

SOME IDENTIFIED ISSUES WITH IMPLEMENTATION OF BANK OF GHANA'S POLICY ON LETTER OF COMMITMENT (LOC)

As part of its research functions, the GEPA regularly gathers and processes raw export data into reports, which are then analyzed for decision making.

Analysis of export statistics of the period January to December -2019 revealed that, among other things, the implementation of Bank of Ghana (BoG) policy on Letters of Commitment (LOC) led to a fall in export performance of articles of plastics, aluminum plates/sheets (*which were part of top ten processed non-traditional export products in 2019*) and other products in the manufacturing sub-sector. A negative growth in the Agricultural subsector was also attributed to the implementation of LOC, among other factors. Indeed, the handicraft subsector was equally adversely hit by the LOC, although the subsector achieved a marginal growth.

The analysis therefore concluded that but for LOC related issues encountered by exporters, earnings from the sector would have attained and surpassed US\$3 billion.

During 2018, a collaborative effort among GEPA, GRA-Customs Division, and Ghana Institute of freight Forwarders (GIFF), led to a conduct of a sensitization program for creating awareness among exporters and freight forwarders regarding the need to ensure accurate export data entry during customs declaration to prevent data loss. The activity revealed an overwhelming concern that the LOC system has adversely affected export flow due to system blockades leading to delays of shipment, hence reduced export volumes and in extreme cases loss of export contracts.

Identified Issues:

- **Scope of LOC**

The implementation of the LOC originally covered some traditional export products until later caused to also cover all non-traditional exports products, including; head-loads traded across Ghana's border, and even personal effects.

- ***Reduced export volume and consequently earnings***

The implementation of LOC has unfortunately slowed down export flow of several exporters of non-traditional export products (and at least in one case, loss of export orders), thus a slowed down the growth pace of the sector hence affecting projected targets.

- ***Loss of competitive edge due to strict and limited deadline for repatriation of export proceeds.***

Some medium to large scale manufacturing firms, grant up to 120 days credit as payment terms in supply contracts. Such payment terms afford them leverage in clinching business deals over their competitors.

The 60 days stated period for repatriation of export proceeds under the LOC policy has therefore eroded the leverage the Ghanaian companies have over their competitors. Hence export performance of such firms have declined.

- ***Discounted or loss of export revenue***

There are situations beyond the control of an exporter that lead to changes in parameters chemical composition as against stipulated ***product quality specifications*** provided in a contract or purchase order. Such situations could lead to outright rejection of consignments or discounting of value of product.

The LOC policy does not provide a clear path as to what procedures exporters should follow when such unfortunate situations befall them, so as to avoid blockade of export system in their efforts to undertake shipments to different buyers in the same or different destinations.

- ***Bank charges***

International funds transfer generally attracts charges by beneficiary banks before beneficiary's account is credited. Hence, export proceeds as repatriated is credited to beneficiary's account less the beneficiary bank charges.

However, the LOC system does not make room for effect of bank charges on total expected export proceeds. Consequently, LOC system ends up blocking export declaration process because repatriated export

proceeds as credited to the exporters account is less the value of bank charges.

- ***Advance payments through banking system for export consignment***

Exporters that receive advance payments (ie. 100%) prior to shipment of consignment to buyers also experience system blockades. This so happens because the LOC system does not generate or assign reference number to cover export transactions for which advance payment has been made.

In some situations advance payment is received for export transaction for which shipment has to be made in 2 or more separate parties. In situations such as this, each party's customs declaration process draws a unique LOC reference number.

However, since full payment have been made prior to the shipment, if there is a delay by a commercial bank to tag a specific LOC reference number -of a specific shipment party- to the already received payment, subsequent shipment party is blocked by the LOC system.

- ***Non-availability of unique LOC reference number for cash payment for exports by businessmen that have sold products in Ghana from other member states.***

Exporters that receive cash payments for shipments, especially in cross border transactions, do not obtain or generate LOC reference number prior or during the receipt of cash payment for consignment. However, LOC reference is generated (for the already paid for consignment) during customs declarations.

Meanwhile, because the cash payment was not a direct bank transfer, it becomes difficult to tag the LOC reference number generated during customs declaration to the direct cash payment in the banking system.

Consequently, subsequent shipment of the exporter is blocked by the LOC system

It is important to note that some direct cash payment -for export transactions- is made by buyer, who arrives in the country to transact

business. For example, a businessman from Burkina arrives in Ghana with onions, then sells the onions and applies the proceeds thereof (in direct cash payment) for buying salt for shipment to Burkina.

- ***Utilization of company's export proceeds for procuring of production inputs (raw material, equipment, packaging materials, etc.)***

Since not all factors of production for manufacturing firms can be fully obtained domestically, some manufacturers utilize part of their export proceeds to pay for inputs (raw materials, consumables, packaging materials, equipment etc.) for production that are obtained from import sources. In such situations, the full amount of export proceeds would not be repatriated into Ghana.

However, the LOC system does not make provision for advance notification of intentions to appropriate part of export proceeds for procuring or payment of imported production inputs.

- ***Time loss between declarations through MPS permit to sailing of vessel. Compounded when vessel is missed.***

As soon as export declaration process is done, the LOC count down to 60 days (in anticipation of repatriation of export proceeds) begins in earnest.

Meanwhile, export consignment does not get on board shipping vessels immediately after customs declaration. It can take 1-15days and in some instances more days before consignment starts sailing to expected destination.

The longer the lag between the start of LOC count down process and the start of movement of consignment to destination is likely to affect schedule for repatriation of export proceeds vis-à-vis 60 days count down.

- **Delay in updating system by banks after being provided with transaction details by exporters.**

As there is no unique LOC reference number to cover transactions for which advance payments have been made, it becomes imperative for exporters -that have received advance payment- to present LOC reference numbers generated during export declaration of various shipment parties to banks to tag same to relevant portions of the advance payment received.

In presenting the LOC reference number for tagging against prepaid funds, exporters tend to deal with relationship managers in their respective banks because of non-availability of dedicated desks that handle LOC matters. As relationship managers happen to be managing several relationship portfolios with several responsibilities thereof, the urgency needed for tagging LOC reference numbers against prepaid funds lags.

This causes delay in system updates hence leads to blocking of system.

- **Availability of TIN to cross-border traders**

Some challenges encountered in cross-border trade of goods from the local market by Ghanaians or ECOWAS citizens is the utilization of TIN, which may not be available for the Ghana or for certain the ECOWAS citizen. Meanwhile, a freight forwarder cannot use his/her TIN to initiate LOC on behalf of the one moving the goods.

In such a scenario, smuggling through unapproved routes presents itself as an option to the parties for moving consignment across the border. When smuggling eventually takes place loss of export data occurs, thus marring the accurateness and integrity of trade data churned out by the country.

- **Mandatory bank registrations**

Annual mandatory bank registration also leads to LOC blockages, due to the elaborateness of and delays in the process.

A recent scenario is provided where an exporter started LOC on Thursday, 31st December 2020, but could not complete the process during the day. The next working day happens to fall on Monday, 4th January 2021, in a new year. Given the New Year, the LOC process the

commenced on 31st December 2020 but was not completed cannot continued. This is because the exporter has to, mandatorily, go through a fresh registration with their respective banks, and then start the LOC process afresh.

The exporter on Monday, 4th January 2021, therefore commenced a mandatory bank registration that took the whole day for approval status to be obtained. Customs declaration process therefore started on Tuesday, 5th January 2021 and then followed by other processes for obtaining permit/approval for moving consignment to relevant terminal.

The complex nature of the registration process, in some cases, makes it impossible for meeting gate-in time for consignments for exports.

- **Non amenability of LOC**

LOC, once completed cannot be altered or amended. This therefore leads to blockade of the system.

Exporters would normally ask their forwarding agents to start working on documentation processes ahead of arrival of shipment at the port. It so happens that for some technical or environmental reasons there happens to be difference in consignment weight after subjecting the cargo to Verified Gross Mass (VGM).

The difference in weight would reflect a difference in value of goods payable by consignee. In a case of a lower VGM relative weight keyed into LOC, because the weight on the LOC is higher than the weight provided by the VGM, the value of the shipment as keyed into the LOC would be higher than value that would be on the final invoice to the consignee.

Consequently, export proceed to be repatriated to exporter would show values lower than that captured in the LOC. This situation would there trigger LOC blockades.

Meanwhile, if a freight forwarder decides to create a fresh LOC as a way correcting a wrong version, the wrong LOC cannot be deleted and so remain in the system thereby provide wrong signals for LOC system blockades against future export declaration process of the exporter.

Conclusion

The foregoing issues require both policy decisions and capacity building session (cross-country sensitization and feedback programs).