

## **An Analysis of Trade Facilitation at the Ports and Borders of Ghana: Implications on the Mobilization of Government Revenue**

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### **Abstract**

*Academic literature on the processing of goods for clearance at the borders depicts lots of challenges confronting importers, exporters, freight forwarders, Customs and stakeholders at the borders. This research was conducted to find out the challenges impeding the fast and smooth clearance of goods at the borders and the subsequent effect on government revenue mobilized by Customs. The study identified challenges in the clearance processes at the borders to include wrong tariff classification, under/over valuation of goods by traders, multiple agency examination of goods, delays in issuance of permits and exemptions, corruption, smuggling and low staff morale. The study recommended enhancing both customs and freight forwarders technical capacities, a strong post clearance audit system, the formation of trade consultative groups and the establishment of trade facilitation departments or committees at the borders, and tax education based on risk profiling of traders/agents.*

**Keywords:** Trade facilitation, revenue mobilization, simplification, procedure and clearance.

### **1. Introduction**

Trade facilitation is, “the simplification and harmonisation of international trade procedures, where trade procedures are the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade” (World Trade Organization, 1998). The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) and the Asia-Pacific Economic Cooperation (APEC) argue that trade facilitation involves making trade procedures simple, standardized and harmonizing procedures and related trade information, necessary to enable the transfer of goods from the seller to the buyer and making payments (OECD, 2009; UN/ESCAP, 2013). Hufbauer and Schott (2013), revealed that the implementation of the Agreement on Trade Facilitation (ATF) by World Customs Organization (WCO) could increase global exports by US\$1 trillion, with a resultant increase in global GDP by US\$1 trillion and creation of employment for about 21 million people.

Even though WTO is focused on border procedures, factors such as the role of the individuals in the supply chain, efficient port infrastructure, good transportation system, efficient payment system (including electronic payment for duties and taxes), and other similar services are all important in ensuring effective trade facilitation. Notwithstanding the benefits of the ATF implementation programmes, some countries including Ghana, have encountered problems in undertaken trade facilitation initiatives. Moise (2004) identified costs as one of the factors militating the implementation of trade facilitation measures. The others include: a) costs associated with coming out with either new regulations or making amendments to existing laws; b) cost of change management (change behaviour and create new departments as the case may be such as post clearance unit, devising new ways of sharing information and working together) and c) the cost of obtaining equipment or putting up infrastructure to enable a successful implementation of a trade facilitation program.

The Asia Pacific Foundation of Canada (APFC) (2000), identified Customs procedures as the main challenge to trade, following a survey of 461 companies in the Asia–Pacific region. Customs revenue forms a greater part of tax revenue for many countries. For instance in Ghana, Customs revenue constitute about 50 percent of total tax collected (CEPS News, 2007); 49.8% in Sierra Leone, 44.5% in the Gambia, 18.4 percent in Burundi, 0.9percent in Israel, 71.5% in Kuwait and 20.2 percent in Panama (Wulf & Sokol, 2004).The WCO (2014) identified increase in cross border trade, improvement in border clearance procedures, transparency, and compliance by traders, as some of the factors that can help increase revenue collection.

The Customs Division of the Ghana Revenue Authority, which is mandated to collect import and export duties, have over the years sometimes not achieved their revenue target, as a result of inherent factors militating against trade facilitation. The Ministry of Finance (2013) estimated international trade taxes, to beGH¢4.7 billion, representing 3.5 percent of GDP and 18.5 percent of total tax revenue (Ministry of Finance - Ghana, 2015). This is expected to be largely driven by import duties, estimated to be about 75.4 % of the estimated international trade taxes (Ministry of finance- Ghana, 2013). However, these projections are hardly realised due to factors hindering trade facilitation. This study attempts to identify some of the factors impeding the fast and smooth clearance of goods at the borders and the subsequent effect on government revenue mobilized by Customs.

## **2. Materials and Methods**

In order to establish the relationship between trade procedures compliance level and the effect in mobilizing revenue, the study adopted both the positivist and the interpretivist approaches. Total samples of 278 members were drawn from a population of 1000 from Customs, Ghana Institute of Freight forwarders and the Destination Inspection Companies (DICs) for the study. Data was collected by the use of questionnaires, interviews and by observation. The active response rate was 93.53 percent. The Statistical Package for Social Sciences (SPSS version 20) and Autoregressive Integrated Moving Averages (ARIMA Model) were used to analyse quantitative data. The study methodology leaned towards the positivist and interpretivist traditions as data collected was both quantitative and qualitative The positivist approach was adopted by using quantitative methodology in gathering data, while the interpretivist approach was used to seek the opinion of people engaged in the clearance process and to solicit their individual views.

The study was conducted at the major ports and borders of Ghana, namely; Kotoka International Airport (KIA), Tema harbour, Aflao border and Elubo border and the Destination Inspection companies (BIVAC International, Gateway Services Limited (GSL), Inspection and Control Services (ICS), Ghana Link network services, and Web Fontaine Ghana limited).The rationale for selecting these study sites is because Tema accounts for more than 85% of Ghana's trade, KIA is the sole airport that handles air cargo in Ghana and finally, Aflao and Elubo borders represent the biggest and busiest land borders, for Custom's revenue collection. We initially selected 1000 members from Customs officers, freight forwarders and DIC staff, to administer the questionnaires. However, this number was subsequently scaled down to 278 members at 95% confidence level, with a  $\pm 0.5S.E$ . Following Saunders et al., (2009).They include: 153Customs officers from (Tema harbour = 56, KIA = 42, Aflao = 28, Elubo = 27), 108 freight forwarders (Tema = 42, KIA = 28, Aflao = 19, Elubo = 19) and 17 DICs (BIVAC = 5, GSL = 3, ICS = 3, Web Fontaine = 3, Ghana link = 3.

## **3. Statistical Analysis**

A linear regression was used to evaluate the relationship between measured variables and revenue mobilization, using Statistical Package for Social Sciences (SPSS version 20). Qualitative data was analysed using content analysis. A time series analysis was performed using ARIMA Model (Autoregressive integrated moving averages), to determine the trend in revenue mobilization over the last12-year period (2003 – 2014) and to project future revenue trends in the next 6 years, on Statistic a version 10.0 software. The assumption for using ARIMA model is that the seasonal periods are known (Barnette & Dobson, 2010). However, for projected future revenue mobilization to be realized, the following assumptions must be considered: (a) the volume of trade will not fall; (b) the amount of exemptions will be maintained or reduced; (c) compliance level of traders will improve and (d) trade facilitation reforms will be undertaken. Revenue data were subjected to a student t-test to determine whether annual revenue mobilization varied significantly.

#### **4. Results and Discussion**

The survey conducted revealed that obtaining permit and exemption (45%), classification of goods (40%) and valuation of goods (40%), were the most problematic confronting Customs in the clearance process, across the ports and borders (Figure 1). These findings were similar to those identified by APCF (2008), when they conducted a study on the challenges faced by Customs in developing Countries. Duval (2008) listed Customs valuation and tariff classification as factors militating against trade facilitation, while Bosche and Zdouch (2014), revealed that tariff classification, goods valuation and how to identify the country of origin of imported goods, are the factors hindering revenue collections. The results from this study further showed that inability of importers to select the correct Customs procedure codes in processing their documents, limited knowledge of some Customs house agents about customs procedures and late/incomplete submission of trade documents to Customs, as other factors affecting trade facilitation.

The causes of delay in clearance processes as shown in figure 2, were largely attributed to physical examination (58%), followed by tariff classification (40%), goods valuation (40%) and delay in receiving permits and exemptions (51%) from institutions. Duplication of functions by some government agencies in the clearance process was a contributory factor in clearance delay process across borders. For example an import of pharmaceuticals requires Customs laboratory to certify with the chemical composition of imported drugs before allowing payment of duties and taxes, Ghana Standards Authority to analyse the quality of the drugs, while Food and drugs Authority will also conduct the same analyses on the drugs, even though the imported consignment was registered with them (Food and Drugs Authority) before importation. This duplicated role of assessment is applied to the importation of communication equipment, where permit and certification is issued from the National Communication Authority, followed by similar clearance from Ghana Standards Authority on the quality of the equipment.

The combined effect of these factors has the tendency to impact on revenue mobilization. The study revealed that approximately 23 agencies at the Tema harbour were engaged in physical examination of consignments which led to unnecessary delays. The number of clearing agencies identified in this study, confirms a Report by B&FT (2015), to the effect that excessive physical examination of goods at the Tema harbour, by 23 agencies was a major cause of delay in clearing goods. Delay in clearance partly contributed to 76% increase in smuggling, 55% suppression of invoice/documents and 53% corruption (Figure 3). These phenomena could lead to low revenue mobilization. Smuggling was identified as the main reason for Customs inability to meet its revenue targets sometimes as it involve the use of unapproved routes to get goods into Customs territory. This was followed by under invoicing, over invoicing, misclassification and misdescribing the goods by traders.

#### **5. Revenue Estimates for the Customs Division of Ghana Revenue Authority over a 12-year period (2003 – 2014)**

Table 1 shows actual revenue collected by the Customs Division of the Ghana Revenue Authority for a 12 year period. Although the 12-year period showed that actual revenue mobilization increased from GHc 713.92 million in 2003 to GHc 6,863.05 million in 2014, and represented 89.6%, cumulative annual increase was not significantly different ( $p = 0.22$ ,  $t\text{-test} = 1.256$ ) (Table 1). This could be attributed to factors like under-invoicing, under-declaration by importers, smuggling and corruption among Customs officers and Customs house agents. Projected revenue mobilization for the next six years, indicates that revenue will increase to GHc 8,000 million by 2019 (Figure 4), with marginal variations on annual basis.

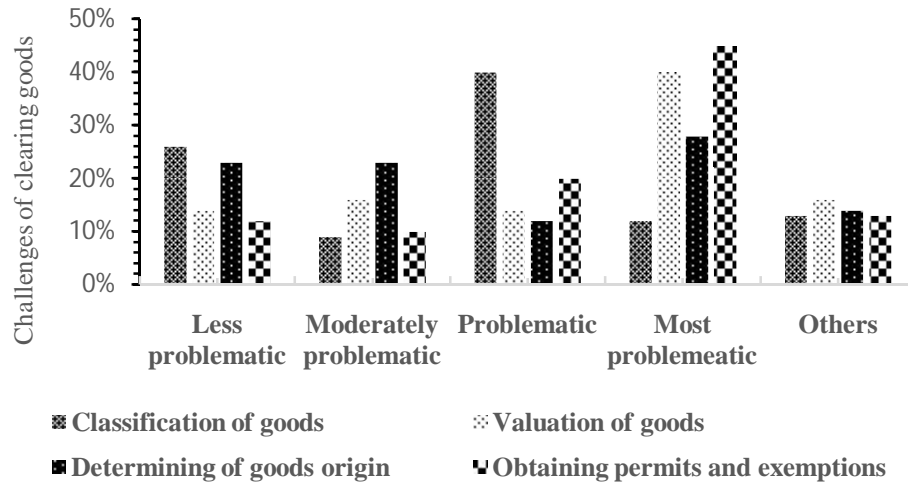
#### **6. Conclusion**

Our study revealed that three factors namely; obtaining permits and exemptions (45%), tariff classification (40%) goods valuation (40%), and physical examination (58%) were the most problematic confronting Customs in the clearance process, across the ports and borders. While the causes of delay in clearing processes were largely attributed to physical examination, classification and valuation and delay in receiving permits and exemptions were institutional. Delays in receiving permits and exemptions were caused by government institutions whereas the issue of classification and valuation were caused by Customs house agents. These significantly impact on revenue mobilization which in most cases is always on the decrease. Thus to improve on revenue mobilization through trade facilitation at the ports and borders:

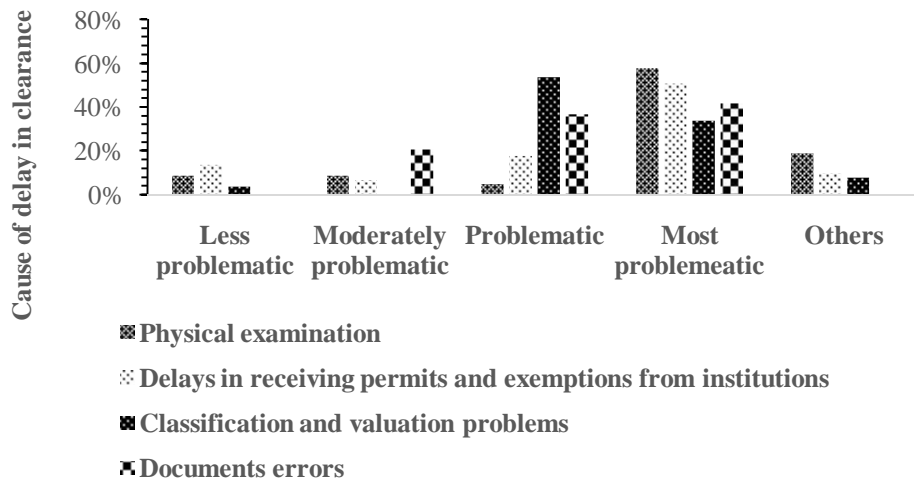
- Customs should identify major areas at the borders and ports that can be used to smuggle goods and ensure that highly taxable goods do not disappear;
- Government should take a second look at the various functions of her agents operating at the border to avoid duplication of functions;
- There is the need to build the capacity and technical knowledge of Customs and all those engaged in the classification, valuation and selecting the right CPC. A change in the country of origin and mis-description of goods should attract severe punishment from Customs;
- Close collaboration between Customs and the trade community (traders and agents) to share intelligence and identify smugglers;
- Government should establish a trade facilitation body that will concern itself with improving efficiency and trade facilitation in cross border trade. This organization should be representative of all key stakeholders;
- Trade consultative groups should be formed at the local, regional and national level;
- Customs should assess noncompliance risks and prioritize resources. For example which area of noncompliance needs greater attention-declaration preparation, tariff classification and goods valuation;
- Institute a national trade and tax dialogue week that will bring all the appropriate bodies together including the academia to discuss and propose issues that will shape the trade business and the appropriate benefits to gain;
- Training programmes on Customs clearance and procedures must necessarily involve the importers, exporters and their agents. The reason being that the importers and exporters are the originators of the documents that their agents handle;
- Government should consider the establishment of Trade and Passenger Facilitation Department (TPFD) at the KIA, Trade Facilitation Department (TFD) at Tema Harbour and Trade and Border Facilitation Committees (TBFC) at the various borders across the country and finally
- Government should ratify the WTO trade facilitation agreement.

To improve revenue mobilization through trade facilitation, it will also require instituting four thematic measures as described below and represented in the conceptual framework (Figure 5).

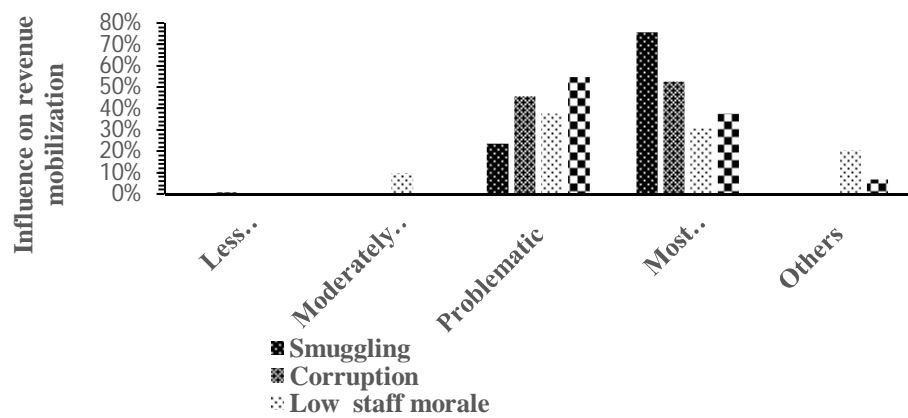
- a. Transparency** - which involves: (a) prompt publication and notification of trade procedure requirements such as the regulations, the laws, advance rulings and other related information that is accessible to the trade community and the general public; (b) publish the time for which new trade procedures and laws will take before entering into force; (c) establish points of enquiry at borders and ports; (d) non-discriminatory application of trade laws and regulations and (e) publish appeal procedures against trade decisions issued by Customs.
- b. Simplification** of trade procedures will include: (a) permit traders to make payments for goods from any commercial bank recognized by the Bank of Ghana; (b) accept payment for goods from the traders in bank draft, direct payment and electronic transfer; (c) co-location of Customs and other regulatory authorities; (d) design, analyse, implement and effectively use a single window that will require trade documents to be submitted once and pre-arrival assessment of goods by the use of Information and Communication Technology (ICT); (e) establish and effectively use post clearance audit (PCA) and (f) standardize information requirements for Customs procedures and all regulatory agencies and use a single document.
- c. Cooperation/Collaboration** among regulatory agencies, through: (a) alignment of the work processes and procedures of Customs and the regulatory agencies backed by law; (b) make Customs and the regulatory agencies understand their collective goal and benefit of cooperation; (c) requirement for compulsory sharing of information among the regulatory agencies; (d) joint training for all regulatory agencies both at the border/ports and at the national level and (e) effective way of managing the relationship of the regulatory agencies.
- d. Consultation** with stakeholders and trade community, through: (a) adequate consultation with the trade community when amending regulations and rules regarding trade procedures; (b) effective consultation with the trade community when introducing new trade procedures; (c) regular meetings with stakeholders with adequate representation; (d) establishment of trade consultative bodies at the local, regional and national levels; (e) opportunities for stakeholders to make input into regulations, laws and policies before they are implemented with adequate notice and (f) consultations between Customs, the trade community, the general public and the academia towards trade policy reforms.



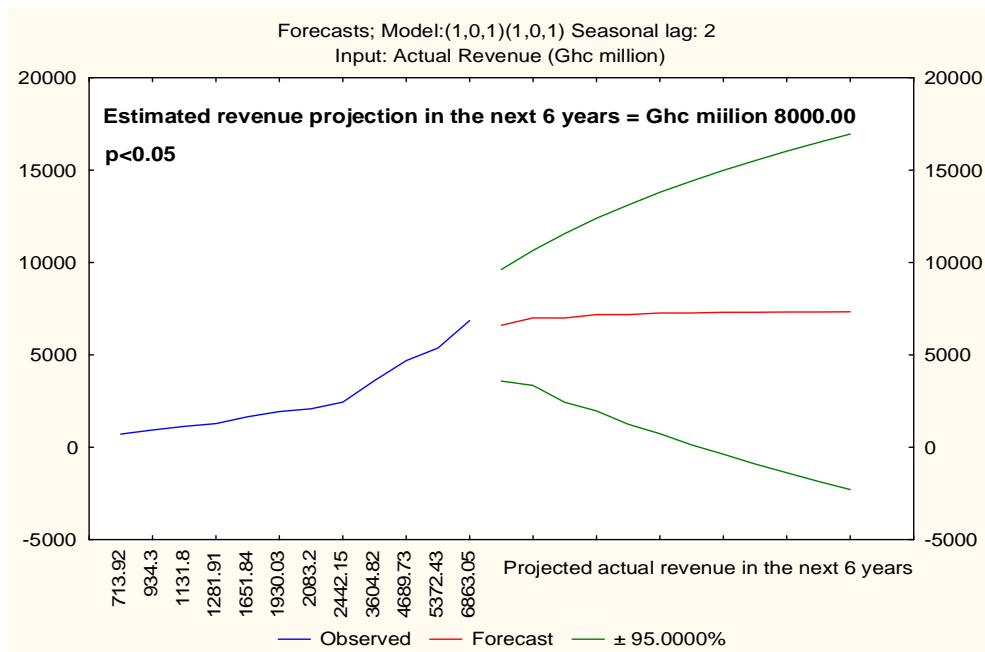
**Figure 1: Graph showing the gradation of challenges of clearing goods at the ports and borders**  
 Source: Field data, 2015.



**Figure 2: Graph showing majors of causes of delay in clearing goods at the ports and borders.**  
 Source: Field data, 2015.

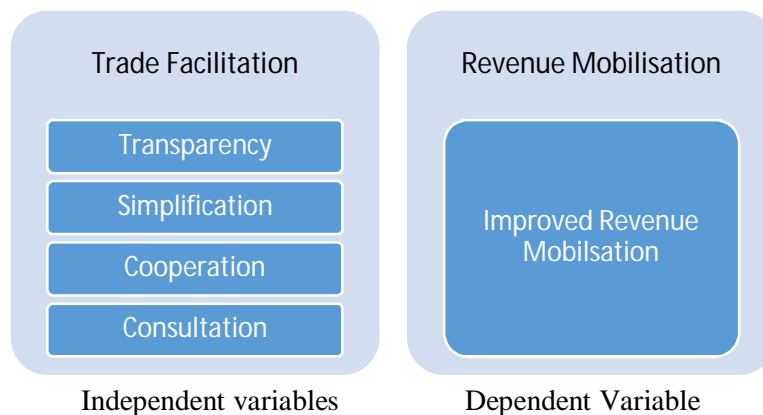


**Figure 3: Graph showing factors accounting for low revenue mobilization.**  
 Source: Field data, 2015.



**Figure 4: Graph showing projected revenue to be mobilized by the CD of the GRA for the next 6 years (GHC million).**

Source: Field data, 2015.



**Figure 5: Conceptual framework of trade facilitation and revenue mobilization**

**Table 1: Actual revenue collected by the Customs Division of the GRA**

Year	Actual Revenue (GHC Million)
2003	713.92
2004	934.30
2005	1,131.80
2006	1,281.91
2007	1,651.84
2008	1,930.03
2009	2,083.20
2010	2,442.15
2011	3,604.82
2012	4,689.73
2013	5,372.43
2014	6,863.05

Source: Ghana Revenue Authority, 2015.

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