Poverty Reduction Forum Trust

March 2016 Policy Brief

Social and Economic Implications of Statutory Instrument 148/2015 on Travellers' Rebate: Whose needs Does SI 148/2015 Serve?

1.1 Introduction

The new global agenda on Sustainable Development Goals (SDGs) adopted by the United Nations on the 15th of September 2015, presents a much wider agenda compared to the original Millennium Development Goals (MDGs) in that, prominence is given to the role of domestic resource mobilization. Mobilization of financial resources beyond traditional development assistance and other external flows are recognized as crucial to ending absolute poverty and achieving the SDG goals. Domestic resource mobilization has become a topical issue particularly in many African countries, as many have historically relied on foreign aid to finance development plans. With suppressed growth in the global economy[1], delivery of financial aid is being affected therefore, African economies are being encouraged to mobilize more resources domestically and improve their capacity to do so for more sustainable growth[2].

However, for Zimbabwe, economic growth has been sluggish owing to structural weaknesses in the economy such as limited capital resources and deficient infrastructure. GDP growth declined from 4.5 percent in 2013 to 1.5 percent in 2015[3] undermined by low international commodity prices and drought. In order to stay afloat some firms have had to scale down operations, while some firms have closed down resulting in massive job losses. This has inevitably propelled the growth of the informal sector as it absorbs the victims of the job losses. According to the ZimStats Labour Force survey, in 2014 the country's unemployment rate stood at 11.3 percent from the 4.8 percent in 2011. The country's rankings on both the international and regional platforms have not been impressive. Zimbabwe still lies in the low human development category, with a poor ranking of 155 out of the 188 countries assessed in 2014 (UNDP HDI 2015 Report).

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[1] In 2015 Global economic growth was projected at 3.1%, which is 0.3 percentage points lower than 3.4% level in 2014

[2] Domestic resource mobilization refers to generating savings and taxes from domestic resources—and allocating them to economically and socially productive activities—rather than using external sources of financing, such as foreign direct investment, loans, grants, or remittances ACBF ACI Report 2015.

[3] Estimate

The government of Zimbabwe is constrained in its resource mobilization efforts and desperately takes upon any possible opportunity that can bring revenue. With an ever shrinking formal economy and an expanding informal sector estimated to be at 90% (ILO, 2014), the government has turned its eyes on the sector that is currently buoying the economy- the informal sector and is trying to find every possible way of getting this sector to contribute revenue to the fiscus.

In December 2015, the government of Zimbabwe through the Ministry of Finance and Economic Development , revised traveler's rebate through Statutory Instrument Number 148 of 2015 (Customs and Excise [General Amendment] regulations (No 80), in order to curb revenue leakages arising from the abuse of the Travellers Rebate facility. A Traveller's Rebate is a duty-free allowance which is granted to bona fide travellers and is subject to certain prescribed conditions of a country. Part XIII Subsection 114 of the Customs and Excise (General) Regulations, 2001, published in Statutory Instrument 154 of 2001 also referred to as "the Principal Regulations" deals with the "Rebate of Duty on Travellers' effects'. Over the years, several amendments have been made to the principal regulation Statutory Instrument (SI) 154 of 2001 subsection 114 which relate to travellers effects rebate. Statutory Instrument 2 of 2005 reviewed the travellers rebate upwards to US$300 as the country was facing commodity shortages due to price controls and high levels of inflation. Capacity utilization in 2009 for most firms improved to 32.3% from 10% in 2008, following the adoption of the multicurrency system but the traveller's rebate conditions remained the same. The rebate remained pegged at US$300, and a flat 65% rate of duty was then charged on the value of goods in excess of the travellers" rebate threshold of US$300 per calendar month (GoZ, 2009). However, no revisions were made on product restrictions and quantities individuals could import under the rebate, since at this time industry was not producing optimally due to the effects of the hyperinflationary period. Companies were facing challenges of lack of working capital, low product demand, antiquated machinery and lack of raw materials among others. According to the Minister, this development however, opened up opportunities for abuse as commercial goods for resale could be imported under the rebate, disguised as goods for personal consumption. In the 2016 National Budget Statement, the Minister of Finance and Economic Development made a pronouncement to curb this perceived abuse of the travellers rebate facility.

As part of these measures, the government made some amendments to the Principal Regulatory Instrument, SI 154 of 2001 through the gazetting of Statutory Instrument 148 of 2015 on the 31st of December, 2015[4] to come into effect from 1 January 2016. The amendments were specified by insertion of definitions in subsection (1) of transport services and transport service vehicles, repealing of the US$300 rebate in

[4] The regulation is cited as 'Customs and Excise (General) (Amendments) Regulations, 2015 No.80.

subsection (2) and also by insertion of paragraph (k) in Subsection (4) which adds goods imported by a traveller that are transported by a transport service to be excluded for rebate purposes.

By way of these amendments, government revised travellers rebate **from $300 to $200 for travellers in private vehicles and removed rebate on goods imported by a traveller and being transported by a transport service vehicle, which is drawing a trailer and is used for conveyancing of goods through a port of entry.**

The government's motive/rationale behind the statutory changes on travellers' effects rebate regulation can be classified into three categories:
(i) to enhance revenue collection for the country through curtailing the abuse of the facility by cross border traders;
(ii) to promote growth of the local industry through shielding them from import competition and
(iii) to address the country's current account or Balance of Payments position.

2.0 The socio-economic implications of SI:148/2015.

2.1 Effects of the Reduction in Rebate Value Threshold

Despite the good intention by the government to increase revenue, through these amendments, those mostly affected are the cross-border traders whose source of livelihood is from buying and selling goods. Some of the negative impacts are that:

- Informal Cross border traders and other poor travellers were benefiting from the rebate of $300, as they could bring in more goods for personal consumption as well as for their families duty-free. However, the reduction of the rebate to $200 has a direct impact on the amount of goods they can now bring in.
- The appreciation of the US$[5] against the South African has contributed to loss of competitiveness of the Zimbabwean products as South African imports become even cheaper. Cross-border traders especially women, prefer to bring groceries for the family consumption instead of bringing in hard cash which will not afford them the same amount of goods as indicated by an analysis undertaken by PRFT below:

[5] The US$ is currently the most used currency in Zimbabwe's multi-currency economy.

Table 1: Basics purchased by women taking advantage of the weak US$/Rand				
Item	Cost in Rand	Cost in US$	Cost in Zim	Difference in US$
5 L cooking oil	72R	US$4.55	US$7.000	US$2.45
1 kg Powdered milk (Ellis brown/ cremora)	32R	US$2.02	US$ 3.79	US$1.77
2 kg surf (OMO)	33R	US$2.08	US$ 5.55,	US$3.47
1 tablet Protex bathing soap	7R	US$0.44	US$ 1.30	US$0.86
Bar green soap	9R	US$0.56	US$ 1.20	US$0.64
Box 100 tea bags	11R	US$0.69	US$ 2.90	US$2.21
5kg macaroni	35R	US$2.21	US$ 5.95	US$3.74
1 packet spaghetti	7R	US$0.44	US$ 0.60	US$0.16
TOTAL	**206R**	**US$12.99**	**US$28.29**	**US$15.30**
Source: PRFT Analysis, February,2016				

- The list of goods no longer qualifying for travellers duty rebate also keeps growing. Currently the goods exclude blankets, refrigerators, laundry soap, cooking oil, stoves, beds, mattresses, flour, maize meal, sugar, meat, fish, powdered milk, yoghurt, cheese, eggs, corn puffs, jam and honey. Imports of such goods are subject to customs duty which continues to be reviewed upwards. Most cross-border traders cannot afford to buy these goods locally and are therefore forced to cut on the quantities and/or compromise on the quality of goods they purchase.

- The Poverty Reduction Forum Trust Basic Needs Basket surveys for March 2016 revealed the following monthly cost of basic needs: Bulawayo($442.20), Gweru ($561.58), Mutare($588.26) and Shurugwi (586.06). These amounts are way above the household monthly income which on average were $224.00 during the same period. Most of the residents surveyed are informal traders and cross-border traders who are directly affected by the statutory instrument amendments as it is now more expensive for them to subsidize their consumption by importing goods from neighbouring countries.

2.2 Effects of the Changes in Transport Vehicles Used for Conveyancing Goods through Ports of Entry

By specifying that the rebate shall not apply to '*goods imported by a traveller and being transported by a transport service vehicle, which is drawing a trailer and is used for conveyancing of goods through a port of entry'*, the government is prejudicing the poor people and informal traders who use such transport facilities. The unilateral decision by government to classify such goods as commercial cargo puts those informal cross border traders merely using such means for ferrying personal goods at a disadvantage compared to other travellers using private vehicles importing similar goods. The decision is discriminatory as mostly the poor use such modes of transport, normally in groups, as a cost-cutting measure.

In addition, as a result of these amendments, the cross-border traders now have to contend with:

(a) increased time delays as the Revenue Collection Authority will seek to ensure that every good entering the country is screened and declared.

(b) This new development has the potential to increase corruption and smuggling of goods and the desired revenue will not be realised.

1.4 Key Policy Recommendations

1. **The government should adopt an inclusive growth strategy for the country to achieve sustainable economic growth that can eradicate poverty and address challenges of the informal sector**. The extent to which economic growth broadens improvements in economic opportunity and living standards is influenced by an interdisciplinary mix of structural and institutional aspects of economic policy.

2. **The government should ensure transparency and accountability on what informs the policy**. Transparency on what informed the changes in travellers' rebate policy is important for it to be better understood and received by the targeted audience and also for accountability purposes. For instance, it is not publicly known how much Treasury has lost through keeping the rebate at $300 and the perceived abuse of the facility. The knee-jerk reaction is now punishing the cross-border traders and killing their source of livelihood.

3. The Informal traders call for progressive taxation instead of presumptive taxes that leave them more vulnerable.

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