

Investment Banks in Egypt and Ghana: A Case Study of EFG Hermes in Ghana Versus HC Securities & Investment in Egypt.

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Abstract

Investment banks serve as intermediate between providers and users of funds. The purpose of this study is to compare between small investments banks in Egypt and Ghana as part of the financial sectors to provide financial tools and advices for investors in the financial markets. This promotes economic growth by improving the efficiency of the financial sectors. This study compares the factors that affect small investment banks in Egypt and Ghana such as the types of investment banking, population, capital markets, competition, economic conditions, and political conditions.

Ghana is small in size in terms of investment banking as it has faced several problems over the last decades, while Egypt performed better over the same period. The objective of this study is to explore the difference in behavior, transactions between firms and companies, and to investigate the long run growth effects. Accordingly, the following is a comparison between different types of investment banks:

- 1- Equity capital rising (through initial public offerings “IPOs”, follow on offerings, and equity – linked “convertible”).
- 2- Mergers and acquisitions- M&A (through buy side, sell side, split offs, hostile defense, hostile takeovers, proxy fights, and joint ventures).
- 3- Debt-capital-raising (high – grade or investment grade, high – yield, syndicated loans, and tax – exempted funds).
- 4- Financial sponsors, leveraged finance, restructuring, ratings, securitized products, consumer retail and healthcare, technology , media, telecoms, natural resources and corporate finance.

These operations are done to match with the other tasks of investment banks including mainly client relationship management, idea generation and problem solving, financial analysis, communication, assessment of opportunities, negotiation and structuring transactions, identify of potential investors, due diligence, and documentation.

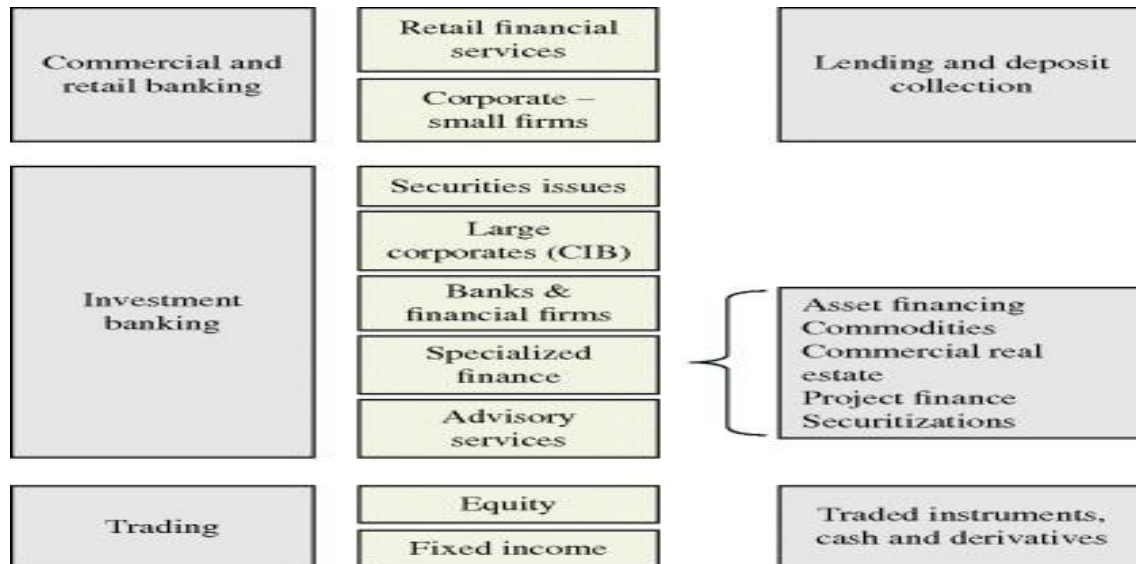
1- Background of the Study

1.1 General Introduction

Investment banks are as important as the normal commercial banks. Investment banks provide variety of services, and they are still considered to be financial intermediaries. Investment banks do many services that are financially complicated including underwriting,

brokerage, merger and acquisition (M&A), portfolio management and investment advising. Also investment bankers offer information on what and how to buy and sell securities. Investment banking services in developing countries are in general limited. The next figure shows the structure of different types of banks, and their role:

Figure 1 Business Lines in Banking



Africa became the world’s newest and rapidest developing market and it has become a magnet for investment banking and foreign investment for the multinationals and local market. Recently, Africa witnessed a flurry of activity that has opened the capital markets necessitating the finance need to encourage the region’s transformation to turn into a middle-income regional area. According to the International Monetary Fund- IMF (2018), Ghana is one of the countries that received momentous volumes of capital inflows within net private inflows of USD 41bn, especially in sub-Saharan Africa (SSA). Leading names as Barclays Capital, BNP Paribas, JPMorgan, and Credit Suisse; these Big names banks plan to have expanding in their investment banking Franchise in SSA.

Some experts stated that Africa may exceed the growth of China for the coming two decades. Today, Africa’s output is same to Brazil, the International Monetary Fund (IMF) surmise that seven of the world 10 fastest developing economies over the coming five years are in Africa.

The African Development Bank- AFDB (2018) verified that Nigeria, Ghana and Kenya have the biggest domestic bond markets in SSA with a market size of USD 15bn, USD 1.3bn and USD 5.5bn respectively. Moreover, the subsidiary in Ghana of the “Ecobank” (the Pan African Bank) gained sanction for oil-backed sovereign bond for Chad worth USD 220m in only five-year notes, and the lead adviser was Ghana’s Tema Oil Refinery. .

There are also some investment banks in Egypt; they play an important role in advising investors to invest in specific stocks, equity and fund investment, venture capital, venture debt, and intermediated loans. The roles are extended recently to cover identifying potential

acquisition within divestiture targets, creating detailed valuation analysis and transactional structures, negotiating transaction documentation and agreements, entering deal execution, and developing fairness opinions.

1.2 Problem definition

The main role of investment banks is to maximize the investors wealth by identify the type and methods of investment to achieve high profits from investments.

In fact economic development is not achievable without an improved rate of capital formation. A basic requirement of capital formation for developing countries is through improving their investment banking industries.

All across the 20th century, investment banks have been providing financial intermediary services, which have been important to the efficient operation of the financial system (Chu, 2019). Investment banks play an important role in the market by advising the bidder and the target firm, and they also by evaluate the assets of the target firm, and provide technical and tactical assistance throughout the takeover process.

The strength of securities markets, with the help of investment banks, are given by their ability to direct long term savings to finance long term ventures, to improve efficiency of resource allocation through competitive pricing mechanisms, to provide risky capital (equity to entrepreneurs), and to encourage broader ownership of firms (Goar, 2019). Ghana doesn't have an efficient financial market characterized by several problems in accessing long-term funds. Therefore, companies in Ghana have shortage in funds needed to raise capital, and investors face remarkable losses when a player in the capital market enters into liquidity problems. Few studies have been done in Ghana related to the impact of investment banking development on economic growth as an emerging market (Obwona, 2019). Moreover, Ajayi (Ajayi, 2019) study considered the relationship between stock market development and economic growth without considering the role of the investment banking sector.

1.3 Objectives of the study

The purpose of this study is to compare between small investments banks in Egypt and Ghana within the financial sectors in promoting economic growth through improving the efficiency of the financial instruments and the services rendered to investors.

The main objective of the study is to compare between the performance of the investment banks in Egypt and in Ghana, by studying the followings:

- Examine the types of investment banks in Egypt and Ghana.
- Know the different tasks of investment banks in Egypt and Ghana.
- How investment banks works with respect to the external economic and political conditions.
- Studying the impact of interest rate on investing decisions and its role.

Financial development has been generally measured by two ratios, which are the ratio of bank deposit liabilities to nominal GDP and ratio of bank claims on the private sector to nominal GDP. They find from the Engle-Granger results that at least one of the financial indicators is co-integrated with real GDP per capita in these firms. In Ghana, no study has been conducted on the effect of investment banking on the economic growth with the closest study being on the granger causality effect of stock prices on interest rate. This leaves a wide knowledge gap that this study seeks to establish. The study, thus; seek to answer the research question: what is the impact of investment banking development on economic growth.

1.4 Hypotheses

The hypotheses to be investigated by the study are:

- Different levels of investors decisions in investment banks at Egypt and Ghana.
- Alternative tasks for investment banks to investors linked by the market interest rate at Egypt and Ghana.
- Comparison between the performance of investment banks at Egypt and Ghana.

1.5 Research Questions

- What types of investment banks tasks at Egypt and Ghana?
- Does interest rate affect the investors' decisions?
- How do Ghana & Egypt investment banks determine when an investment has been defaulted?
- What are the steps that taken to increase the investment banks roles in Egypt and Ghana?

1.6 Importance of the study

The study is valuable to the management of the investment banks in Egypt and Ghana as it will form a blueprint on how they can enhance investment in security.

This study is a step in the right direction as it comes at the time that public need to know more about the investment banks instead of saving their money to increase their capital and wealth and push the market for higher efficiency.

The study will be of importance to capital market regulators, for example; the Capital Market Authority (CMA) could better identify the problems of investment banks to implement regulations that could facilitate the work of the investment banks.

The study will also be a base for further research and studies concerned with investment banking in the less developed countries. Moreover, it aims to improve, at least partially, the financial and economic situation in Egypt and Ghana.

1.7 Limitations of the Study

The first challenge of the study was the lack information related to investment banks in both Egypt and Ghana, to how investors take decisions in investment in both countries, and to the relation of the interest rate and investment at different economic stages in both countries.

Moreover, the foreign documentations about Ghana investment banks is very limited. Also, information about investors that deal with investment banks and their financial positions are very limited.

1.8 Organization of the Study

The study is organized in four categories which are follows:

- 1- Background of the study: covering the background of the study including a general introduction, problem definition, objectives of the study, hypotheses, research questions, importance of the study, and limitations of the study as mentioned above.
- 2- Literature Review which contains previous writings made by people and firms on the investment banking sector at Egypt and Ghana, which include gaps and problems, how to deal with the lack of information, and finally how to operate in different economic situations .
- 3- Methodology and data analysis: respectively on the methodology and research analysis of the data collected by the researcher. The methodology contains the general construction of investment banking sector, the data analysis for number of major investments in small investment banks and its effects on the economy, and the capital market in Egypt and Ghana.
- 4- Summary and Recommendations: this is a summary of findings of the study, as well as recommendations for future researches.

1- Literature Review

Most of small investment banks seek to finance projects from the point of view of liquidity. However, they still face problems related to the lack of information, poor database, shortage of investment promoters, decisional jurisdiction, disclosure transparency, Tax Authority difficulties, Commercial Registration Authority difficulties, contradictions of different laws, exports and imports difficulties, and risk exposure (Harjoto, 2019).

To overcome the expected risk of one particular stock is by investing in more than one stock through diversification. Quantifying the benefits of the diversification of risk occurs to hedge for buying a stock that will yield lower return than expected (Mwamba, 2003). This investment method matches with Barth et al (2000) one of the most important and influential economic theories dealing with finance and investment is the Modern Portfolio Theory (MPT), developed by Harry Markowitz and published under the title "Portfolio Selection" in the 1952 Journal of Finance MPT. Accordingly, investment banks are defined by a medium

and a long term operator similar to the promotion of new business and the financing of fixed asset investments in local and foreign exchange markets.

Generally speaking, banks in Egypt contain private banks and public sector banks and joint venture banks based according to ownership. Nevertheless, no bank in Egypt has been shut down due to the power of the Central Bank of Egypt (CBE), as problematic banks are mainly acquired by and/or merged with other banks.

This study focus mainly on investment banks which are under private sector institution and settled under the Egyptian Investment Law. Taking into consideration that all foreign banks are enrolled as business and investment banks, with their main objective is to raise long-term funds on international financial market or to boost investment in Egypt.

According to Baker, M , and P Gompers, (2018), leverage patterns differ across firms across different sizes of banks, and across countries according to their regulations and their applied economic policies. Banks have a comparative advantage in raising funds in short-term markets by using overnight repurchase agreements (Repos), negotiable commercial paper, and by off-balance sheet investment elements. Large banks in the Western countries before the financial crisis were risk taker and their balance sheets grew remarkably by increasing debt and assets. Thus, Basel I regulations were criticized for giving equal risk-weighting to all credit without considering the credit quality involved, and the long-run credit exposure to the vulnerability of default risk compared to short-run exposure.

While in emerging markets such as Egypt behaved differently due to tighter bank regulations imposed by the CBE, thus banks in Egypt had a tendency to grow leverage ratios less aggressively before the crisis and were able to better maintain their leverage ratios during the crisis. Following the 2008 financial crisis, the Basel regulators followed a number of new measures to make banks more resilient, and numbers of significant updates to the regulatory framework have been introduced, reshaping the regulations, after the Basel 2 Accord, into new Basel (2.5 or 3) rules. These regulations aim at reinforcing both the quality and the quantity of capital.

In Ghana, no study has been conducted on the effect of investment banking on the economic growth with the closest study being on the granger causality effect of stock prices on interest rate. This leaves a wide knowledge gap that this study seeks to establish. The study, thus, seek to answer the research question: what is the impact of investment banking development on economic growth.

Relationship between Investment Banking and Economic Growth:

The principal roles of investment banking are raising capital for corporations by selling corporate securities, and providing advice on M&A, which involves identifying suitable partners or target companies for acquisition, valuing the transaction and negotiating appropriate terms. However, Harjoto M., Mullineaux, D and H C. Yi (2019) mentioned three

other services for investment banks, which are origination and management of new financial issues, underwriting of securities, and selling of securities. Their financial services can affect the entire economy and affect thousands of customers and workers in various sectors This deals with classical problems to the geographically separation between the parties of the transaction, or to the limited knowledge about the other party, or to the opposing interests in the precise terms of the transaction.

Customer-investment banks interface is higher when we have a value-added product and limited in a commodity-like product. The nature of the study requires an understanding of the investment banking sector in both Egypt and Ghana, its role, duties, sectors, tasks, objectives, and the economic factors that affect the financial and investment market.

3- Methodology & Data Analysis

3.1 Background

This section contains the means by which data were gathered for the study, throughout the analysis.

Investment Banking involves providing general financial advice on a range of issues, such as funding structure (perhaps the company is too indebted, and should issue shares to raise more money, or does it have too much cash on its balance sheet, just sitting there not earning interest, or it should consider paying a large dividend to its shareholders or buying back some of its own shares?).

3.2 Area of the study

The scope of this study is the investment banks in Egypt and Ghana; their tasks, rules, situations, economic conditions, and finally comparison between both countries by taking a case study of EFG Hermes in Ghana versus HC Securities & Investment in Egypt. EFG Hermes in Ghana is the biggest investment bank in Ghana in terms of total investment, and HC Securities & Investment & Investment in Egypt is the second private biggest market share in Egypt in terms of total investment. The biggest market share in Egypt in terms of total investment is EFG Hermes, Egypt. However, EFG Hermes in Ghana is fully owned by EFG Hermes, Egypt. Accordingly, EFG Hermes, Egypt was not taken in this comparison to avoid comparing the same investment bank in both countries. It is worth noting that HC Securities & Investment & Investment in Egypt fully own HC Investment Banking (DIFC) Limited in the Dubai providing investment banking services in the Middle East region.

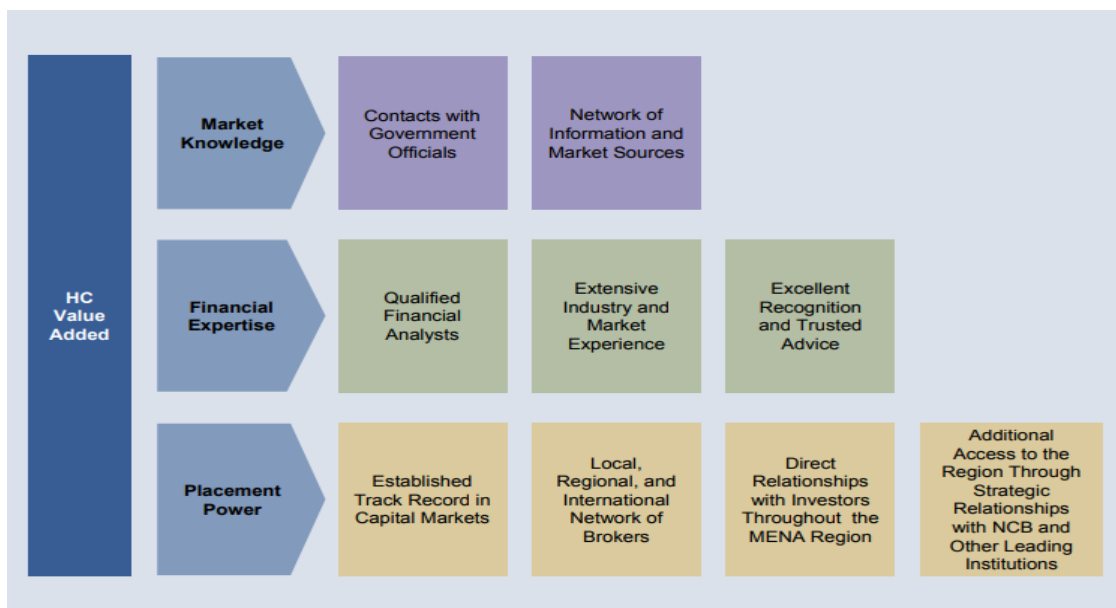
3.3 Data, types of investment banks, tasks

Here, we will talk about role and tasks of investment banks in Egypt and Ghana through an example of two investment banks in both countries, which will be “HC Securities & Investment in Egypt and EFG Hermes in Ghana .“

HC Security and Investment firm take care of investment banking and advisory services to Middle class market corporates. The firm offers M&A consultancy, Analysis, debt and equity public offering assistance, and financial reviews.

HC Securities & Investment is named as the most reputable investment bank in Middle East and Africa; they already made a well-identified brand name for themselves. More than 20 years HC has been a leader in financial Services and investment banks industry. Egypt Head office was established in 1996, follows Ghana established in 2008.

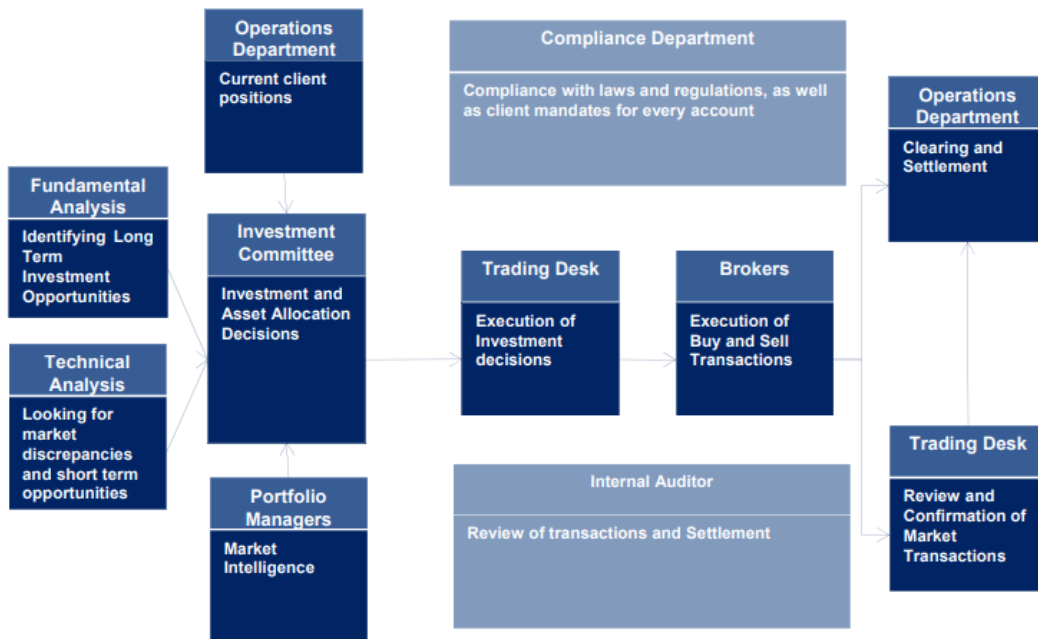
HC Securities & Investment offers a very wide scope of investment banking services also brokerage and advisory, researches and securities. HC Securities & Investment maintains a good relation with local and regional government departments.



Products and strategies:

- HC Securities & Investment current offering includes a full range of conventional products - as well as other strategies: - Money Market/Fixed income Strategies - Capital Guaranteed and Balanced (Blended) Strategies. - Equity Strategies: Includes Conventional Stock Picking, Active and Passive Index Tracking, Sharia Compliant, Quantitative, Sector Strategies and others - Other specialist strategies.
- HC’s highly specialized portfolio managers continually strive to customize portfolios and develop mutual funds to serve the ever-changing needs of the investment landscape – anticipating future investment trends to better cater for our clients today.
- Through careful and continuous examination of our clients’ investment objectives and constraints, portfolios and funds are allocated to the different investment strategies at the disposal of our team.
- Continuous research in the most up to date investment strategies and techniques means that our arsenal of tools continues to grow every day.
- Products include: Money Market Portfolios • Fixed Income Portfolios • Capital Guaranteed Portfolios • Balanced Portfolios • Passively Managed Equity Portfolios • Actively Managed Equity Portfolios.

HC Operation Process:



The most well-known companies that HC has done transactions for are:

HC Securities & Investment Egypt: Merger & Acquisition and Other Investment Banking Operations

The majority of financial advice relates to Mergers and Acquisitions (M&A). The client company seeks to expand by acquiring another business. There are many possible commercial reasons for this, such as: increasing the range of products, increasing the business' geographical footprint, complementing existing products, integrating vertically (i.e. acquire suppliers, further up the chain, or customers, and protecting a position (for example by preventing a competitor from acquiring the business in question). HC Securities & Investment main transactions in Egypt include EL-maraei & Beyti 2014 , Emirates NBD bank & BNP Paribas in 2013, Savola Group & El Maleka Food Industries 2017, Coca Cola Company in Egypt and El-Nile Soft Drinks (Crush) 2013, Advisory Transactions, BMW group on valuation of the group 2019, Eastern Company on financing their relocation in 6th October City 2019, Debt Financing and Restructuring Assignments , Nissan Egypt to settle the outstanding Bank Debt 2019, Mina Pharm Pharmaceutical advisory on arranging a syndicate bridge loans to finance a potential acquisition 2015, advisors to Housing & Development Bank of Egypt on the second public offering of 45m shares at fair value in 2018, advisors to Kandil Steel Group on their private placement in 2018, and advisors to Raya Holding on their private placement in 2013.

EFG Hermes in Ghana Operations

According to Ajayi, (2019), Ghana witnessed many important economic transformations. Ghana witnessed an economic depression in 1980s when the economy collapsed. There was no economic infrastructure, moreover Ghanaians who worked in Nigeria were sent back home,. In 1980s the Cocoa price declined worldwide and Ghana's Exports declined in value, while its import prices causing an incremental trade deficit. The inflation rate reached 66% annually.

In the 1990s stability was achieved back, and inflation dropped to an average of 26% annually with improvements in fiscal and monetary controls. The country received foreign aid after the devaluation of its currency, reeducation in tax rates, and liberalization of trade.

Ghana after the independence they had an investment bank called the National Investment bank (NIB) that was also empowered to be an equity investor, established in 1963. This bank offered to support the industrial, commercial and agriculture industries.

Small and medium enterprises (SMEs) have been a priority in Ghana. The government has been supporting SMEs, especially in equity financing. However, the government provided incentives for issuers and investors who are active in the Ghana Stock Exchange (GHA) to motivate them by the following methods:

- Tax exemptions on capital gains on the stocks listed before 2005.
- 10% of the dividends are excluded from the withholding and taxes.
- Listed companies enjoy less corporate tax rates, general rates were 32.5%. These listed companies enjoyed 25% the general corporate rates during only the first 3 years of listing.

Moreover, Ghana had the Fidelity Investment Advisors that helped to establish a Joint venture on USD 5m Equity funds between Fidelity Discount house and Netherlands Finance Company.

Companies that have been contributing in such activities without a formal set up a venture capital funds were:

- SSNIT (Social Security & National insurance Trust)
- CDC capital Partners

Mergers & Acquisitions "M&A"

EFG Hermes in Ghana as a financial institution, they are able to fund and market an acquisition through their in-house underwriting and book-keeping services.

IPOs and Private Placements in Primary and Secondary Markets are directed to assist in the appointment of legal, financial and technical advisors and help the client determine the offering size based on valuations and market testing.

Complement these services with book keeping and brokerage services through their subsidiary, Arab African International Securities.

Capital Restructure

EFG Hermes in Ghana provides optimal capital structures offering the most suitable restructuring and reorganization plan, both financially and operationally to maximize investment return to shareholders through establishing an optimum capital structure along with its financing sources.

Access: Institutional clients enjoy unrivalled access to senior management at leading regional investment prospects through custom-tailored tours, the largest annual MENA-focused investment conferences and the EFG Hermes One-on-One top Arab and African companies.

3.4 Data and sampling Method

Thus Ghana has a repressed ‘financial system. This system was one of the most effective financial sectors and was broken by non-market interventions such as directed credit, interest rate ceilings and high liquidity. This system had a negative effect on the economic growth.

Table 1: Banking Sector in Ghana

	2013	2014	2015	2016	2017	2108
Banking system net assets/GDP	0.25	0.33	0.23	0.21	0.23	0.16
Total bank Credits/GDP	NA	NA	0.05	0.04	0.01	0.03
M2/GDP	0.19	0.26	0.20	0.19	0.20	0.13

Source: *Central Bank of Ghana: Bank of Ghana, 2019*

In 2019, the capital market indicators were unsatisfactory; during 2018-2019 the stock market relative to GDP witnessed a slow rate of growth because there was a huge decline in market capitalization during the year 2018-2019.

Table 2: Investment Banking Market Size in Ghana

	2017	2018
Stock Exchanges	1	1
Brokerage Firms	14	22
Investment Advisory	17	71
Collective investment Schemes	3	35

Source: *Central Bank of Ghana: Bank of Ghana, 2019*

In 2018, Ghana, as one of the developing countries, started to have real growth potentials in the investment banking and financial markets. Also, Bank of Ghana went through the accounting of the gross in reserves provided by the new financial and technical international assistance. Many companies have been revised by the NIB of Ghana, most of them were from the oil industries, to the extent that total divestiture exceeded the USD 50 million.

Table 3: List of Firms Acquired

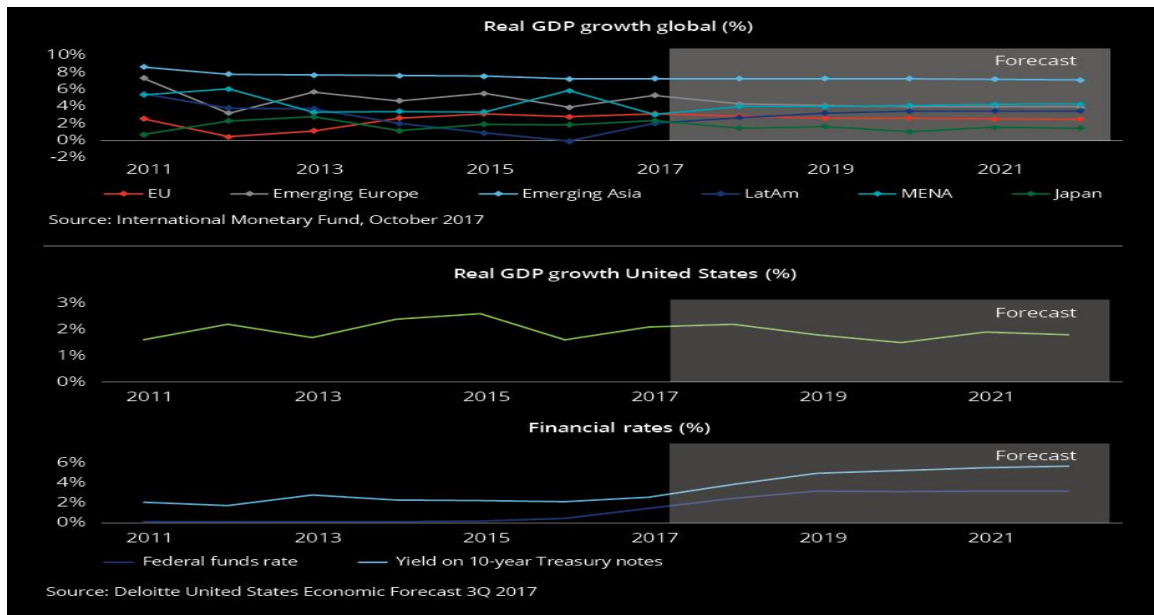
	Acquirer	Target company	Year of Merge	Name after Acquisition
1	Total petroleum Ghana	Total Ghana	2019	Total Petroleum Ghana
2	Societe General	Social security bank	2018	SG-SSB
3	UT-holdings	BPI Banks	2019	UT bank
4	AngloGold	Ashanti gold field	2017	AngloGold Ashanti
5	Guinness Ghana co.	Ghana Breweries LTD	2017	Guinness Ghana breweries LTD

Source: Securities and Exchange Commission - Ghana, 2019

Long-term sustainable growth in the banking industry was only possible with a departure from a sales- and product-focused mindset to one of genuine customer centricity. This was matched with rational strategies to shift to investment banking to target the right markets, customer segments, and innovative solutions.

Although, investment banking services has improved during recent decades worldwide, most investment banks have not gone through the customer-centric transformation that other industries have implemented..

Still, investments banks worldwide have changed their market and customer orientation since the financial crisis. This was matched by many new regulations worldwide. For example, the leading globally investment banks have realized that the growing Fetch Ecosystem for helping them to serve their customers with lower risk. Fitch’s, with their laser-sharp customer focus, have shown that it is possible to meet, and even exceed, customer expectations.



Taking these relations and apply it on the case study, will shift the analysis from the microeconomic level to the macroeconomic level by considering the whole financial sector in Egypt and Ghana as follows:

Relationship between Economic Growth Indicators and Banking:

Investment Indicators

Variables	GDP		INV		SAVING	
	Egypt	Ghana	Egypt	Ghana	Egypt	Ghana
COM	0.478	0.162	0.183	0.065	0.12	0.04
INV	0.133	0.074	0.192	0.081	0.15	0.05
MRT	0.421	0.134	0.101	0.002	0.096	0.035
CYC	0.262	0.852	-0.053	0.001	-0.042	-0.004

Regression results indicate a significant relationship between economic growth and investment banking variable but not with the non-investment banking variable. More specifically, investment banks and the average commission fee charged by the investment banks in both Ghana and Egypt are highly significant. The investment banks in Ghana and Egypt showed significant relationship with the overall measure of economic growth and also with the trading cycle within the investment market to measure the microstructure of investment markets, and the economic impact given by the GDP and at earlier stage by the Credit/GDP.

The Economic Growth Model performed better when other factors were included. The non-financial factors that showed significant relation include the average commission fee charged by investment banks in both countries, the number of investment banks at a given period in an economy, and the trading cycle within the investment market to measure the microstructure of investment markets. The findings shows that the higher the level of

investment the higher the level of economic growth. Keeping cost of doing business low and strengthening the infrastructure will increase economic growth.

4- Summary and Recommendations

4.1 Conclusions and Findings

This section provides a summary of findings, conclusions and recommendations of the study. In particular, the conclusion and findings that emerged from the study are highlighted. In addition to the summary of the study recommendation are given to advice the investors how to deal with investment banking sector.

The multiple regression analysis has shown that investment banking is not only related to the economic growth, but they also influence the economic growth in both Ghana and Egypt significantly. This indicates that well capitalized investment banking have a stronger influence on economic growth This analysis revealed that the total value of stocks traded or transacted within the year is the most robust and important factor influencing the economic growth. The results showed that the increase in the total value of stocks traded or transacted within the year result in an increase in economic growth.

This was statistically significant at an acceptable confidence level. This will enable the investment banks, not only to be cushioned against exogenous shocks, but also to capture full advantage of business opportunities of increase in profitability within the process. Thus this finding provides support to the argument that well capitalized investment banks encounter lower risk of bankruptcy and less need for external funding in both countries. This is a critical factor influence sustainable economic growth efficiently by diversifying the activities of investment banks to deal with the different economic sectors rather than to depend on a single source of income.

4.2 Recommendations

There is a need for further studies to carry out similar tests covering other countries as a recommendation based on the results of this study. Similar studies should also be carried out on different geographical levels to provide similar relations. Thus, comparable analysis could be developed. Given that a good chunk of the studies touch on investment and economic growth, there is a need to ascertain the relationship between the GDP value and investment banking in different countries to attain a better global perspective. Therefore, this study represents one step to reach this global perspective that needs to be followed in the future by other similar studies worldwide.

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