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MUNHUMUTAPA SCHOOL OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND INFORMATION SYSTEMS**

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**MASTERS OF COMMERCE IN PROFESSIONAL ACCOUNTING AND  
CORPORATE GOVERNANCE**

**RESEARCH TOPIC**

**TAX INCENTIVES AND FOREIGN DIRECT INVESTMENT IN ZIMBABWE**

**BY**

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*Submitted to Great Zimbabwe University in partial fulfilment of the requirements for Master of  
Commerce Professional Accounting and Corporate Governance degree.*

**RELEASE FORM**

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**APPROVAL FORM**

We, the undersigned do hereby certify that we have read and therefore recommend to Great Zimbabwe University for acceptance; a research project titled “**TAX INCENTIVES AND FOREIGN DIRECT INVESTMENT IN ZIMBABWE.**” submitted by Nyasha Dhliwayo in partial fulfillment of the requirements of the Master of Commerce Degree in Professional Accounting and Corporate Governance/Grad Icsa.



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## DECLARATION

I Nyasha Dhliwayo (M206771) hereby declare that the project has been the result of my effort and such work was not presented elsewhere for any Higher Diploma or Degree. All additional information was acknowledged by means of references.

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## **DEDICATION**

This research is dedicated to my kids.

## **ACKNOWLEDGEMENTS**

I would like to extend my heartfelt appreciation to my supervisor Dr. S. Dzumira for patiently steering me towards the successful completion of this study.

I am greatly indebted to the Ministry of Finance and Economic Development, management and staff for granting me the permission to carry out this study. I would also want to thank the participants without whose contributions this study would have been successful.

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## TABLE OF CONTENTS

RELEASE FORM.....	2
APPROVAL FORM.....	3
DECLARATION.....	4
DEDICATION.....	5
ACKNOWLEDGEMENTS.....	6
LIST OF TABLES.....	10
CHAPTER I.....	11
INTRODUCTION.....	11
1.0 Introduction.....	11
1.1 Background of the study.....	11
1.2 Problem Statement.....	13
1.3 Purpose of the study.....	14
1.4 Objectives of the study.....	14
1.5 Research questions.....	14
1.6 Significance of the study.....	15
1.7 Assumptions.....	15
1.8. Study Delimitations.....	16
1.9. Study Limitations.....	16
1.10 Definition of key terms.....	17
1.11 Organisation of the study.....	17
1.12 Chapter summary.....	18
CHAPTER II.....	19
LITERATURE REVIEW.....	19
2.1 Introduction.....	19
2.2 Conceptual framework.....	19
2.3 Theoretical framework.....	24
2.4 Empirical studies.....	26
2.5 Research gaps.....	30

2.6 Summary .....	31
CHAPTER III .....	33
RESEARCH METHODOLOGY .....	33
3.1 Introduction .....	33
3.2 Research Methodology .....	33
3.3 Design of the study .....	34
3.4 Population .....	34
3.5 Sample size determination .....	34
3.6 Sampling procedure .....	35
3.7 Instrumentation .....	36
3.8 Instrumentation procedure .....	38
3.9 Ethical considerations .....	40
3.10 Summary .....	40
CHAPTER IV .....	41
DATA PRESENTATION, ANALYSIS, AND DISCUSSION .....	41
4.0 Introduction .....	41
4.1 Response rate .....	42
4.2 Zimbabwean rate of corporate tax influence and foreign investors' investment decision .....	42
4.3 Foreign investors and sectors privileged to tax withholding rate .....	44
4.4 The extent to which tax holidays influence foreign direct investment inflow in Zimbabwe .....	45
4.5 The influence of tax concessions in Zimbabwe on foreign direct investment .....	47
4.6 Relationship between FDI and GDP with regards to tax incentives .....	48
4.7 Descriptive and inferential statistical analysis .....	48
4.8 Policies to attract FDI in Zimbabwe .....	52
4.9 Challenges faced by Zimbabwe in operating tax incentives .....	54
4.10 Discussion .....	54
4.11 Summary .....	55
CHAPTER V .....	55
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....	55



5.1 Introduction .....	55
5.2 Summary of findings .....	56
5.3 Conclusions .....	57
5.3.1 Zimbabwean rate of corporate tax influence and foreign investors' investment decision	57
5.3.2 Foreign investors and sectors privileged to tax withholding rate .....	57
5.3.3 The extent to which tax holidays influence foreign direct investment inflow in Zimbabwe .....	57
5.3.4 Tax concessions are widely regarded as vehicles to attract FDI in developing nations ...	58
5.3.5 Relationship between FDI and GDP with regards to tax incentives .....	58
5.4 Recommendations .....	58
5.5 Recommendations for further study .....	60
REFERENCES .....	61
APPENDIX I: QUESTIONNAIRE .....	65
APPENDIX II: PANEL DATA .....	68
APPENDIX III: SIMILARITY REPORT .....	69

## LIST OF TABLES

<b>Tables</b>	<b>Page</b>
Table 4.1: Response rate	
Table 4.2: Zimbabwean rate of corporate tax influence and investment decision	
Table 4.3: Foreign investors and sectors privileged to tax withholding rate	
Table 4.4: The influence of tax holidays on foreign direct investment in Zimbabwe	
Table 4.5: The influence of tax concessions in Zimbabwe on foreign direct investment	
Table 4.6: FDI as a percentage of GDP and tax incentives	
Table 4.7: Descriptive statistics of the variables (2017– 2021)	
Table 4.8. Results of robust random effect regression.	
Table 4.9: Results of GMM regression	

# CHAPTER I

## INTRODUCTION

### **1.0 Introduction**

This chapter focuses on introducing the topic on tax incentives and their relationship with foreign direct investment in Zimbabwe. In this chapter, the background of the study, the problem, research goals, research questions and the importance of the study for the researcher and the examined institutions are presented. It also details the assumptions of the study, limitations, delimitation, and definitions of terms.

### **1.1 Background of the study**

African nations have been subject to quite a handful of drawbacks and rivalry in attracting foreign direct investment when it comes to the significant role FDI covers in economic development. Quite a number of endeavors have been proved fruitless owing to various factors that do not favor the foreign direct investment business environment. Developing nations in the African continent have enjoyed economic benefits and have witnessed enhancement of living standards. A number of countries have introduced incentives hence competition for foreign investment has been seen to increase thus pausing an area of research interest on foreign direct investment ( Kubi, et. Al, 2021).

Gochero (2021) cited that foreign direct investment opportune a developing country to move away from reliance on donor aid and boosts liberty from foreign aid stringent policies. Nevertheless, FDI has a downside thus propelling some nations to move towards free capital movement and restrict foreign direct investment. The adverse impact include transfer of redundant, obsolete technologies, increased financial risk , foreign exchange rate crises which are detrimental to the receiving nation. It should go without saying that Zimbabwe as a whole has struggled with inadequate domestic investment to support a variety of economic sector inputs, which is why it is believed that FDI has been crucial in bolstering the Zimbabwean economy. This has seen the Zimbabwean government introducing tax incentives to lure FDI.

Tax incentives have been frequently used to lure FDI even though the available evidence on its effectiveness is remarkably inconclusive (Zee, et. al, 2019). Many governments globally provide tax benefits to stimulate and attract FDI. However, these tax incentives have had little impact on FDI but have only encouraged competition among counties that has resulted in redoing tax bases (Reegan, 2020). Provision of tax incentives leads to improved international competitiveness, making a nation more attractive to FDI, thus raising the fundamental question of whether tax incentives are a key factor in attracting foreign direct investments. According to Kubi et al. (2021), there are other variables besides tax incentives that affect investors' preference scales, such as the exchange rate, political stability, inflation, and others. As a result, this study aimed to examine the effectiveness of tax incentives in influencing the inflow of foreign direct investment.

UNITAD (2022) report highlighted that, FDI inflows increased by 64.3% from 2020 to 2021 at global level and in Sub Saharan Africa FDI inflows increased by 52.6% for the same period. However, World Bank (2022) highlighted that Zimbabwe experienced a decline in FDI inflows from 349 million in 2017 to 166 million dollars in 2021. Between 2020 and 2021, Zimbabwe witnessed a decline in FDI inflows from 194 million dollars to 166 million dollars. Zimbabwe FDI inflows for 2021 were actually less than 1% of the Southern African region total inflows. Compared to other Southern African countries like South Africa and Mozambique which received 40,889 million and 6102 million respectively, Zimbabwe FDI inflows are on the extreme low side.

Zimbabwe was also denoted as number 140 out of 190 countries at global level according to the ease of doing business scale pronounced by the World Bank report of 2020 whilst its main rivalries South Africa came 84 in the ranking and Zambia and Botswana stood at 85 and 87 respectively. According to the World Bank performance indicators (2022); Zimbabwe's FDI net inflows as a percentage of GDP averaged less than 1% from 2017 to 2021. Zimbabwe introduced tax breaks for new investments by foreign entities, the ability for capital expenditures on new factories, machinery, and improvements to be fully deductible for tax purposes, the elimination of taxes on imports and surtaxes on capital equipment, low corporate taxes, tax breaks, tax

credits, and investment allowances as well as other measures to entice FDI according to [www.zimra.co.zw](http://www.zimra.co.zw) (2023).

In Zimbabwe, tax is administered by Zimbabwe Revenue Authority (ZIMRA) that was established through a Parliamentary Act in 2015, namely the Zimbabwe Revenue Act (Chapter 469). The authority's main mandate is to assist the Government in revenue mobilization, providing effective tax administration as well as ensuring sustainability in revenue collection. ZIMRA is a body corporate which is a government agency for collection and receipt of all revenues. The tax law in Zimbabwe comprise numerous statutes administered by the Authority. Every tax is provided for by specific statute and most revenue Acts are amended annually through the budgeting process to administer a give tax.

The aforementioned role of FDI in economic growth and development has propelled most developing countries in the African region to engage in provision of investment incentives to lure the same. According to Hwami and Karumwe (2019), Zimbabwe has done the same by pronouncing tax incentives for foreign investors locating their businesses in Special Economic zones where business operations are tax exempt for the first five years and thereafter be subject to a tax rate of 15% as an example. These tax incentives and tax policy reforms effectiveness in attracting FDI remains inconclusive in literature hence as subject for further study and empirical scrutiny.

## **1.2 Problem Statement**

The dominant dilemma is that Zimbabwe has enjoyed low FDI inflows between 2018 and 2022 yet FDI is an ingredient that provides the investment capital as well stimulate growth of the economy. Zimbabwe is failing to attract significant FDI inflows which are much needed to clear external debt and improve the industrial sector productivity despite using tax incentives. More so, the nation's FDI inflows are not related to its potential and vast natural resources which can attract resource seeking foreign investors. Zimbabwe's FDI net inflows as a percentage of GDP averaged less than 1% from 2017 to 2021 (World Bank, 2022). World Bank (2022) further highlighted that Zimbabwe experienced a decline in FDI inflows from 349 million in 2017 to

166million dollars in 2021. The FDI inflow levels for the past 5 years are quite perplexing considering that the government of Zimbabwe through ZIMRA has put in place tax incentives to attract the same, therefore, this study aimed to evaluate the effectiveness of tax incentives in promoting FDI in Zimbabwe.

### **1.3 Purpose of the study**

The purpose of the study aims at analysing the effectiveness of tax incentives in attracting FDI.

### **1.4 Objectives of the study**

1.4.1 To determine whether the Zimbabwean rate of corporate tax influence foreign investors' investment decision.

1.4.2 To establish whether foreign investors dominate in sectors privileged to tax withholding rate.

1.4.3 To determine the extent to which tax holidays influence foreign direct investment inflow in Zimbabwe.

1.4.4 To examine if tax concessions in Zimbabwe influence the inflows of foreign direct investment.

1.4.5 To establish whether the change in FDI as a percentage of GDP is attributable to tax incentives.

### **1.5 Research questions**

The main research question is; how successful are tax incentives in luring foreign direct investment?

The sub-research questions are;

1.5.1 To what extent does the Zimbabwean corporate tax rate influence foreign investors' investment decision?

1.5.2 Do foreign investors dominate in sectors privileged to tax withholding rate?

1.5.3 Do tax holidays influence foreign direct investment in Zimbabwe?

1.5.4 Do tax concessions in the Zimbabwean economy influence foreign direct investment inflows?

1.5.5 Does the change in FDI as a percentage of GDP accredit to tax incentives?

## **1.6 Significance of the study**

Most research on this subject have revolved on using aggregate data, and some have argued in favour of tax incentives as crucial for drawing foreign direct investment (FDI), while others have stated that it's not. This study aims at building country specific evidence focusing on the case of Zimbabwe and will assist policy makers when coming up with decisions that affect foreign investors.

The major contrinutors to the public finance theory and emoiral literature will be made by the study. The findings of the study will help policy makers on areas that need attention when addressing issues of fiscal policy development. The study equips tax consultants with knowledge of available fiscal incentives to be able to advise clients to take advantage of the tax incentives planning.

## **1.7 Assumptions**

For the success of this study the researcher came up with the following assumptions:

- ❖ It was assumed that respondents were knowledgeable and insightful on fiscal tax incentives.
- ❖ The economic conditions were stable during the study period
- ❖ The time of study was sufficient for the successful completion of the study
- ❖ Respondents were truthful and willing to participate in the study.
- ❖ There was minimal disruptions that had significant impact on the study, at the companies selected for this study
- ❖ Interviewees were unbiased and gave correct and reliable information.
- ❖ It was assumed that information shall be readily available.

## **1.8. Study Delimitations**

Research boundary for this study was drawn focusing on the geographic location, theoretical scope, data period and participants.

### **1.8.1 Geographic Delimitation**

The study was limited to the ZIMRA HQ in Harare. This catered for the researcher's convenience.

### **1.8.2 Theoretical Delimitation**

The study's scope was restricted to evaluating how tax incentives affected FDI attraction in Zimbabwe.

### **1.8.3 Participants Delimitation**

In this study, quantitative data was gathered from ZIMRA officials which is the organisation responsible for tax issues in Zimbabwe. The research relied on secondary data to collected from various sources. Major data sources included ZIMRA, RBZ, World Bank statistical reports.

### **1.8.4 Data period Delimitation**

This study relied on tax incentives that have been used from 2010 to 2021 by the Zimbabwean government. This assessment period is long enough since the impact of tax incentives can only be realized after a period, hence tax incentives for 2022 are not considered since they are likely to have no tangible results in terms of attracting FDI to Zimbabwe.

## **1.9. Study Limitations**

The goal of evaluating the effectiveness of tax incentive programs is often to identify the additional investment brought about by tax incentives, as well as the costs and advantages of doing so. This necessitates making assumptions about the amount of investment that would have been made in the absence of the tax incentive program and the income lost as a result of the tax incentive's granting. Practically speaking, it will be challenging to create a framework that will



identify which investments are made just because of tax incentives or predict the levels of investment with or without the presence of tax incentives.

There is always a time constraint. Because of the bureaucracy involved in obtaining information from the entities under review, the study's time was constrained. It was challenging to balance the researcher's work with her full-time job. Some respondents' hectic schedules prevented them from responding to the surveys in a timely manner. Personal interviews were conducted as a follow-up to counteract that since they yield quick findings.

The respondents were reluctant to divulge the information because they feared being victimized because the study's supporting data is sensitive. Some of the participants struggled to trust a researcher with their data because they were concerned that it would be misused. The respondents were so assured of confidentiality and that the study was solely conducted for academic objectives.

### **1.10 Definition of key terms**

**Foreign Direct Investment (FDI) as a percentage of GDP:** This is a metric of FDI. Net FDI inflows expressed as a percentage of GDP were the most appropriate because the study's goal was to identify the variables that affect foreign investment.

**Tax Holiday** - This statistic depicts the extent to which investors in the economy received tax breaks during a particular year. If no tax break was granted by the relevant authorities, we will anticipate a score of 0. A score of one was assigned for tax holidays lasting five years or less, and a score of two was assigned for those lasting more than five years (Price Waterhouse global database, 2018).

**Tax incentives** - According to [www.zimra.co.zw](http://www.zimra.co.zw), tax incentives are all fiscal measures implemented to entice foreign investment capital to businesses and regions in a certain country.

### **1.11 Organisation of the study**

Five separate sections were outlined for the study, and they are as follows:

**Chapter I** -The study's background, goals, specific questions to be answered, and problem statement were all stated in this chapter. Additionally, it emphasized the study's justification as well as its restrictions and boundaries.

**Chapter II** - The theoretical underpinnings and conceptual framework that served as the basis for the research were discussed in this chapter along with the pertinent literature. It described the contributions made to the field under investigation by earlier scholars and authors..

**Chapter III** – This chapter concentrated on the research technique, that is, the approach and strategy followed by the researcher to obtain data, data analysis, as well as limits discovered during the investigation.

**Chapter IV** - The chapter examined the response rate, analyzing and interpreting the results, and drawing conclusions. In general, the chapter's main focus was on discussing the findings and relating them to the body of current literature.

**Chapter V** - The study's summary, conclusions, and suggestions were presented in the final chapter. The chapter included information on the steps to take to enhance Zimbabwe's tax benefits in order to draw in more foreign direct investment.

#### 1.12 Chapter summary

The backdrop of the study, the problem statement, the research aims, the significance of the study, its delimitations, and its limits were all examined in this chapter. It included a summary of the study's goals, inquiries, and reasons. In the chapter that follows, we reviewed the pertinent theoretical and empirical literature on tax incentives and foreign direct investment.

## CHAPTER II

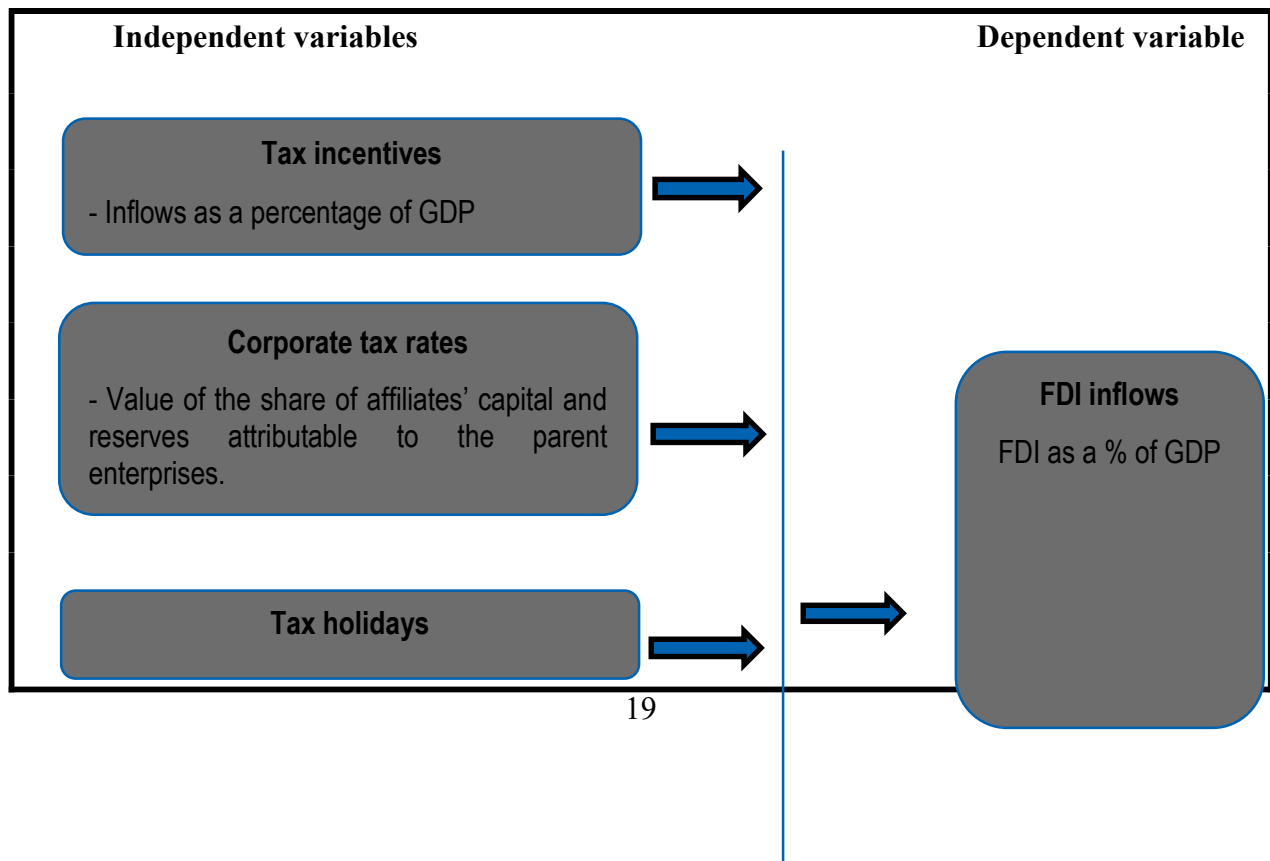
### LITERATURE REVIEW

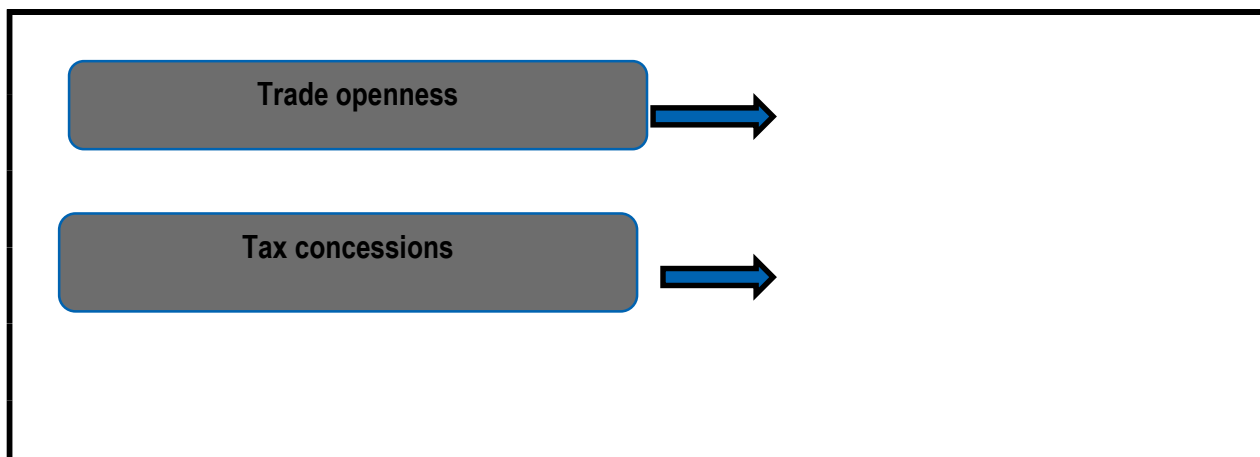
#### 2.1 Introduction

The previous chapter focused on the main components of the research study, background of the study formed the basis of the study where the researcher introduces the research topic. The chapter went on to highlight statement of the problem which can be described as the need to carry out the study. This chapter contains ideas and theoretical findings from various authors discussing on results of mergers and acquisition occurring globally. The convergence and divergence in scholars' thoughts on the subject of matter will be highlighted in this chapter. The study contains the theoretical framework which contains two theories of the study namely Tobin's Q Theory and Neo-classical Theory. The study also contains the conceptual framework which seeks to dente the relationship among variables.

#### 2.2 Conceptual framework

Figure 2.1 shows the conceptual framework of the study with the study variable which will be reviewed later on.





*Figure 1.1: Conceptual framework for the study*

### **2.2.1 Tax incentives**

Depending on the sort of investment and the level of governance in the country, different tax incentives will be designed (Collough, 2021). Tax holidays, accelerated depreciation, special size or scale tax benefits, special sectors, and special areas or zones are among the six different tax incentives. Tax incentives, according to IMF et al. (2015), are unique tax measures that constitute a favorable departure from the ordinary tax regulations and are given to certain investment projects or businesses. From this straightforward definition, it follows that tax incentives are an intentional policy that releases an entity from tax duty or offers an entity a concession to a tax burden (Collough, 2021). By using special or advantageous laws, tax incentives are intended to benefit investors.

Tax incentives are a generic fiscal tool that can be used in conjunction with other measures to draw investment, such as sector prioritizing, infrastructure development, and, in extreme circumstances, the transfer of monopoly rights. Tax incentives, which are also exceptions to the regular tax code, offer favorable tax treatment to investors as a way to entice them to put money into particular ventures or industries. Tax incentives are quantifiable benefits created particularly to boost an FDI undertaking's rate of return, lower costs or risks, or both, for domestic businesses in order to attract investment.

The idea of tax incentives can be thought of as having two legs: the payment of imputed taxes (which would have been made regardless of the tax incentive) and the expenditure of those payments as a direct grant to the beneficiary. Although tax incentive programs serve a comparable function to direct government spending, there may be little to no overlap in their conception and implementation. Any given program including financial help may be created to use the tax system (which may be referred to as a tax incentive) to provide that assistance or a direct government hand out (that may be called to as a direct spending). In other words, the incentive process implies that the taxpayer pays the appropriate tax and that the government appropriates funds to give the taxpayer an amount equal to the incentive benefit (Smilier, 2021).

### **2.2.2. Tax holiday**

This gauges the extent of the economy's annual tax holidays for investors. If no tax break is granted by the relevant authorities, we'll anticipate receiving a score of 0. For a tax holiday lasting five years or less, a score of one is given; for one lasting more than five years, a score of two is given.

A profit-based incentive known as a tax holiday consists of full or partial exemptions from paying taxes. A tax holiday allows new businesses to enjoy a period of time during which income taxes are not due (Gosling, 2021). A tax holiday could be a full exemption from profits tax (and other taxes), a lower tax rate, or a hybrid of the two. For instance, a business may be given two years of tax-free status and three more years at half the usual rate (Baldwin, 2020).

Tax holidays are intended to encourage investment by lowering or eliminating the tax liability of businesses during the holiday period, but they typically prevent businesses from deducting expenses like depreciation costs and interest tax deductions in order to partially make up for the revenue lost as a result of the exemption. Because they are thought to be easy to administer and adhere to, tax holidays are employed in many developing nations (Loberal, 2021). Tax holidays aid industries that begin turning a profit in the early days of the holiday period by providing temporary tax relief to profitable businesses. This is in contrast to lower CIT rates, whose benefits accrue over a longer period of time, and provides benefits as soon as a company begins

earning income. Tax holidays tend to help short-term projects and are short-term targets for total profitability. Tax holidays, however, may benefit businesses that may move about more easily and are less likely than long-term investments to have the required multiplier effects.

### **2.2.3 Trade Openness**

This gauges the proportional significance of a country's trade level to total world commerce as well as trade intensity.

### **2.2.4 Tax concession**

This determines whether or not governments offer tax breaks on a case-by-case basis or only under certain circumstances. In the event that a country provides no tax breaks, the variable receives a score of 0. The variable receives a score of one if only a few industries are granted tax breaks, and a score of two is awarded if tax breaks are granted to all enterprises.

### **2.2.5 Corporate rate taxes**

The corporate tax rate represents the percentage of a corporation's income, profits, and capital gains that are subject to taxation. It is anticipated that a low corporate tax rate will draw in and keep overseas investment.

### **2.2.6 FDI**

This represents the FDI portion of GDP. The most appropriate measure of net FDI inflows is as a percentage of GDP because the study's goal is to identify the variables that affect foreign investment. Most developing nations support the use of tax incentives to draw FDI. Property tax abatements, research credits, reduced tax rates, and more tax depreciation are some of the incentives that are frequently used (Aprian and Irawan, 2021). The intention behind implementing these tax incentive programs is to make them appealing to shareholders in developed enterprises that have the potential to boost economic growth and generate jobs in the host nations. In their research of Asian nations, George and Bariyima (2021) discovered that developing nations with skilled labor and solid infrastructure have a competitive advantage over those with favorable

market features if they use tax cuts. Tax incentives must be carefully and strategically planned out, though, or they risk becoming useless.

Olatunji et al. Omolade (2021) hinted that corporations who choose to relocate to another country for a variety of reasons, including political unpredictability, skyrocketing inflation rates, or crumbling infrastructure that will force them to invest significant costs for ongoing maintenance. Therefore, this means that attracting foreign direct investment requires more than just a favorable tax policy (Ginsburg, 2020). For instance, the UAE levies a corporate tax of 0% and sees high levels of inward FDI thanks to its competitive tax policy combined with its stable political environment and other factors (Diaz and Pandey, 2021). Afghanistan similarly has a 0% corporate income tax rate but does not experience high levels of foreign investment. (World Bank, 2021).

According to a study by Iona (2021), nations compete globally to implement tax laws that will entice foreign investment. These tax competitions are rapidly eradicating the competitive tax burden on business that nations were previously vying for. Although Kuria et al.'s findings from the year 2021. It is crucial to emphasize that the forces we are discussing here do not operate independently of one another. Even if a tax policy is competitive, FDIs won't be attracted if operating there carries a high degree of risk. The findings of a different study, Twesige and Gasheja's (2021), suggesting taxation is having a growing impact on FDI are disputed by this study. They alluded that FDI is responding more quickly to the level of taxation in a host country.

According to Argula (2021), as the economy deteriorates, businesses will be under more pressure to maintain high after-tax income, making them more sensitive to tax rates. Taxation alone has a small effect on FDIs, according to Oriakhi and Osemwengie (2020). If all other considerations examined by the investor are favorable, taxation as a sole motivator is unlikely to make a decision to invest ineffective. New Zealand is ranked second globally in terms of the business

environment, but when the indicator for paying taxes is taken into account, it falls to number 22 (Tyson and Zidar, 2021). UAE, on the other hand, ranks top on the index for taxation but 22nd overall in terms of the business environment. This demonstrates that there are other elements that affect a company's decision besides taxes that make a host country desirable.

Both the location of and the volume of foreign direct investments are impacted by corporate tax burden. This is due to the fact that corporate taxes lower after-tax investment returns. However, Julia (2021) noted that taxing by itself is insufficient to prevent movement or guarantee that an organization remains. The choice is made after considering a number of factors, some of which include the tax burden. It should be mentioned that there are various circumstances in which businesses nevertheless relocate to other nations even while they are benefiting from a sizable advantage in terms of tax competitiveness (Munongo et al., 2021).

## **2.3 Theoretical framework**

This section discusses and articulates the relevant theories and concepts on how tax incentives contribute to FDI. The theories help build a case to justify the study. These theories include Tobin's Theory, New Growth Theory and Cluster Approach.

### **2.3.1 Tobin's Q Theory**

The Q theory was advanced by Tobin in 1969. It argues that output growth is driven by the incessant collection of physical, human or information capital. The rate of real investment determines the rate of capital accumulation. The approach concentrates on the proportion of a company's securities exchange value to the substitution cost of its capital. Increase in the return to capital will raise the market value of existing capital signalling the profitability of additional investment. Additional investment will drive down the marginal product of capital, reducing the asset price of capital goods until equilibrium is restored a practice that will encourage extensive investment (Tobin, 1969).

The hypothesis advocates for measuring financial performance of a firm by concentrating on the proportion of the market value of a company's assets. The market estimation of a firm is arrived



at by the market estimation of its remarkable stock and obligation to the substitution cost of the company's assets. At the point when a firm is worth more than its value in view of what it would cost to reconstruct it, then overabundance profits are being earned and consequently the firm is gainful (Tobin, 1969)

### **2.3.2 Neo-classical Theory**

According to neo-classical economic theory, giving tax breaks to one set of investors over another goes against one of the fundamental principles of a fair tax system, namely horizontal equity. Due to this imbalance, pricing signals that prospective investors encounter are distorted, which results in an ineffective distribution of capital (Boadway and Shah, 2021). The argument most frequently used to support special incentives is that investing in particular industries and regions is subject to market failures that call for government intervention. Market failures lead to excessive or insufficient investment in particular industries or regions.

Positive externalities not incorporated in the project's rate of return are larger in some industries than in others. This is one of the main market failures that is frequently mentioned. Research and development is one area where investment pays off more socially than privately because not all technological knowledge can be efficiently patented. As a result, there is currently justification for funding research and development investment through subsidies (Kaplan, 2021). Barbour (2021) draws attention to additional ostensible advantages of tax incentives, including symbolic signaling effects and the need to make up for shortcomings in other investment regimes.

Cash grants or tax breaks are two ways that investment incentives are distributed. International experience suggests that these incentives have minimal effect on investors' decision-making. Businesses base their investment decisions on a range of factors, including predicted future demand, the predictability of future government policies, present interest rates, and competition activity. They see incentives generally as "nice to have" but not absolutely necessary. However, both developed and developing countries continue to use incentives as a method.

### **2.3.3 Agency Theory of Tax Incentive**

Governments still provide fiscal incentives despite the dearth of data to back up their effectiveness or efficiency. According to Wells et al. (2021), tax incentives provide a simple means of making up for other government-made barriers in the economic environment. In other words, fiscal incentives react to market and government failure equally. Instead of implementing a grant or tax regime to assist offset these obstacles, it is far harder and takes much longer to address the investment bottlenecks themselves due to poor skill levels, regulatory burdens, and compliance costs. Providing a subsidy to offset an existing distortion is the second-best option, but in fact, this is frequently what does place.

Between government organizations in charge of luring investment and those in charge of the more general business environment, agency issues also emerge. The coordination of government initiatives to encourage investment can be greatly aided by investment promotion organizations, however they frequently advocate for incentives without considering the costs to the economy as a whole (Zee et al., 2020). Governments may justifiably feel that tight horizontal equity with government taxation and spending does not effectively meet policy objectives and intrinsic market flaws in some sectors, according to Allen and Morisset (2021). Increased investment in a particular location, which due to information asymmetries does not receive as much investment as it should given the economic realities, may be one of the policy objectives.

### **2.4 Empirical studies**

In his research, Fawowe (2021) used created indexes from 1970 to analyze whether fiscal incentives encourage investment in Nicaragua. His study's empirical findings showed a notable inverse link between fiscal incentives and FDI in Nicaragua. The findings advise Nicaragua to focus on eliminating elements including a lack of infrastructure, subpar institutions, and lax regulations that could deter international investment.

Zee et al. (2020) conducted an empirical literature analysis of the 2004–2020 timeframe to examine the effectiveness of tax incentives in emerging nations, including East Asian economies and transition economies like Brazil. They discovered that any tax incentive package is not as

important for the success or failure of FDI recruitment measures as the general economic qualities of a country. Additionally, they discovered that while tax incentives may encourage investment, they are not typically cost-effective. The country of Brazil was used as an example, where the widespread use of incentives led to considerable revenue losses (relative to the investment made) and distortions in the general tax system.

Van Parys (2021) used data from over 40 Latin American, Caribbean, and African countries for the period 2005-2020 to examine evidence from emerging countries on the effectiveness of tax incentives in attracting investment. He discovered that, but not significantly, the CIT rate and tax vacations have a positive impact on FDI in developing nations. He also noted that Latin America and the Caribbean were more significantly affected by the CIT rate and tax holiday than Africa was. However, there was no proof that FDI was impacted by investment allowances. According to the argument, businesses want greater transparency and security over lower tax rates, and investors place a higher priority on basic investment climate conditions (which may be lacking) than tax incentives (Van Parys, 2021).

Using the ARDL, Lodhi (2020) examined, from 2000 to 2015, the impact of tax incentives on investment in Pakistan. While corporate tax rates and levy charges were the unbiased variables, FDI and domestic investment were the dependable elements. The research revealed a short- and long-term negative relationship between Pakistan's corporation tax rate and both domestic investment and FDI inflows. Therefore, it was recommended that Pakistan's public authorities lower corporate tax rates and levies to encourage investment there.

Using data from 1990 to 2020, Abille et al. (2020) make an effort to investigate the role of fiscal incentives in luring foreign direct investment inflows into Ghana. The long-term effects of corporation tax rates on FDI inflows into the Ghanaian economy were demonstrated by using the distributed lag (ARDL) bounds test approach, which was applied in this case. To prevent policy breaches, they suggested that the Ghana Revenue Service revamp the nation's business tax administration.

In order to distinguish the factors that influence FDI inflows into the South African economy, Majavu and Kapingura (2021) used the VEC model to account for a variety of variables,

including the exchange rate, inflation, market openness, corporate tax, and foreign direct investment as the dependent variable. The results of the experiment demonstrated that these variables play a substantial role in FDI inflows into the financial system of South Africa, with corporate tax having a measurably detrimental influence on both the short- and long-term.

Walid (2021) utilized a multiple linear regression model to assess the financial variables and risks on FDI on a comprehensive level from 2007 to 2021, and the results showed that there is a significant and positive relationship between FDI and the financial elements under consideration. Considering all the factors, the analysis recommended promoting FDI through tax incentives to attract new investments.

A study by Liu and Mao (2021) that examined the effect of income tax incentives on investment also revealed that, in addition to tax incentives in general, a country's economic and institutional context was of the utmost significance in influencing investors' final investment decisions. Additionally, they discovered that with time, potential investors paid more attention to the broad characteristics of the tax system, such as the hierarchy of the overall tax rates and the dynamics of the tax base. On the other hand, (Stausholm, 2021) showed that tax vacations had a small impact on FDI following a thorough analysis of 51 developing nations using data from 1985 to 2014, notably in the mining industry. His research sharply showed that these financial incentives had a negative effect on sustainable development and exhibited a negative correlation to tax revenues.

Biggs (2021) published a study on an analysis of the fiscal policies in twenty-one nations for the years 1994 to 2021, which included CIT exemptions, tax holidays, investment allowances, accelerated depreciation, and tax credits to draw FDI with a high level of technological investment. She came to the conclusion that CIT exemptions and tax holidays are ineffective at drawing in investment. She also discovered that emerging nations utilize ineffective tax incentives like tax holidays and accelerated depreciation that harm their economies. Policymakers in developing nations were advised to concentrate their tax incentives on small domestic corporate players (who may be more receptive to tax incentives) rather than giant TNCs who may be looking for additional non-tax incentives in addition to tax incentives.

Empirical investigations conducted in various nations have produced conflicting findings. The usefulness of tax incentives in luring FDI is still debatable, and their significance varies depending on the study's jurisdiction and methodology (Losman, 2021). For the years 1994–2021, Klemm and Van Parys (2020) looked at the effects of CIT tax vacations on investment in the Eastern Caribbean Currency Union and the African CFA Franc zone. In contrast to Africa, the study indicated that lower CIT rates and longer tax breaks are effective in luring FDI to Latin America and the Caribbean.

In an analysis of South Africa's tax system and its ability to draw foreign direct investment, Kransdorff (2020) came to the conclusion that taxation can play a significant role in drawing efficiency-seeking FDI to South Africa. Using information from the SADC Tax Database in 2021, Bolnick (2020) hypothesized that tax breaks alone won't persuade foreign investors to locate in the SADC region. Although tax incentives are helpful at luring FDI, Kransdorff believes that the low FDI flows in South Africa are caused by an unfavorable investment climate.<sup>84</sup> While South Africa tries to enhance the business climate, he proposed that providing more aggressive tax incentives could increase FDI flows in the short run. Bolnick, on the other hand, comes to the conclusion that non-tax factors in the investment climate play a much larger role in influencing the quantity and quality of FDI than do tax incentives. Kransdorff's claim, however, lacks additional empirical support, making it impossible to depend on it for the purposes of policy reform.

Governments provide tax incentives in the economic sphere in an effort to draw foreign direct investment (FDI) into a nation. According to Maya (2021), "tax incentives, in one form or another, are prevalent in all regions of the world." Incentives are advocated in most developing economies, such as Zimbabwe, as a powerful tool for making up for other contextual issues that might prevent investment, such as erratic power supplies or subpar infrastructure. In the economic sphere, tax incentives are provided by the government with the goal of luring investment. Incentives are recommended as a powerful tool in most developing economies, such as Zimbabwe, to compensate investors for other contextual issues that may prevent investment (such as an

unstable power supply or poor infrastructure), as well as a way to improve a nation's competitiveness as a location for investment (Simon and Peter, 2021).

According to Oladokun et al. (2021), such fiscal incentives are especially ineffectual in nations with unfavorable investment climates. He said that this might explain why the incentives strategy seems to have succeeded in certain nations while failing in others. The fact that tax incentives' long-term effectiveness in luring investment is a hotly debated topic was one of Ugwu et al. (2020)'s more notable findings. In fact, within the parameters of his work, which primarily involved cross-country investment climate surveys, he came to the conclusion with very strong indications that tax incentives were not as much of a deciding factor for investors as other factors like political stability, market size, and competition dynamics were.

Governments, particularly those in developing nations, appear to favor this fiscal approach despite the fact that a sizable body of literature demonstrates their ineffectiveness (Ekenwa et al., 2021). This is an intriguing and rather perplexing circumstance, but it can be somewhat explained when the particular background of these developing nations is taken into account. According to Alan (2021), theoretically and in terms of investment, capital should be moving from nations with abundant capital to those with lower capital densities. However, (Lucas<sup>31</sup>) noted that it appears that capital is not moving to developing nations where there is less abundance, which is a perplexing and ironic situation.

## **2.5 Research gaps**

It is clear from the discussion so far that the evidence about the effectiveness of tax incentives in emerging and transitional nations differs from that in industrialized nations. Generally speaking, it seems that tax incentives of the kind provided by industrialized nations are somewhat effective, while tax incentives provided by developing and transitional economies are more likely to lead to a decrease in revenue than a gain in foreign direct investment. The reason tax incentives are effective in wealthy nations but not in underdeveloped nations is the next obvious issue. Tax incentives have been found to be unsuccessful at encouraging FDI in underdeveloped nations, primarily due to unfavorable investment climates.

Developing nations frequently lack an environment that is conducive to investment, basic infrastructure, affordable transportation, and an investment-friendly policy framework. Investors won't likely respond to even the most substantial tax incentives because of this. For instance, tax holidays may only benefit businesses that would have invested in the first place and cannot make up for infrastructure deficiencies. Similar to this, political or economic obstacles in developing nations may render tax incentives ineffective. For instance, the majority of developing nations lack appropriate legal systems, strict employment rules, or adequate property rights protection. Correcting these flaws is more crucial in these circumstances than giving investors more tax advantages. (Imad and Tor, 2021). Africa, especially sub-Saharan Africa, may experience such a circumstance. Due to the fact that offering tax incentives is insufficient to make up for a bad investment climate, tax incentives may not be as successful as they may be.

Hwende (2021) asserts that the impact of a lack of accountability, security, and transparency, along with the complexity of the tax system, is likely to drive away investors. The fact that tax incentives can't solve the underlying issues that prevent investment (Calderwood, 2020) may provide some guidance for developing African nations. Furthermore, because tax incentives are poorly planned and lack adequate economic and social assessment (such as predictions, projections, and externalities), they may not be effective in emerging nations. For instance, incentive programs frequently have long durations, don't require beneficiaries to report to investment agencies, and may not make it clear which government body is in charge of monitoring, enforcing, and evaluating them (Ackenling, 2021). They also frequently include a specific sunset provision as part of the original legislation (Ackenling, 2021).

## **2.6 Summary**

The chapter examined a number of hypotheses that accounted for both the independent and dependent variables. After that, the theories are evaluated for their applicability to particular variables. To ascertain how tax incentives affect specific dependent variables, numerous research have been conducted both domestically and internationally. None of them have emphasized the impact of tax incentives on luring FDI, according to the empirical review above. By looking into

how accessible tax incentives affect the amount of foreign investment in Zimbabwe, this study aimed to fill a research gap. The research methodology is explained in the following chapter.



## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The previous chapter looked at Literature review. The conceptual framework, theoretical literature review, and empirical literature review were the primary components of this, and they collectively revealed the research gap. In an effort to fill up the research gap, this chapter outlines how research data was collected. Techniques and procedures that were employed by the researcher in collecting data will be highlighted in this chapter. The chapter will focus on research design, research instruments, target population, sample size and sampling techniques used by the researcher. Sources of data will also be discussed.

#### **3.2 Research Methodology**

A survey strategy with a quantitative methodological approach was adopted in the study. Creswell (2022) asserts that the main goal of the quantitative research approach is to quantify relationships between the many components or variables being investigated using statistical measures such the correlation coefficient, mean difference, or relative frequency.

The survey method was used as the research strategy for the study (Schutt, 2022). The researcher chose the survey technique because it made it possible to swiftly and affordably collect data from a sizable sample of people. By conducting surveys, it is possible to gather a significant amount of data from a given population in a relatively efficient manner (Fisher, 2020). The survey method is used to methodically gather data from a sample of people and also offers crucial information for all types of research, including preferences and behaviors, depending on the purpose and source (Hair, Money, Samuel, & Page, 2020). In comparison to a full census of the entire population, it is also more affordable (Quinn, 2020).

### **3.3 Design of the study**

According to Sekaran and Bougie (2020), a research design is a thorough plan outlining the steps that will be taken to conduct an inquiry. A research design will typically outline how data will be gathered, the instruments to be used, how they will be used, and how the data will be analyzed. The descriptive research design was used for the investigation. According to Kothari's analysis of descriptive research in 2022, these studies focus on describing the traits of a certain person or group. According to Sekaran and Bougie (2020), descriptive research is a type of inquiry that aims to learn about people's perceptions, actions, attitudes, or values in order to describe actual occurrences.

According to Sileyew (2020), a descriptive research design is a type of study that aims to gather information in order to methodically characterize a phenomena, condition, or population. Instead of the why, it mostly helps with the what, when, where, and how inquiries concerning the study challenge. In descriptive survey research, surveys are used to gather information on a range of subjects. The goal of this design is to ascertain how easily different circumstances can arise among these people. Instead of the why, it mostly helps with the what, when, where, and how inquiries concerning the study challenge.

### **3.4 Population**

Yegon (2021) explains that population can be referred to a total collection of components upon which the researcher hopes to make some conclusions. The study target population will be selected from individuals from the Ministry of Finance and Economic Development (MoFED) which oversees area of economic development in Zimbabwe through regulation of tax incentives.

### **3.5 Sample size determination**

In the sample size determination, the Krejcie & Morgan (1970)'s model was used. Krejcie & Morgan (1970) came up with a table for determining sample size for a given population for easy reference. The table below shows how the sample size for a Finite Population is determined.

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	100000	384

Note.—*N* is population size. *S* is sample size.

Source: Krejcie & Morgan, 1970

The total population for employees at the MoFED amounted to 171. From the Krejcie & Morgan (1970)'s model, we do not have 171 so we round it to get 170 which is only the table. 170 corresponds to 118 participants thus a total of 118 respondents were selected to participate in the study. The sample size was determine based on the Krejcie and Morgan's sample size calculation which same as using the Krejcie and Morgan's sample size determination table. The Krejcie and Morgan's sample size calculation was based on  $p = 0.05$  where the probability of committing type I error is less than 5%. The Table is constructed using the following formula for determining sample size:

### 3.6 Sampling procedure

The sampling was done in two parts that is sampling historical data and sampling of respondents.

#### Sampling of historical data

The United Nations Conference on Trade and Development (UNCTAD), World Bank World Development Indicators (WDI), World Competitiveness Index Report, World Resources Institute, and Price Waterhouse worldwide synopses of corporate taxes, all of which were published between 2020 and 2022, were the main sources of the data. The World Development Indicators (WDI), a set of data from the World Bank, provided the information for the dependent variable, foreign direct investment (FDI). In our analysis, the corporate tax rate (CTR), tax withholding (TaxW), tax holiday (TaxH), and tax concession (TaxC) were chosen as independent variables for tax incentives. In the regression for country-level economic characteristics, the study adjusted for seven economic indicators, including gross domestic product (GDP), infrastructure, adult illiteracy rates, political stability and absence of violence, corruption, and trade openness.

### **Sampling of respondents**

There is various number of sampling techniques that can be used in the research. In this study, non-probability sampling techniques were used by the researcher. According to Jennings and Gonzales (2020) stated that all sampling techniques which fall under non-probability sampling are convenient and accessible to the researcher. Non-probability sampling was selected in this study because it uses qualitative research methodology and it is less structured as it allows researcher to select sample elements that are not based on predetermined probabilities. The sampling techniques selected by the researcher helped the researcher to choose participants who had in depth knowledge and chances are high that they will provide detailed information. The study adopted purposive sampling and random sampling. Random sampling was used for sampling participants that would participate through interviews while respondents for the questionnaires were randomly selected. In selecting participants, the researcher will follow Glaser (2021)'s advice to select participants according to the needs of the study who give a richness of information that is suitable for detailed research.

## **3.7 Instrumentation**

### **Questionnaire**

The study adopted a closed ended questionnaire as the research instrument. The adoption of the closed-ended questions will make it easier for the responses to be coded and analyzed systematically (Babbie, 2021). It also makes it easier for the researcher to collect the data within the shortest period of time. The respondents will basically tick the appropriate answers after reading the questions and with the response choices given; there will be no need to further explain the questions to the respondents. The questionnaire will be organised into different sets of variables that includes demographic issues and the framework inputs. The questionnaire responses sequentially structured on a 5 - point Likert-type scale ranging from strongly disagree [1] to strongly agree [5]).

Questionnaire is explained as a systematically major instrument with structured questions which can be in form of either closed or open ended. Brynman (2020), clarifies that questionnaire entail specific short questions that can be asked by the interviewer and answered verbally by the respondent. He added that closed ended questionnaire can be in form of a Likert scale that requires one or two words as response and the open ended provides unlimited answers. The researcher used closed form of questionnaire and a Likert scale.

Closed questionnaire assists the respondent to provide very short answers such as 'Yes or No' and minimum effort in answering questions. Uniformity of the questions makes it easy for the researcher to evaluate the opinions from the sample study, hence much time was saved. Understandable language used to structure questions made it usable and reliable to the researcher. The advantages of questionnaires are that it is practical, large amounts of information could be collected from a large number of people in a short period of time and in a relatively cost effective way. The results of the questionnaire could be quickly and easily quantified by the researcher. Positivists believe that quantitative data can be used to create new theories and or test existing hypotheses.

The disadvantages of questionnaires are that, they are usually inadequate to understand some forms of information like changes of emotions, behaviour and feelings. It also lacks validity,

there are no ways to tell how truthful a respondent will be, there will be no ways of telling how much thought a respondent would have put in.

Because they force respondents to consider topics they might not have otherwise, questionnaires can be restricting. Once more, respondents are free to respond whatever they choose or even interpret certain questions incorrectly. In a study like this, using questionnaires has both benefits and drawbacks, but overall, the benefits outweigh the drawbacks, therefore it is anticipated that their usage will have a positive effect on the research.

### **3.8 Instrumentation procedure.**

The questionnaires were distributed using a drop-and-pick procedure. The questionnaire was self-administered, thus the researcher gave the respondent a chance to fill it out before collecting it later. The researcher made contact with the organization's management or administration and set up meetings with the appropriate officer to obtain permission for respondents' access. The questionnaires were dropped and picked up by a research assistant, who also offered advice without pressuring participants to respond.

### **3.9 Data collection/generation procedures**

Arellano and Bond (2020) define panel data as the pooling of observations from a cross-section of units of observation across a time period. Using only cross-sectional or time-series data has some drawbacks that are overcome by this. Typically, the panel regressions look like the following connection:

$$Y_{it} = \beta_0 + \beta_1 X_{i,t} + v_{it}$$

A functional model was established with foreign direct investment (FDI) as a function of tax incentive for us to find out the influence of tax incentives on foreign direct investment in Zimbabwe because the study had to formulate inquiries and the foreign investments in Zimbabwe. Additionally, a number of variables that were thought to be appropriate for affecting

FDI were included in the model to avoid the issue of model misspecification. Our model is so as follows:

$$FDI_{it} = \beta_0 + \beta_1(CTR)_{it} + \beta_2(TAXW)_{it} + \beta_3(TAXH)_{it} + \beta_4(TAXC)_{it} + \beta_5(\text{Control Var})_{it} + \varepsilon_{it}$$

The variables are defined below:

i - Selected country of observation (Zimbabwe)

t - Period of observation: 2020, 2021, . 2020.

$\beta_0$  - intercept

$FDI_{it}$  - foreign direct investment

$CTR_{it}$  - Corporate tax rate

$TAXW_{it}$  - withholding tax

$TAXH_{it}$  - tax holidays

$TAXC_{it}$  - tax concession

$\text{Control Var}_{it}$  - a vector of control variable

$\varepsilon_{it}$  —error/disturbance term.

Panel data were used in this investigation. Panel data, in the opinion of Arellano and Bover (2022), are multidimensional data that usually involve measurements over time. It includes observations of several events made across a variety of time periods for similar businesses or people (Esinneglier, 2020). Panel data allow for more accurate model boundary inferences. This is due to panel data taking more opportunity levels into account and reducing the multicollinearity of the components (Becker, 2020).

Both fixed and random influences were taken into consideration when analyzing panel data. In an entity, fixed effect presupposes a link between dependent and independent variables (Solter, 2022). It also predicts that those time-variant traits are particular to the person and shouldn't be

connected with other traits of the same person. Because inferences may not be correct, the fixed effect is not appropriate if the error terms are associated (Becker, 2020).

The random effect model, in contrast to the fixed effect model, explains variation between entities by supposing that it is random and unrelated to the independent variables considered in the model. An effective estimator like random effect, which accounts for endogeneity, already takes into account heteroskedasticity/autocorrelation via clustered standard errors due to unobserved heterogeneity and national tax incentive legislation.

Using the specification test, it was determined that the robust random effect model was the best option. We used dynamic panel generalized method of moments (GMM) estimators created by to ensure the reliability of our findings and eliminate any potential endogeneity in the sampled data. The two-stage estimation with corrected standard errors was utilized for GMM estimation because it takes endogeneity into account

### **3.9 Ethical considerations**

Ethics are the standards of behavior that define what is appropriate and what is not. It is a process, strategy, or way of thinking that helps people make decisions and analyze difficult situations. According to Sekaran and Bougie (2020), ethical standards also support the purposes or goals of research and are applicable to those who engage in intellectual or creative endeavors, including scientific research. The research made sure that the intended study was fully disclosed in order to adhere to ethical standards. The research's nature and purpose, the procedures to be used, the anticipated benefits for the participant and/or society, any potential risks, stresses, or discomforts, as well as any alternatives to participating in the study, were all fully disclosed to the participants. The researcher gave the participants an explanation and the chance to ask questions and get answers from her. Neither coercion nor exaggerated promises of rewards were used to compel the participant's permission to participate in the study.

### **3.10 Summary**

This chapter outlined the processes involved in data collection and the instruments that were used in the process. The researcher adopted the quantitative research method which is inclined



to use of closed ended questionnaires, quantitative methods of data analysis (correlation and regression) and survey descriptive research design. It purely uses quantitative techniques to quantify subjects' responses. The chapter outlined the data collection methodologies adopted, design of questionnaires and dispatching of such in order to quantify the responses. The next chapter will look at the research findings and results will be presented based on quantitative data analysis techniques-SPSS.

## **CHAPTER IV**

### **DATA PRESENTATION, ANALYSIS, AND DISCUSSION**

#### **4.0 Introduction**

The previous chapter outline the research methodology which was used to collect data that is presented in this study. The study is mainly quantitative in nature and thus takes a quantitative

approach in presenting and analysing results which is the focus of this study. The chapter includes a response rate, presentation of findings on; Zimbabwean rate of corporate tax influence and foreign investors' investment decision, foreign investors and sectors privileged to tax withholding rate; the extent to which tax holidays influence foreign direct investment inflow in Zimbabwe; the influence of tax concessions in Zimbabwe on foreign direct investment and the relationship between FDI and GDP with regards to tax incentives.

#### 4.1 Response rate

**Table 4.1: Response rate**

	<b>Questionnaires distributed</b>	<b>Questionnaires returned</b>	<b>Response rate</b>
Targeted respondents	118	101	85.6%

Source: Researcher's own compilation (2023)

As shown on table 4.1 above 118 questionnaires were distributed to respondents, of these 101 were returned completed fully. The response rate was therefore 85.6% which the researcher considered good enough to generalize the findings, for according to Sekaran and Bourgie (2013) a response rate of above 60% is enough to allow the researcher to make valid conclusions.

#### 4.2 Zimbabwean rate of corporate tax influence and foreign investors' investment decision

Table 4.2 below is a presentation of findings on the Zimbabwean rate of corporate tax influence and foreign investors' investment decision. The interpretation of the findings are presented in the sections below in tabular form.

**Table 4.2: Zimbabwean rate of corporate tax influence and foreign investors' investment decision**

<b>The extent to which Zimbabwean corporate tax rate influence foreign investors' investment</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>

decision					
The reduction of the tax rate from 24% to 25% has led to an increase in foreign investors since 2020	-	17%	4%	67%	12%
Zimbabwe has a lower tax rate as compared to other Countries in the region, an attribute that has led to an influx of foreign investors since 2010	7%	69%	14%	10%	-
The capital gains tax in Zimbabwe is favorable such that it has contributed to foreigner investing in Zimbabwe	-	13%	-	78%	9%
The income and revenue taxes in Zimbabwe are attractive to foreign investors	-	32%	-	56%	12%

Source: Researcher's own compilation (2023)

From table 4.2, most (67%) of the respondents were in agreement with the notion that the reduction of the tax rate in Zimbabwe from 24% to 25% led to an increase in foreign investors since 2020. There were also others (12%) who strongly agreed. This then means that to a greater extent, corporate tax rate is effective in attracting FDI in the context of Zimbabwe. This is not only unique to Zimbabwe since previous studies by Chikwemeka (2018) in Nigeria, Marble (2019) in South Africa and Slimani and Mandel (2021) in Egypt also attributed the increase in FDI for periods of 10 years to the use of corporate tax rate incentives as a way of attracting FDI in the respective countries.

Table 4.2 also reveals that a total of 76% (7% strongly disagreeing and 69% disagreeing) of the respondents disagreed with the ideas that Zimbabwe has a lower tax rate as compared to other Countries in the region an attribute that has led to an influx of foreign investors since 2010. This was in contrast to findings of Chipika (2010) as he made comparison of tax rates in SADC and Zimbabwe was ranked third by then. However, a more recent study by Sagna and Fillipe (2021) noted that Zimbabwe is now ranked 11th in the SADC region in terms of the tax rates, This then explains why respondents responded the way they did in this study.

Notably, the capital gains tax in Zimbabwe was ranked as favorable such that it has contributed to foreigner investing in Zimbabwe. Table 4.2 supports that since 78% agreed and 9% strongly agreed. The study by Sagna and Fillipe (2021) also made reference to Zimbabwe being third after South Africa and Angola in terms of favorable capital gains tax. This is why Reynolds (2019) stresses that capital gains tax is an option that can be used to attract FDI in developing nations.

Table 4.2 indicates that the income and revenue taxes in Zimbabwe are attractive to foreign investors based on the fact that 56% agreed and 12% strongly agreed. A significant number also disagree (32%) and this may be due to the fact that income and revenue taxes have been adjusted frequently over the years. This is also supported by literature. For example, Lodhi (2020), analyzed from 2000 to 2015 how tax incentives affected investment in Pakistan. The findings showed that FDI inflows and domestic investment are both negatively correlated, both in the short term and long term, with the corporate tax rate.

Data from 1990 to 2020 used by Abille et al. (2020) to investigate the role of fiscal incentives in luring FDI inflows into Ghana revealed that corporation tax rates have a considerable negative influence on FDI inflows into the Ghanaian economy over the long term. This further demonstrates that Zimbabwe can also use the option of decreasing corporate tax rates as a means of luring FDI.

### 4.3 Foreign investors and sectors privileged to tax withholding rate

The findings with regards to the second objective are presented in table 4.3 below. The second objective was to establish whether foreign investors dominate in sectors privileged to tax withholding rate.

**Table 4.3: Foreign investors and sectors privileged to tax withholding rate**

<b>Foreign investors and sectors privileged to tax withholding rate</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
The mining sector is an area which dominates FDI in Zimbabwe as it is privileged with an	-	5%	-	87%	8%

attractive withholding tax rate					
Foreign investors dominate in sectors privileged to tax withholding rate	2%	10%	-	53%	35%
The withholding tax rate is favorable to the extent that foreign investors are influenced to make a decision to invest in Zimbabwe.	-	13%	3%	70%	14%

Source: Researcher’s own compilation (2023)

There has been significant FDI from Russia, Germany, Australia, China and Belarus with regards to the mining sector since 2015. This can be attributed to a favorable withholding tax rate in the sector (Ministry of Mines, 2022). This conclusion is supported by findings in table 4.3 in which 87% and 8% of the respondents agreed and strongly agreed that the mining sector is an area dominated by FDI in Zimbabwe as it is privileged with an attractive withholding tax rate.

In the same vein, it was also established that foreign investors dominate in sectors privileged to tax withholding rate in Zimbabwe since 53% agreed and 35% strongly agreed from table 4.3. Supporting this is Majavu and Kapingura (2021) who in their examination to distinguish the determinants of sectors which attract FDI inflows most into the South African economy, noted that the mining sector and the Tourism sector had the highest tax withholding rate thus attracted more FDI as compared to other sectors.

Table 4.3 also reveals that the withholding tax rate is favorable to the extent that foreign investors are influenced to make a decision to invest in Zimbabwe. This is agreed to by 70% respondents and 14 strongly agreed. This can be attributed to what the Minister of Finance and Economic Development reiterated in his seminar presentation at the National University of Science and Technology in May 2021.

#### **4.4 The extent to which tax holidays influence foreign direct investment inflow in Zimbabwe**

This part of the chapter addresses the third objective that is establishing the extent to which tax holidays influence foreign direct investment inflow in Zimbabwe. Findings with that regards are found in table 4.4 below.

**Table 4.4: The influence of tax holidays on foreign direct investment in Zimbabwe**

<b>The influence of tax holidays on foreign direct investment in Zimbabwe</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
Five year tax breaks offered by Zimbabwe have contributed to an influx in FDI in the mining sector	-	10%	7%	44%	39%
The issuing out of tax holidays to foreign firms gives Zimbabwe a competitive edge in terms of attracting FDI	1%	12%	31%	51%	6%
Reduced taxes significantly contribute to more FDI flowing to Zimbabwe.	5%	8%	19%	61%	7%

Source: Researcher's own compilation (2023)

Respondents widely agreed and strongly agreed that tax holidays significantly influence foreign direct investment in Zimbabwe. With reference to table 4.4, a total of 44% agreed while 39% strongly agreed that five year tax breaks offered by Zimbabwe have contributed to an influx in FDI in the mining sector.

The idea that the issuing out of tax holidays to foreign firms gives Zimbabwe a competitive edge in terms of attracting FDI was also supported by (57% that is 51% agreeing while 6% strongly agreeing. Additionally, 61% and 7% of the respondents also noted that reduced taxes significantly contribute to more FDI flowing to Zimbabwe. Munongo (2021) indicated that investments in the export industry in Zimbabwe are entitled to a 5-year tax holiday of zero CIT while a 15% tax rate will be applied to the investors' CIT over following 5 years. Magidi and Maravanyika (2020) also noted that holders of the EPZ licence receive a 5-year income tax exemption, and 15% will be applied to all taxable income over the following 5 years. They are also exempted from capital gains tax. There are duty-free import and VAT refunds for EPZ industries. These then were attributed to the increase in FDI by 13% since the coming in of the second republic.

Supporting the fact that tax holidays significantly attract FDI in Zimbabwe is Gumunyu (2022) who indicated that the significant rise in FDI in the real estate sector is attributable to reduced CIT, royalties and VAT rate to specific sectors. For example, for a foreign industrial park developer, the CIT rate of tax on such operations is zero for the first five years of operation and

is 15% thereafter. The tax loss relief is also a factor that has been noted to have contributed to increase in FDI. Export development expenditure gets a 15% deduction during exploration. Losses in manufacturing are carried forward to the following year (Nexia SAB&T, 2022).

#### 4.5 The influence of tax concessions in Zimbabwe on foreign direct investment

Tax concessions are widely regarded as vehicles to attract FDI in developing nations. Tax concessions measure whether governments are selective in their provision of tax concession or whether these are given in all cases. Table 4.5 seeks to clarify those assertions by presenting findings with the use of tax concession in Zimbabwe.

**Table 4.5: The influence of tax concessions in Zimbabwe on foreign direct investment**

The influence of tax concessions in Zimbabwe on foreign direct investment	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Government of Zimbabwe is selective in their provision of tax concessions in terms of industries which contributes to an increase in investments in the specific industries	-	8%	6%	71%	15%
Tax credits offered for corporates in Zimbabwe contribute to an increase in FDI	1%	44%	5%	48%	2%
Tax concessions in the Zimbabwean economy influence foreign direct investment inflows	-	14%	-	69%	17%

Source: Researcher's own compilation (2023)

Findings presented in table 4.5 reveal that the government of Zimbabwe is selective in their provision of tax concessions in terms of industries which contributes to an increase in investments in the specific industries. This assertion is agreed to by 71% respondents and 15% strongly agreeing. Respondents were however inconclusive as to whether tax credits offered for corporate in Zimbabwe contribute to an increase in FDI. Table 4.5 show that 48% agreed while 44% disagreed and there is not a strong conclusion that can be derived from there. However, respondents then indicated that tax concessions in the Zimbabwean economy influence foreign direct investment inflows.

With reference to literature, Beyer and Schwefel (2021) reveal no courting among tax concessions and FDI appeal in transitional economies. While other studies that include Nortjie

(2019) discover tax incentives to be crucial to luring foreign direct investment in low-income countries, Van Parys and James (2018) additionally find tax concessions to have a very positive impact inside the Caribbean Island countries. This well supports findings in this study since Zimbabwe is in the same category.

#### 4.6 Relationship between FDI and GDP with regards to tax incentives

The finding on the relationship between FDI and GDP with regards to tax incentives is a solution to the fifth objective of the study which is to establish whether the change in FDI as a percentage of GDP is attributable to tax incentives. These findings are presented in table 4.6 below.

**Table 4.6: FDI as a percentage of GDP and tax incentives**

<b>FDI as a percentage of GDP and tax incentives</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
Change in FDI as a percentage of GDP is accredited to tax incentives?	-	9%	-	63%	28%
FDI is attributable to a tax concessions in Zimbabwe	-	14%	7%	71%	8%
The influx of FDI in Zimbabwe is a result of the low withholding tax in the country	4%	17%	2%	58%	23%
FDI and GDP have a direct relationship in Zimbabwe	-	12%	2%	65%	19%

Source: Researcher's own compilation (2023)

Table 4.6 has findings that confirm the finding presented earlier for the first four objectives. Thus it can be concluded from table 4.6 that change in FDI as a percentage of GDP in Zimbabwe is accredited to tax incentives. Furthermore, there was a string perceptions that the influx of FDI in Zimbabwe is a result of the low withholding tax in the country and FDI and GDP have a direct relationship in Zimbabwe based on findings in table 4.6.

#### 4.7 Descriptive and inferential statistical analysis

Table 4.7 shows the descriptive analysis of the study. The table indicates the number of observations, the mean, the minimum and maximum observations, and the standard for each



variable. Each variable has 393 observations, indicating a balanced panel of Zimbabwe from 2017 – 2021. The sample's mean foreign direct investment throughout the evaluation period was 4.1, according to the data. The corporate tax rate for Zimbabwe was, on average, 3.2. Minimum and maximum values for tax withholding range from 14 to 34 respectively, with a mean of 3.6. With a maximum observation of 26 and a minimum of 0, the sample's average tax holiday for Zimbabwe was 3.3. Tax concession had an average value of 3.1 and a range of 0 and 1.7, respectively.

**Table 4.7: Descriptive statistics of the variables (2017– 2021)**

<b>Variable</b>	<b>Obs</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
fdi	393	4.1	7.6	−5.1	102.5
ctr	393	3.2	6.1	0	23.4
taxw	393	3.6	6	14	34
taxh	393	3.3	4.5	0	26
taxc	393	3.1	0.7	0	1.7

Source: Researcher’s own compilation (2023)

Table 4.8 presents the study findings in relation to the established research questions, using the robust random effect model that the Hausman specification test determined to be the best fit for the study. Foreign direct investment inflows into Zimbabwe were negatively correlated with the coefficient of the corporation tax rate variable, which is statistically significant. Therefore, a rise in the corporate tax rate results in a decline in the amount of foreign direct investment coming into Zimbabwe. The response to the first study question, which is assessing whether the corporation tax rate in Zimbabwe affects the inflows of foreign direct investment, is supported by this result, which is consistent with past findings (Abille, et al., 2020; Lodhi, 2020; Majavu, A.; Kapingura, 2021; and Obeng, 2021).

The strong association between tax withholding and the influx of foreign direct investment demonstrates how the treatment of critical sectors by Zimbabwe, which it seeks to strengthen for the benefit of its entire economy, affects the choices made by international investors. The conclusion thus supports the further research question of whether significant tax withholding in Zimbabwe affects the influx of international investors. The results of the study agree with those of earlier research by (Walid, 2021; Peters and Kiabel, 2022).

**Tab 4.8. Results of robust random effect regression.**

FDI	Coef.	St. Err.	t-Value	p-Value	[95% Conf]	[Interval]	Sig.
ctr	-0.212	0.180	-1.17	0.015	-0.561	0.134	**
taxw	0.115	0.103	1.12	0.013	-0.092	0.323	**
taxh	0.261	0.103	-2.40	0.015	-0.452	-0.041	**
taxc	-0.73	0.932	-0.75	0.435	-2.532	1.123	
cor	-0.765	1.132	-0.68	0.010	-3.035	1.456	**
psav	1.315	0.624	2.15	0.032	0.112	2.675	**
gdp	0.000	0.000	0.72	0.041	0.000	0.002	**
exchr	0.005	0.026	0.14	0.856	-0.060	0.055	
tradop	0.000	0.000	-1.12	0.235	0.000	0.000	
illit	0.660	0.547	1.11	0.212	-0.407	1.610	
infrast	0.063	0.041	-1.76	0.073	-0.154	0.010	*
Constant	6.560	5.060	1.44	0.173	-3.128	16.778	
Mean dependent var	4.234		SD dependent va		4.063		
R-squared	0.240		Number of obs		134.000		
F-test	3.310		Prob > F		0.000		
Akaike crit. (AIC)	343.304		Bayesian crit. (BIC)		375.160		

Note: The numbers in parenthesis are the p-values; \*\* and \* denote significance levels of 5% and 10%, respectively.

Source: Researcher's own compilation (2023)

The inflows of foreign direct investment into the Zimbabwean economy also have a strong favorable association with tax holidays. This finding responds to the third study question, which

was whether the tax vacation affects the amount of foreign investment coming into Zimbabwe. According to the study of the United Nations Economic Commission for Africa (2020), African economies have been praised for aiming for a balanced policy approach to achieving growth and development. This indicates that nations are actively working to raise the tax holiday rate, which would lessen the restrictions placed disproportionately on international businesses and affect their decision to invest in African economies like Zimbabwe.

Based on previous research (Lodhi, 2020; Obeng, 2021) the study's results were predictable. Although there is a negative association between tax concession and the inflow of foreign direct investment, the coefficient of tax concession made it evident that this relationship is statistically negligible. The outcome shows that nations with broad-based tax breaks may not always get the anticipated amount of foreign direct investment. The conclusion that a country's tax break has no impact on the inflow of foreign direct investment provides an answer to the fourth study question.

Real gross domestic product and luring in foreign investors were found to have a favorable and statistically significant link. Foreign businesses view economies with higher GDP as having promise as investment prospects. Previous investigations (Bokpin, 2021; Miletkov, Poulsen, Wintoki, 2019) have provided support for the study's conclusions. The association between the infrastructure coefficient and foreign direct investment inflows into the Zimbabwean economy was positive and statistically significant. Since better and higher-quality infrastructure would help their operations attain the highest possible degree of efficiency, countries with more widespread and suitable infrastructure are more likely to have an impact on international enterprises (Lodhi, 2020).

The influence of other control factors on FDI inflows to Zimbabwe, such as the exchange rate, trade openness, and adult illiteracy rate, was minor. Additional control variables, like natural resource rent, which also influence FDI inflows in Zimbabwe, were included to the baseline specification as part of a robustness check to see if the study's findings would remain the same. Natural resources are positively correlated with FDI inflows in Zimbabwe, according to Table 4.9 below, which uses dynamic GMM panel data estimation. Once more, the GMM result is not noticeably different from our reliable results from random effect regression. Company tax rate,

tax withholding, and tax holidays continue to have a role in determining the amount of foreign direct investment that enters Zimbabwe.

**Table 4.9: Results of GMM regression**

FDI	Coef.	St. Err.	t-Value	p-Value	[95% Conf]	[Interval]	Sig.
Lfdi	0.215	0.087	2.45	0.013	0.043	0.37	**
ctr	-0.261	0.240	-1.10	0.06	-0.737	0.205	*
taxw	-0.417	0.246	-1.69	0.07	-0.801	0.065	*
taxh	-5.553	2.604	-2.42	0.026	-10.601	-0.679	**
taxc	-2.763	1.978	-1.57	0.117	-6.516	0.731	
cor	3.171	2.211	1.43	0.148	-1.141	7.516	
psav	-2.161	1.61	-1.27	0.132	-5.41	1.123	
gdp	-0.003	0.002	-2.21	0.025	-0.002	0	**
exchr	-0.006	0.037	-0.11	0.801	-0.071	0.08	
tradop	0	0	-1.53	0.123	0	0	
illit	0.1	0.07	1.24	0.210	-0.056	0.253	
infrast	-0.027	0.417	-0.06	0.946	-0.845	0.790	
oilrentsofgdp	-0.423	0.217	-1.90	0.050	-0.853	0.005	*
mineralrentsofgdp	0.832	0.279	2.99	0.003	0.286	1.378	***
Constant	31.725	11.059	2.87	0.004	10.059	53.411	***
Mean dependent var	4.348		SD dependent var		4.205		
Number of obs	119		Chi-square		77.619		
			Wald chi2 (13)		77.62		
Prob > chi2	0.000						

Notes: \*\*\*, \*\*, and \* denote 1%, 5%, and 10% significant levels, respectively, in the p-values, which are the numbers in parentheses.

Source: Researcher's own compilation (2023)

#### 4.8 Policies to attract FDI in Zimbabwe

Public institutions and credit access: The Zimbabwean government is embarking on a COMESA-assisted investment climate reform agenda (COMESA 2022). The reform agenda aims to start

institutional reforms in ICT (information and communication technology), business monitoring, and making sure that doing business in the country is easy.

The Zimbabwean government is working to enhance investors' access to credit and stabilize the country's financial services industry. In order to restore the central bank's lender of last resort status (2022 Government Budget Statement), the ministry of finance recently introduced strategies to recapitalize it. The Reserve Bank of Zimbabwe (RBZ) reached a deal with lending institutions in 2021 to increase access to business financing through its moral persuasion activities. The agreement mandated that lenders limit processing costs to 5% or less and set lending interest rates of no more than 12.5% (World Bank Country Report 2021).

According to RBZ (2009), the Zimbabwe Investment Centre (ZIC) was formed by the government in 1989 to serve as a one-stop shop for foreign direct investment (FDI). All investments with foreign interests are approved by and registered with the ZIC. The ZIC has also been successful in lowering the number of processes required to launch a business in Zimbabwe. Despite having one of the SADC's most challenging economies for new business startups, Zimbabwe has recently lowered registration costs and sped up company and tax registration to make it easier to launch a firm (WB, 2019).

### **Macroeconomic policies**

In an effort to lower inflation and boost the country's foreign competitiveness and, consequently, its economic prospects, Zimbabwe implemented a multi-currency system in 2009 (SADC, 2020). The country's monetary development is now largely influenced by the performance of the external economy due to the country's multicurrency system. In an effort to free up funds for spending, upgrade its infrastructure, and entice investment, Zimbabwe also drastically cut its external debt (SADC, 2020).

### **Market size and trade across borders**

Zimbabwe's severe poverty causes a low effective demand. In the World Bank report from 2021–2022, ZimStat's 2021–2022 PICES Survey identified 72.3% of Zimbabweans as being in poverty.

84.3% of the population in rural areas is poor, which is where the majority of the poor are concentrated. Household poverty is estimated to affect 62.6% of households, and 16.2% of those households are classified as "extremely poor" (WB, 2022). To address this demand issue, the Zimbabwean government is attempting to broaden its market through bilateral agreements with China, India, and the United Arab Emirates. Zimbabwe also participates in the SADC and COMESA, where it benefits from international agreements that aim to open up new markets.

#### **4.9 Challenges faced by Zimbabwe in operating tax incentives**

Zimbabwe's investment policy, which mandates 51% local ownership of corporate ventures by locals, was a key hindrance to the implementation of tax incentives in Zimbabwe from 2010 to 2017. According to the African Forum and Network on Debt and Development (AFRODAD, 2021), the Zimbabwe Revenue Authority (ZIMRA), the body responsible for enforcing taxes in Zimbabwe, is ineffective and corrupt. Since the late 1990s, Zimbabwe has been suffering from an extended period of economic collapse. This has hampered ZIMRA's modernization, which has led to its inefficiency. The application of tax incentives is also subject to widespread tax distortions (Kramarenko, 2020).

#### **4.10 Discussion**

There have been fewer foreign direct investments (FDI) in Zimbabwe since 2017 for a variety of reasons. Between 2000 and 2009, the political climate was unfavorable. Then, from 2009 to 2017, Zimbabwe implemented indigenization laws. Zimbabwe adopted a firm stance and insisted that locals hold 51% of the mining and agricultural sectors. According to the World Bank's Doing Business Report, this had an impact on its ranks in the SADC for having "the least friendly business environment." This illustrates that the protection of property rights is highly valued by investors, and as a result, safeguards against the nationalization of capital are essential.

The SADC region has also leveraged macroeconomic stability and anti-poverty initiatives to draw FDI by creating a thriving local market. On the competitiveness index, stable economies like South Africa, Botswana, and Mauritius do well while unstable nations like Zimbabwe, Malawi, and Madagascar fare badly. Most SADC economies recognize the value of a stable

currency, which is why South Africa, Botswana, Namibia, Lesotho, and Swaziland established the SACU currency union with the goal of preserving currency stability and lowering foreign exchange risk in order to draw in investors. Zimbabwe decided to establish a highly dollarized economy in which companies are free to conduct business using whichever currency they want.

#### **4.11 Summary**

This chapter presented findings with regard to the tax incentives and foreign direct investment in Zimbabwe. The findings reveal that most of the tax incentives that are being utilized by Zimbabwe have a positive and significant effect on increasing FDI. The next chapter dwells on summary of findings, conclusions and recommendations.

## **CHAPTER V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The previous chapter dwelt on the presentation and discussion of results. This chapter is the final chapter of the study which presented the summary of findings, conclusions and study recommendations. The summary of findings and conclusions are based on the following objectives; to determine whether the Zimbabwean rate of corporate tax influence foreign investors' investment decision, to establish whether foreign investors dominate in sectors privileged to tax withholding rate, to determine the extent to which tax holidays influence foreign direct investment inflow in Zimbabwe, to examine if tax concessions in Zimbabwe influence the inflows of foreign direct investment and to establish whether the change in FDI as a percentage of GDP is attributable to tax incentives.

## 5.2 Summary of findings

The major objective of the study was to investigate how effective tax incentives influence the inflows of foreign direct investments in Zimbabwe via estimation of the robust random effect for our model. The study was carried out for the period 2000 – 2018. The empirical model strived to forecast whether the inflow of foreign direct investment is influenced by tax incentives variables such as company tax rate, tax withholding, tax holiday, and tax concession.

Based on the study findings, the study arrived at the following conclusions. Firstly, there is a statistically significant inverse correlation between corporate tax rates and foreign firm influx into African countries. According to empirical evidence, the African nations that cut the rate of corporate tax as a motivator will inspire foreign companies to invest in their economies.

Additionally, international investment inflows into the Zimbabwean economy have a substantial positive link with tax withholding. This suggests that Zimbabwean governments should focus on key regions that must develop in order to support the country's whole economy because they are a key factor in determining how international companies will invest their money.

Furthermore, research findings showed a strong correlation between tax holidays and the inflows of foreign direct investment into the Zimbabwean economy. Thus, with a maximum tax holiday for a specific term, foreign companies are strongly motivated and eager to invest in Zimbabwe. As a result, Zimbabwe, a country with limited tax holidays for foreign companies, ought to work to increase those tax breaks, which would have an impact on the country's economic investment decisions. A negative and statistically insignificant correlation between tax concession and the inflows of foreign direct investment into Zimbabwe was also unveiled by the results. The findings indicate that Zimbabwe's excessive tax breaks are having a detrimental impact on FDI inflows. In order to build African economies through influencing the inflows of foreign investment, according to a study on "Development in Africa" by the UNECA (2022), a balanced policy approach is recommended. Additionally, there was a strong correlation between the inflows of foreign direct investment into the Zimbabwean economy and the development of high-quality infrastructure, real gross domestic product (GDP), political stability, control of corruption, and absence of violence.



## **5.3 Conclusions**

### **5.3.1 Zimbabwean rate of corporate tax influence and foreign investors' investment decision**

In the context of Zimbabwe, the corporate tax rate is successful to a large extent at luring FDI. Corporate tax rates have a long-term and short-term negative relationship with both domestic investment and FDI inflows. The advantageous capital gains tax in Zimbabwe has encouraged international investment in the country. Foreign investors are drawn to Zimbabwe because of its favorable income and revenue taxes. When compared to the inflows of foreign direct investment into Zimbabwe, the coefficient of the corporate tax rate variable showed a negative and statistically significant association. Thus, a rise in the corporate tax rate results in a decline in Zimbabwe's inflow of foreign direct investment.

### **5.3.2 Foreign investors and sectors privileged to tax withholding rate**

It was also determined that foreign investors predominate in Zimbabwean industries with favorable tax withholding rates. It is because of the favorable withholding tax rate that foreign investors are persuaded to invest in Zimbabwe. The strong correlation between tax withholding and foreign direct investment flows demonstrates how the way Zimbabwe treats its strategic sectors, which it wishes to develop for the benefit of its whole economy, has an effect on the choices made by international investors. As a result, the result supports the study issue that follows, which is whether Zimbabwe's high tax withholding affects the inflows of foreign investors.

### **5.3.3 The extent to which tax holidays influence foreign direct investment inflow in Zimbabwe**

Tax holidays significantly influence foreign direct investment in Zimbabwe. Investments in the export industry in Zimbabwe are entitled to a 5-year tax holiday of zero CIT while a 15% tax rate will be applied to the investors' CIT over following 5 years. Holders of the EPZ licence receive a 5-year income tax exemption, and 15% will be applied to all taxable income over the following 5

years. The significant rise in FDI in the real estate sector is attributable to reduced CIT, royalties and VAT rate to specific sectors. The tax loss relief is also a factor that has been noted to have contributed to increase in FDI. Tax holiday has a significant positive relationship with the inflows of foreign direct investment into the Zimbabwean economy. Thus, this outcome answers the third research question, whether the tax holiday influences the inflows of foreign investment in Zimbabwe.

#### **5.3.4 Tax concessions are widely regarded as vehicles to attract FDI in developing nations**

It is concluded that Government of Zimbabwe is selective in their provision of tax concessions in terms of industries which contributes to an increase in investments in the specific industries. It is also concluded that tax concessions in the Zimbabwean economy influence foreign direct investment inflows. The coefficient of tax concession clearly showed that, although the relationship between tax concession and the inflow of foreign direct investment is negative, it is statistically insignificant as well. The result indicates that economies that offer wide-sweeping tax concessions may not tend to attract the expected level of foreign direct investment.

#### **5.3.5 Relationship between FDI and GDP with regards to tax incentives**

Real gross domestic product reported a positive and statistically significant relationship in attracting foreign investors to nations. Economies with greater GDP are seen by foreign firms as being potential for investment opportunities. The results showed that the different economic policies of the respective countries had a role to play in explaining the difference in the quantum of the flow and there is an association between FDI and GDP, and in all the cases, FDI is instrumental in enhancing the economic growth . Results of the study unveiled that, there is a relationship between FDI & GDP. FDI is instrumental.

### **5.4 Recommendations**

Considering tax incentives specifically, company tax rate, tax withholding, tax holiday, do not only lure foreign investment to the Zimbabwean economy, but this study recommends some relevant policy implications.

First and foremost, a thorough revision of Zimbabwe's tax incentive policy for foreign direct investment is required if the country is to reap the full economic benefits of this type of investment(FDI). A comprehensive fiscal framework that is in line with Zimbabwe's national development objectives must take the place of the country's current ad hoc programs.

Second, even the strongest tax incentive plan might have negative effects if it is not implemented properly. Zimbabwe should therefore implement a comprehensive and sophisticated management strategy that integrates performance, marketing, administration, and assessment. Thus, these approaches would undoubtedly aid in easing Zimbabwe's progress struggle for financial elevation and long-term economic growth.

Zimbabwe ought to adopt measures that promote fresh investment. Low operational expenses can accomplish this since they will stimulate FDI inflows. These should include anti-trust, regional, environmental, fiscal, and monetary policies that protect property rights and patents, health care, and tax policies, as well as exchange rate stabilizing policies, educational policies that produce a more productive workforce, technological innovation-encouraging policies, and policies that encourage technological innovation.

In order to attract greater FDI inflows, Zimbabwe should also seek policies that boost local effective demand and provide a steady market for goods. To promote FDI inflows, Zimbabwe ought to apply a low CIT.

Zimbabwe should aim to lower taxes in particular economic growth-related industries since this promotes FDI inflows. Since FDI flows into Zimbabwe are linked to FDI inflows from prior years, Zimbabwe should create policies that promote openness to FDI. Zimbabwe needs strong governance because it promotes both new investment and reinvestment by current investors.

To accommodate various sorts of investment, infrastructure needs to be continually updated. This calls for Zimbabwe to stop investing in infrastructure that exclusively supports investments in primary resources. This is due to the fact that natural resources are non-renewable and, once used up, will no longer draw foreign direct investment.

Lastly, Zimbabwe should eliminate discretionary incentives that are granted without transparency but rather provide tax incentives without discrimination. A tax incentive framework must be clear and simple, time-bound, and consistent with the countries' interests.

### **5.5 Recommendations for further study**

Despite the useful conclusions, there are certain limitations to the study that need to be addressed to improve future research for Zimbabwe. The study's first drawback was that it did not specifically name the international companies that deserved tax breaks and how much they would increase FDI into Zimbabwe. Future research should pinpoint the category of foreign businesses that would benefit most from additional tax breaks. This information will help to guide the Zimbabwean economy in developing and implementing efficient fiscal policies.

According to the United Nations, Zimbabwe lacks long-term longitudinal data, which is another obstacle to the study. Numerous research on developing African countries have consistently highlighted the need for more accurate data on those nations' economics; additional overseas locations could supply extra factual data, which would significantly improve the study conclusions.

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## APPENDIX I: QUESTIONNAIRE

My name is Nyasha Dhliwayo, I am a student at Great Zimbabwe University pursuing Masters of Commerce in Professional Accounting and Corporate Governance. I request that you assist me in my studies by completing this questionnaire. Your participation is voluntary and you can withdraw at any time without penalty. All data will be kept confidential, and no identifying information is stored. By completing the questionnaire, you indicate that you voluntarily participate in this research. If you have any concerns, please contact me. My details are provided below.

+263 786315695

### **SECTION A: Zimbabwean rate of corporate tax influence and foreign investors' investment decision**

In the table below, be guided by the following scale: 1 – Strongly disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 – Strongly agree.

	<b>To what extent does the Zimbabwean corporate tax rate influence foreign investors' investment decision</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
B1	The reduction of the tax rate from 24% to 25% has led to an increase in foreign investors since 2020					

B2	Zimbabwe has a lower tax rate as compared to other Countries in the region an attribute that has led to an influx of foreign investors since 2000					
B3	The capital gains tax in Zimbabwe is favorable such that it has contributed to foreigner investing in Zimbabwe					
B4	The income and revenue taxes in Zimbabwe are attractive to foreign investors					

### **SECTION B: Foreign investors and sectors privileged to tax withholding rate**

In the table below, be guided by the following scale: 1 – Strongly disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 – Strongly agree.

	<b>Foreign investors and sectors privileged to tax withholding rate</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
C1	The mining sector is an area dominates FDI in Zimbabwe as it is privileged with an attractive withholding tax rate					
C2	Foreign investors dominate in sectors privileged to tax withholding rate					
C3	The withholding tax rate is favourable to the extent that foreign investors are influenced to make a decision to invest in Zimbabwe.					

### **SECTION C: The extent to which tax holidays influence foreign direct investment inflow in Zimbabwe**

In the table below, be guided by the following scale: 1 – Strongly disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 – Strongly agree.

	<b>Do tax holidays influence foreign direct investment in</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
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	<b>Zimbabwe?</b>					
D1	Five year tax breaks offered by Zimbabwe have contribute to an influx in FDI in the mining sector					
D2	The issuing out of tax holidays to foreign firms gives Zimbabwe a competitive edge in terms of attracting FDI					
D3	Reduced taxes significantly contribute to more FDI flowing to Zimbabwe.					

**SECTION D: The influence of tax concessions in Zimbabwe on foreign direct investment**

In the table below, be guided by the following scale: 1 – Strongly disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 – Strongly agree.

	<b>The influence of tax concessions in Zimbabwe on foreign direct investment</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
E1	Government of Zimbabwe is selective in their provision of tax concessions in terms of industries which contributes to an increase in investments in the specific industries					
E2	Tax credits offered for corporate in Zimbabwe contribute to an increase in FDI					
E3	Tax concessions in the Zimbabwean economy influence foreign direct investment inflows					

**SECTION E: Relationship between FDI and GDP with regards to tax incentives**

In the table below, be guided by the following scale: 1 – Strongly disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 – Strongly agree.

	<b>FDI as a percentage of GDP and tax incentives?</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
F1	Change in FDI as a percentage of GDP is accredited to tax incentives?					
F2	FDI is attributable to a tax concessions in Zimbabwe					
F3	The influx of FDI in Zimbabwe is a result of the low withholding tax in the country					
F4	FDI and GDP have a direct relationship in Zimbabwe					

**THE END THANK YOU!**

## **APPENDIX II: PANEL DATA**

The following criteria will be used to source data panel data from various sources.

The model for the study has the following variables which are also described in the table.

$$FD I_{it} = \beta_0 + \beta_1(CTR)_{it} + \beta_2(TaxW)_{it} + \beta_3(TaxH)_{it} + \beta_4(TaxC)_{it} + \beta_5(Control\ Var)_{it} + \epsilon_{it}$$

<b>Variables</b>	<b>Definition</b>	<b>Data sources</b>
<b>Foreign Direct</b>	This is a measure of FDI as a share of GDP. Since	World

<b>Investment FDI</b>	the study seeks to establish factors that influence foreign investment, net inflows of FDI as a % of GDP are the most appropriate	Competitiveness Index Report (2000–2020)
<b>Corporate Tax Rate (CTR)</b>	The corporate tax rate measures the extent to which corporations are taxed on their income, profits, and capital gains. A low corporate tax rate is expected to attract and retain foreign investment	Price Waterhouse worldwide database (2000–2020)
<b>Tax Holiday (TaxH)</b>	This measures the most tax holiday given to investors within the economy in a given year. We will expect a score of zero if no tax holiday is given by the respective government. For a tax holiday of five years or much less, a score of one is allotted and for a tax holiday of greater than five years, a score of two is allotted	Price Waterhouse worldwide database (2000–2020)
<b>Tax Withholding TaxW</b>	Withholding tax is an income tax that is paid to the government by the corporation or employer rather than the employee. This shows how an economy treats strategic sectors which it wants to grow for the benefit of the whole economy.	Price Waterhouse worldwide database (2000–2020)
<b>Tax Concession TaxC</b>	This measures whether governments are selective in their provision of tax concession or whether these are given in all cases. Subsequently, if a nation offers no tax concession, the variable takes a score of zero. If tax concessions are declared for a limited number of industries, the variable takes a score of one, and assuming all businesses are offered tax concession, then the variable takes a score of two.	Price Waterhouse worldwide database (2000–2020)
<b>Gross Domestic Product (GDP)</b>	GDP per capita measured as a constant 2010 USD.	World Competitiveness Index Report (2000–2020)

### APPENDIX III: SIMILARITY REPORT

