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Can Zimbabwe Revenue Authority (ZIMRA) Stimulate Investment in Zimbabwe?

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Abstract
The authors seek to investigate Zimbabwe Revenue Authority (ZIMRA) if it can stimulate investment in Zimbabwe. The conclusion is that ZIMRA cannot stimulate investment without undergone major reform. Currently ZIMRA is unable to stimulate investment. There is a link on one side lower taxes and on the other side high savings and high investment rates. There is a need for ZIMRA to carry out reforms including stamping out corruption. The Central Bank of Zimbabwe should compensate depositors who lost money in their account in order to restore confidence in the banking sector.

Keywords*: Savings, Investment, Zimbabwe Revenue Authority*

1. Introduction

There is stiff competition worldwide to attract foreign direct investment (FDI). There are so many destinations including developed nations. However, there is another source of investment. A country can tap investment within it. However, it is based on savings. ZIMRA is mandated with the role of collecting all revenues for the government of Zimbabwe. ZIMRA levies amongst various sources pay as you earn commonly known as PAYE, value added tax known as VAT, excise duty etc. When ZIMRA collects revenue from workers through tax it affects their disposal incomes hence their savings and investment. Investment occurs from savings within the domestic economy. The higher the savings rate the higher is the rate of investment. The objective of this paper is to investigate whether ZIMRA can stimulate investment in Zimbabwe.

2. Background

ZIMRA was established on 19 January 2001 to collect revenues for the government. Prior to the setting up of ZIMRA, there were two departments entrusted to collect government revenues. These were the Department of Customs and Excise duties and department of Taxes. On 11 February 2000, the government of Zimbabwe enacted on Act that merged the two departments into a Revenue Authority (ZIMRA, 2014). The ZIMRA is empowered under the Act sections 23:11 to collect revenue on behalf of the government, they also deal with trade and travel facilitation and advertising the Government of Zimbabwe on matters relating to fiscal policy as well as economic matters.

In August 2013, the Government of Zimbabwe unveiled the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset) blue print which covers the period of October 2013 to December 2018. The objectives of the economic blue print is to attain sustainable development and social equity based on indigenization, empowerment and job creation via responsible harnessing of

Zimbabwe's resources both human capital and natural endowments (Government of Zimbabwe,2013). The economic blue print is subdivided into four different clusters namely; Food Security and Nutrition; Social services and Poverty eradication; Infrastructure and utilities development and Value Addition and Beneficiation (Government of Zimbabwe, 2013). There is no doubt given the strategic positioning of the ZIMRA that it is expected to play a major role in the ZIMASSET. One of the mandates of the ZIMRA is advising the Government of Zimbabwe on matters relating to fiscal as well as economic matters. It is therefore very clear that attracting domestic investment will largely depend on how the ZIMRA will behave or has behaved in the past in encouraging savings amongst Zimbabweans. In order to understand the relationship between savings and investment, it is important to turn to literature and discover what theory says.

Savings and investments done by individuals are essential for personal financial welfare as well as promoting economic growth. Many countries make effort to instill in their people to save more and also to save prudently. In most cases however, they face barriers which limit savings, they also face financial market exclusion and lack of sufficient information on financial products. It is therefore a critical success factor to understand the concepts of saving and investment especially in the developing nations. Further, there are behavioural and cultural issues which affect citizens' capacity to save. Policy makers have therefore come up with pragmatic regulations, consumer protection, financial rewards, financial education and awareness campaigns which promote in citizens prudent savings decisions (Lewis and Messy, 2012).

The classical and neo-classical economists agree that savings are equal to investments. In their view, savings is a portion of income that is not available for consumption. The transformation from savings into investment occurs within a very short period of time (Pavelescu, 2012). The most popular model that explains household saving is the one based on life cycle theory. It says that people will try to boost lifetime consumption by saving while they are earning income and use those savings during their retirement (Modigliani, 1986). So under this theory as individuals saves for their future consumption the funds which are deposited in the intermediary institutions are available for investment. No matter what motivates an individual to save, the bottom line is that such resources can be made into investment by an individual or by intermediary institution as a direct investment or as loanable funds which may find their way into investment. The lifecycle theory provides the motivation why individuals save. However when such funds are saved they become available for investment. The theory also shows that as individuals reach their retirement age, there will be frequent withdrawals from accounts for consumption purposes. For the intermediary institution to remain viable and continual to create opportunities for investment the young generation with the same motives as those passed retirement age will ensure that savings continual to come in.

According to Baxter and Crucini (1993) there is an association between saving and investment. There is a dynamic and robust conclusion that can be made that the association between saving and investment tend to be higher for large size nations. This simply means that the ability to save more is higher in large nations than in small nations. Large nations have big population and even through an individual can save very little but the aggregate savings will be very high. Savings from the earnings of individual households are potential source of investment. The investment multiplier and accelerator are just coefficients that highlight the association between variation in income and variation in investment (SSAG, 2012). So the higher the rate of savings from the individual perspective the higher the potential source of investment. Individual's income is also available for consumption. According to SSAG, (2012), Keynes developed a theory of consumption based on how critical is individuals' disposable income in influencing their level of spending. An increase in income gives individuals a leverage of financial endowments which they are to consume or to save. However it is the amount which they save theoretically it will be equal to investment. In other words or what is saved is assumed will be made into an investment. Investment is a key macroeconomic variable. It has an impact on output and income. Economic planners equate high rates of investment to sustainable economic growth. Many authors have provided empirical evidence of the association between investment and services (ESSO, 2010).

Mobilization of domestic resources in the Sub- Saharan Africa region is important in the development and State accountability (North-South Institute, 2010). The most held common view is that the level of domestic saving determines the level of interest rate which is the price of money for the cost of investment. Investment in turn determines the demand for new capital (ESSO, 2010). According to Le et al (2008) cited in Argeetey (2014) there is a constraint on the ability of developing nations expanding tax base more efficient and more equitable. The scope to expand tax base is subject to taxable capacity and the nation's original tax collection level. The empirical evidence indicate that negative effect of aggregate taxes, PAYE and consumption taxes as percentage of GDP have a major impact on saving rate. This evidence is in line with the common held view that effects of PAYE on household savings have a major impact compared to the consumption taxes. This means that if the same yield replacement is done of income taxes with consumption taxes, it would lead to high household saving rate (Tanzi and Zee 1998).

According to Le et al (2008) as cited in Argreetey (2014) posit that nations with very little tax collection and little drive in making progress in tax collection would need substantial reforms in respect of tax laws and tax administration. They say this is necessary for low and middle income nations. They point out that increasing collections of revenue should be one of the key goals for instituting reforms as long as efficiency and equity are taken into account.

Local stakeholders and global community are supposed to work together in increasing domestic resource mobilization. This should begin from the tax regime. Policy makers need to embrace business and investment environment. A pragmatic changes need to take place in tax laws and their administration in line with the path of growth and development (North-South Institute, 2010).

According to Adam and O'Connell (1997) the international financial crisis has decreased aid and foreign direct investment (FDI) flowing into African nations. The long standing belief is that FDI and aid limit the ability of harnessing domestic resources for development purposes in African nations. This leaves investment to be more domestically generated through domestic savings. The factors which determine differences in saving rates across nations are: the availability of welfare such as inexpensive healthcare and employment pensions decrease the desire to stock precautionary savings; economic instability leads to uncertainty and individual stock precautionary savings during crisis and use them during economic boom; the rate of growth in per capita income; when rate of interest are low the evitable is decreased saving; consumption goes up when it is easier to borrow; and individuals tend to save at the time they are working (Lewis and Messy, 2012; Barell and Davis,2007; Booth et al, 2000). However, incentives can influence savings. The incentives to save include: tax discount; tax concessions; tax exemptions for savings with recognised provider; tax free interest on bank deposits; tax exemption on government sponsored savings; and tax free interest on savings account (Lewis and Mess, 2012). Sometimes lack of trust in the banking system leads individuals not to save. Specifically they lack confidence and trust in the banking system ability to safeguard their savings (Deshpande, 2008; Lewis and Messy 2012). There are also variations in savings based on gender and form savings based on gender and form saving habits. Men save for a long term goal while women are interested in short term goals (Westway and Mickay, 2007).

3. Methodology

The authors of this paper have used historical approach to analyse whether Zimbabwe Revenue Authority can stimulate investment in Zimbabwe.

4. Results and Analysis

According to UNDP (2008) and Mzumara (2012) Zimbabwe through ZIMRA its tax revenue on wages and salaries is 10.8% against Sub-Saharan average of 7.4% of GDP. Generally taxation in Zimbabwe is very high compared to Sub-Saharan Africa due to punitive tax structure. ZIMRA collects 22.7% of GDP through taxation against the average low income countries of average of 12.9%. It is very clear that the tax structure in Zimbabwe is very high and goes against theory where investment is the function of savings. The practice by ZIMRA goes against the classical and neo-classical economists that savings should be equal to investment. This is in the sense that in Zimbabwe with such a high tax structure there is very little to save so very little or no investment takes place (Paxelescu 2012). A lower tax through tax incentives encourages savings (Lewis and Messy, 2012). However ZIMRA does not offer much in terms of tax incentives because it has very little or no fiscal space (UNDP, 2008; Mzumara, 2012). In order for ZIMRA to play a significant role in stimulating investment under Zimbabwe Agenda for Socio-Economic Transformation its tax structure should be such that it encourages savings. When households are taxed heavily, there is no scope to expect them to save hence nothing can be translated into investment. Unless ZIMRA can respect the link between lower taxes savings-investment it may not stimulate investment.

Further ZIMRA has missed its own targets in revenue collection. It is unable to collect enough revenues for the government. The government has persistently run a budget deficit (UNDP 2008; Mzumara, 2008). Given such scenario it is doubtful that the ZIMRA can collect enough that can give the government budget surpluses hence help it to invest in its programs and projects. However, the issue of budget deficit may not be entirely blamed on ZIMRA. Government fiscal indiscipline also leads to expenditure being greater than revenue. This may also call government exercising restrain on recurrent expenditure so there is no much pressure on ZIMRA. The failure of ZIMRA reaching its target can be seen in government living hand to mouth in paying its workforce.

Corruption at border posts by ZIMRA officials, clearing agents and members of the public also reduces the amounts ZIMRA collects and act as fiscal leakage. Unless corruption is uprooted ZIMRA will always fail to realize the revenue due to it as it goes into the hands of wrong people (Biti, 2010:2011; Mzumara, 2012).

In Zimbabwe there is another factor that affects the rate of savings. The loss of confidence in the banking sector when the economy was dollarized, in 2009 depositors lost all what they had in their accounts in Zimbabwe dollars. The Reserve Bank of Zimbabwe (RBZ) has not compensated millions of depositors who lost money in the banking system. This scares members of the public from saving in a bank. Further liquidity problem in banks leads to limited withdrawals which in some banks are not even available at all. This has also led to members of the public not saving with banks. What is happening is that individuals are keeping their money under their pillows hence the funds are not available for investment. So there is further loss in confidence in the banking sector.

5. Conclusions and Recommendations

Without major reforms in the Zimbabwe Revenue Authority it may not be able to stimulate investment. Currently ZIMRA is not stimulating investment. There is a link on one hand lower taxes and on the other high savings and high investment rates. Zimbabwe tax structures are high hence offer no incentives to savings. Savings are equal to investments. The inability of harnessing savings in Zimbabwe is not entirely the failure of the ZIMRA but also due to lack of confidence by members of the public in the banking system in Zimbabwe. Corruption is a leakage that erodes revenue collection.

It is recommended that ZIMRA should institute reforms in the tax structure to encourage savings. It is further recommended that the RBZ should compensate the Zimbabwe dollar depositors who lost when the country switched to multi-currency regime in order to restore confidence. The Central Bank of Zimbabwe should also deal with the issue of liquidity in commercial banks. ZIMRA should stump out corruption and reduce revenue leakages.

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