repatriation and the time it takes is daunting and mostly the procedures are not followed. Ghana's financial services sector is stabilised and investors see it as a safer place to invest especially when they look at what is happening in the sub-region.

A head of department at bank A indicated:

Capital repatriation was a huge problem but there is a new regulation in place which is focused on helping the successful establishment of the offshore banking agenda. However, it will take time for things to work smoothly, the financial sector reforms were started about ten years ago and we don't expect things to work at once. Why would investors bring in their money if they cannot take it out when the need arises?

Similarly, an official of the Treasury department at bank A indicated:

Flight of capital used to be a big problem in Ghana whereby the BOG would not authorise a massive transfer of capital from an account in Ghana to another account abroad. But now things have improved, there is now free exchange control regulation and ease of transferring capital to an overseas account once it can be proven that the capital was brought into Ghana for the purpose of investment.

According to a BOG document on trade flows (2010), Ghana's foreign currency needs are met through gold and cocoa export revenues and donor assistance. This means that any fall in the world prices of these major commodities will cause temporary shortages of foreign currency as this is a repetitive occurrence in respect of Ghana's balance of payments. This situation has been the major cause for delays in the acquisition of foreign exchange and the subsequent constraint on the repatriation of funds even in the absence of official bureaucratic processes that restrict the transfer of investment capital.

WHAT EFFECT DOES DISPUTE SETTLEMENT AND ARBITRATION THROUGH COMMERCIAL COURTS HAVE ON AFRICA'S FINANCIAL SECTOR?

The average time it takes to resolve a commercial dispute in Ghana right from filing to the enforcement of the decision is 552 or more. The application of the law remains one of the major problems in Ghana. Respondents argued that Ghana needs a commercial court that settles complex commercial issues. Banks have further argued that sometimes the goal-posts are moved when a new political party comes into power. Banks in Ghana cited the seriousness of delays in debt recovery from defaulters. There is the same case for all lenders in Ghana whether foreign or local and it adds to the credit risks of lenders. A technical consultant at the Ministry of Finance observed this trend by iterating:

There is too much delay in recovering debt from debtors and this state of affairs adds to the cost of providing credit and that is the reason why most foreign financial institutions try to spread their risk by buying more government bonds and investing in overseas transactions in order to stay in business.

The delays in debt recovery have prevented the allocation of credit to the private sector leading to a misallocation of credit because foreign banks invest in short/long-term securities. The small numbers of businesses who may qualify for credit are required to provide very liquid collateral to prevent the risk of losing the investment. In addition, several laws governing these types of transactions are outdated as a senior economic consultant at the financial sector division mentioned:

In Ghana, some of the key legislation that underpins financial sector transactions is obsolete; if we look at, for example, the company's code, the exchange controls are outdated, the Banking Law, the Insurance Law, the bills of exchange act. Several other laws include financial limits such as stated capital, security deposits and penalties that have become outdated due to several factors such as inflation, changes in interest rates and the changing market factors have not received any attention from the regulatory institutions.

A member of staff at the Risk department bank B emotionally tells his story of how US\$22.5 million of non-performing loans were written off.

A few years back, we wanted to help develop the transport sector which contributes 5% to Ghana's GDP. We had a meeting with the stakeholders – GPRTU and we had a meeting with about 80,000 of their members. They are everywhere at every terminal in transport stations. So, we provided banking solutions for them using the "blue ocean" strategy and moving from the "red ocean". With this, we

inculcate savings into the people as they need not take cash but hook up everything on a card we provided for them. With this ocean strategy, you bring all the stakeholders into your basket. We also inculcated some insurance into the ticket. Thus, we eliminated the armed robbery on the highways.

Next, we tried to modernise their stations then, finally, buy them new and better buses for passenger comfort. However, due to overexposure, it created huge non- performing loans because of excessive default rates so we became a bit selective. Due to the high default rates and the delay in recovering these debts, we made a huge loss of 32.5 million (Ghana Cedis) for non-performing loans. But there are no commercial courts to regulate and reinforce commercial activities such as debt recovery and dispute settlements in Ghana. We need commercial courts that understand the interface between businesses and banking to deal with such matters and there are no laws to regulate the actions of the private sector either.

Litigation in the regular courts is slow and cumbersome. Under the current law, lenders have to go to court for an order of judicial sale to foreclose a major investment deal like this one as a means of recovering outstanding loans. Due to the volumes of cases dealt with by the regular courts, unavoidable delays are encountered in debt recoveries. This has contributed to the reluctance of lenders to lend to borrowers whose credit worthiness is not readily available. Moreover, complaints against financial service providers need to be dealt with by a specialist administrative agent. Most of these people are not experienced enough to deal with such matters. Moreover, corrupt officials sitting on such matters always seize the *opportunity* to enrich themselves by requesting bribes. These factors in general affect the overall level of *corporate integrity* in Africa. Financial multinationals must bribe before they are allowed to bid or invest in all major projects. A manager at the Operations department of bank A cites an example of a dispute (one of many) between a business and the government which affects the operational activities of the bank.

There have been a number of investment disputes I am aware of some of which are not necessarily in the banking industry but concern us because the operational activities of other foreign investors affects our efficiency. There is a dispute between a Nigerian communications company called Globacom and the investment authorities. The company feels the authorities have failed to approve their operations after providing them with a licence to enter Ghana and also to protect their assets.

Further evidence from the *Daily Graphic*, May 24, 2010 supported the above view (with the published article on the said dispute summarised below).

Since Glo entered into the country, it has invested huge resources to deploy a nationwide state-of-the-art infrastructure. It has further devoted millions of dollars to the sponsorship of the Ghana premier league and the national football teams. But Glo is losing the opportunity to make revenue because every day there is a delay in launching their network. The main area of concern for Glo is the ban on the erection of telecom masts by the Environmental Protection Agency (EPA). This has affected the company much since they are the only network building nationwide telecoms system from scratch. The issue needs to be settled to prevent other investors from leaving the country.

Though in recent years Ghana has initiated important restructuring to its legal system, the country faces significant challenges in entrenching the rule of law and the related institutions upon which its successful implementation will depend. A careful assessment of Ghana's investment laws that contribute directly to building a positive investment environment (such as bankruptcy law, the companies' code, secured commercial transactions and those identified above) shows that there is a lack of clarity and these laws are outdated. There is also an implementation gap of commercial laws in terms of what is written and how it is actually applied. The lack of a commercial court and commercial lawyers affects the ability to uphold contractual agreements creating low public and investor trust.

WHAT IMPACT DO WEAKNESSES OF THE SUPERVISORY PROCESSES HAVE ON AFRICA'S BANKING INDUSTRY?

Evidence from the fieldwork indicated that banks A and B had a feeling that the regulatory agencies need to improve the procedures of consultation with the regulated institutions and other stakeholders of the financial services sector. Bank A argued that there is some degree of consultation; however, it is limited to requests from the main regulatory bodies only when there is the need for them to propose certain changes. This system does not allow for an effective discussion and the involvement of the major stakeholders who can affect or may be affected by proposed changes in the sector. Stakeholders mostly affected include individuals who depend on the sector for employment, corporations, SMEs, and the service providers (which in most cases are banks in Ghana). Furthermore, the weakness of the participatory supervision feeds mistrust between regulators and the regulated causing a removal or reduction of both existing and future investments.

Most importantly, whereas the criteria for licensing banks are normally based on general licensing regulations and are based on a *written code*, assessments are commonly perceived to be non-transparent and biased and all these stimulate the perception of politicisation in the financial services sector. A manager at the Department of Internal Controls, bank B indicated:

Most of the major contracts in Ghana are awarded based on political affiliations and I believe that this should not be the case. I can say that the NPP administration was more business friendly than the present NDC administration. There is also a widespread perception among most foreign banks in Ghana that regulatory bodies are not entirely independent but are rather subject to political pressures and investments don't increase in such conditions.

In addition, the market concentration of six major banks in Ghana points to a tilted competition best classified as oligopolistic. The reforms in the financial services sector have not yet been able to stimulate adequate competition in the banking industry in Ghana. This means that new entrants have not been able to penetrate the top echelons. The reason for the unfair competition is because the regulatory bodies do not treat new and old financial institutions the same. It is fair to say that some older financial institutions may have built strong networks and have become entrenched in the system, but the application of a regulatory agenda should not affect new ones whilst favouring old ones.

WHAT INFLUENCE DOES FINANCIAL LITERACY HAVE ON INVESTMENT DECISIONS?

Banks A and B indicated that there are a lot of services they intend to offer but there is a lack of financial education for the populace. This study found that the lack of personal financial literacy in Ghana is a major hindrance to the development of new products and future investments. Most consumers lack the financial literacy skills to even make informal financial decisions relevant to their individual needs. This is evidenced by the absence of consumer groups who will question the banks regarding the huge disparities in their interest rates. In more advanced countries like the UK and US, financial literacy is given a high priority. In 2003, the financial services authority (FSA) in the UK started a national financial education campaign to provide the public with knowledge in finance that will enable them to make sound, informed financial choices. The FSA is further supported by the Financial Ombudsman Service which encourages customers to complain about financial services received. The Institute of Finance Studies

(IFS) in the UK is also set up to encourage and support early financial education through the integration of financial concepts into other core subjects at school level.

Financial illiteracy was cited by the banks in Ghana as one of the major factors that restricts their future investment possibilities. Most Africans prefer to keep their money at home rather than invest. As Ghana lacks the financial education machinery, economic growth is affected because the financial sector is hampered in many ways, such as citizens being able to: plan savings, plan for spending, invest to meet current and future financial goals, handle credit, and manage financial risks and, more importantly, use the services of a bank. In this regard, a manager at the Operations Department of Bank B indicated his concerns regarding future investment possibilities in Ghana.

There are not a lot of uneducated people who find it hard to understand certain product ranges when we introduce them and that restricts our future investment plans. But we intend to increase the virtual branching to support customers at the grassroots. Relationship between the bank and BOG is cordial and at the moment we offer training to support their literacy and other training programmes. But sometimes also, the government offers certain jobs to portfolio bankers abroad, a job we could have done here in Ghana. For example, JP Morgan came to Ghana to do portfolio banking for the government and they were paid huge sums of money. We could have charged lower and used part of that money to support financial literacy programmes for the populace as our social responsibility.

Financial literacy supports new investments because it facilitates savings mobilisation by bringing a larger percentage of the society into the financial system. In this regard, an officer at the Marketing department of bank A argued:

If you look at the bond market, it is rather a complicated instrument. For the average investor, it is very difficult to appreciate the complex relationship between the prices of bonds and their corresponding interest rates. With a comparatively low level of financial literacy in Ghana, the public has a difficult time appreciating the costs and benefits of investing in bonds.

Anecdotal evidence with respect to the public's attitude towards Ghana government index-linked bonds shows that the level of public awareness about financial instruments is extremely low in Ghana. This has resulted in limited public patronage of several financial instruments introduced by the banks in Ghana. A limited public literacy

has resulted in limited public awareness and, therefore, patronising financial instruments like bonds has always been a challenge in Ghana (which for many banks has rather superior features because of its guarantee to a fixed real rate of return). Consumer education programmes geared at educating the public on characteristics of the products and services offered by the industry in addition to remedies available to consumers with grievance against a bank or their practitioners is lacking.

This study suggests that intensive financial literacy campaigns are needed to educate the populace on the important role the banking system plays and how products are designed to support them and increase their wealth. All banks used for this study indicated that there is a lack of financial literacy which is prevalent among more than 65% of Ghana's population. Banking in Ghana is still limited to a relatively small section of the population.

CONCLUSION

This paper has analysed reasons for the weak institutional framework in the African financial services sector. Empirical findings for this study indicated that there are regulatory inefficiencies as, currently, industry players are ahead of the regulators. In this vein, central banks need to adopt *proactive and evolutionary* approaches to be able to regulate different product suits introduced by the financial multinationals. Regulators also need to gain a deeper understanding of the changing nature of the sector by improving their understanding of the financial industry by attaching staff to regulated institutions and by recruiting some of the banking supervision experts from the industry. This will enable a two-way exchange of experience between regulators and practitioners and will bring the regulators up-to-date on current industry practices. This study also finds disproportionate regulations and puny enforcement of rules, government bureaucracy and corruption to be the key factors that negatively affects the African financial services sector. In addition, lack of data with which to measure the relative weaknesses of borrowers and market participants is a major impediment.

Furthermore, the region also requires freely functioning stock markets that are profitable and financially self-sufficient and not dependant on donors to run their affairs. There is also the need to develop an infrastructure that will support the growth of the financial sector. For instance, a credit reference bureau is needed to enable financial MNCs to access the credit rating of customers which is currently non-existent. There is also the need to develop the cashless system. This will encourage synergy among

financial MNCs and will further increase other forms of investments through card service providers. This will eventually reduce the cost of operations as well as the relative cost of borrowing money. A new infrastructure to improve the effectiveness of electronic transfer systems is also required to enhance the efficiency of African financial services sector. Governments should remove the monopoly given to state-owned insurance companies to allow further investment from financial multinationals as the insurance industry is barely developed.

We find that political influences affects the financial services sector in Africa, and most policies regarding the attraction of financial multinationals and strategies to deepen the sector are made by politicians. Legislators who has little or no industry knowledge do this without any consultation with industry professionals. Moreover, some financial regulations are made by *lawyers* who have no commercial and industry experience. In this regard, this study proposes a new system of attracting financial FDI inflows by suggesting that sub-Saharan Africa, as a whole, needs to embrace a new system of management and governance that is effective in dealing with the numerous challenges facing their economies in addressing the issue of inefficient financial services sector. This system is known as the *boardroom system*. We argue that the CEOs of various financial MNCs should be involved in decision-making regarding efficient regulations for the financial sector. This implies that not only should there be *participatory regulation*, but there is also the need to involve the chief executives and directors of the financial MNCs in designing the strategies to improve Africa's financial markets. The central idea of the boardroom system is that MNCs should be able to sell their ideas to the government or policymakers in that particular industry that is responsible for key decisions affecting the economy as a whole.

The *boardroom system* ensures that corporate directors and managers in various boardrooms would be responsible for creating actionable plans for the financial industry which would be reviewed by the policymakers and regulators to make certain of national interest prior to its implementation. This would ensure that politicians with little or no industry knowledge do not determine the course of an industry that is highly specialised, such as the financial sector. In Africa, politics can have a damaging influence on policy, so a consultative approach to regulations would help change investor perceptions about the institutional framework. Between 15 to 30 business leaders in the financial sector (both local and international) could meet two or three times a year to discuss concrete steps that could be taken to improve the attractiveness of Africa as a financial FDI

location. Members of the proposed *Financial Services Sector Investments Council* (FSSIC), with many years of experience in the boardroom, could also act as ambassadors to promote Africa as a rewarding investment destination.

Whilst sub-Saharan African countries have been able to attract some degree of resource-seeking FDI due to the abundant natural resources; financial FDI inflows have proved to be elusive for the continent, in spite of the widespread financial sector adjustment programmes which offer attractive incentive packages for foreign financial institutions. Literature surrounding the determinants of financial FDI inflows has mainly focused on manufacturing and real production activity. Moreover, current debates on financial FDI have largely ignored SSA. We have, therefore, validated the significance of qualitative investigation in evaluating the explanations as to why most foreign banks do not invest in sub-Saharan Africa, and the few that do, have relatively insignificant operations. For future research, it would be both essential and appealing to combine economic development theories, the resource-based view of the firm and institutional theory to understand which of these factors affect financial MNC's location decisions.

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