AGI
Association of Ghana Industries

AGI's INPUT TO MID-YEAR NATIONAL BUDGET REVIEW 2024

1.0 Introduction

This document presents some of AGI's policy proposals to offer some relief and prospects for growth of local industry in the next budget statement and economic policy of Government.

The Association of Ghana Industries (AGI) believes only a private sector-led industrial development with mutual support from Government will help accelerate recovery and the structural transformation of our economy, even as Ghana goes through the IMF program.

The present economic situation also precipitates the need to incentivize local industry in order to develop local value/supply chains for self-sufficiency in food, medical supplies and basic items, among others. These will boost local production, job creation and revenue generation within the short to medium term. Without Government support, the revenue measures as introduced since last year, the forex situation and high utility tariffs could stifle investments, growth and employment prospects, going forward. It is AGI's expectation that Government's Medium-Term Revenue Strategy (MTRS) and the Post Covid Program for Economic Growth (PC-PEG) of Government, will inure to the benefit of our Industrial Transformation Agenda.

2.0 Proposals

2.1 Scarcity of foreign exchange

Unfortunately, a good majority of the raw materials needed by our local industry is imported using forex that is hard to come by. This makes it very expensive to import as businesses have to buy forex at high exchange rates to import. Indeed, the cedi depreciation continues to drive inflation and fuel prices. The repatriation of export proceeds has become more crucial for building a strong national currency reserve and macro-economic stability.
AGI recommends the following, inter alia;

AGI will like to see the BoG deepen enforcement of its laws on the repatriation of export proceeds, thus

- Exporters are required to repatriate proceeds from merchandise exports in compliance with the Letter of Commitment (LOC) regime.
- Exporters who fail to repatriate proceeds through an external bank are in breach of Act 723 and are liable to a fine of not more than 5,000 penalty units or to a term of imprisonment of not more than ten years or to both.
- Exporters have 60 days after the sale of their products to repatriate funding.
- The exporter's bank shall be responsible for monitoring export proceeds repatriated to the exporter's FEA based on the information provided by the exporter.

Secondly, AGI recommends that BoG prioritizes the allocation of forex to registered local manufacturers under AGI, in view of the frequent scarcity.

2.2 Govt. expenditure

While we are happy that the Fiscal Responsibility Act has been re-instituted to ensure prudent expenditure by Government, especially in this election year, we expect that the tenets of the Act will be strictly adhered to, in order to maintain macro-economic stability in both the short and long terms. AGI believes these decisions will help chart a better path for Industry in Ghana while working closely with Government to build a stronger economy.

2.3 VAT and Import Duty/Levies exemption for locally produced diapers

Local manufacturers of hygienic diapers in Ghana have requested, for exemption from VAT and Import duty/levies on their imported raw materials to make such product more affordable and as well protect the industry from unfair competition and imminent collapse. Already local diaper manufacturers have been under pressure from imported diapers which sell at such closeout**.**

Currently, medical supplies**,** essential drugs as listed under Chapter 30 of the 'HS Code' produced or supplied by retail in Ghana, specified active ingredients for essential drugs, and selected imported special drugs determined by the Minister for Health and approved by Parliament enjoy exempt regime. It is only fair to extend similar dispensation to diaper users.

AGI's position is that such exemption /reliefs should only be limited to locally produced diapers since there is adequate capacity to satisfy the entire market and even export.
Local manufacturers believe their diapers will become more affordable to impoverished communities if granted such tax reliefs on the raw materials imported.

Table 1

Item	National demand	Total Installed capacity	Current production capacity
Diapers	1 billion pcs /yr	3 billion pcs/yr	2 billion pcs/yr

Source: Sunda FM Manufacturing Co.

Our local diapers manufacturers remain committed to reducing the consumer prices of their diapers, if granted the aforementioned reliefs for imported raw materials. AGI intends having an arrangement with Government for transparency to ensure that the benefits translate into reduced prices for consumers. The cost structure including production costs and margins on production will be made available by each manufacturer.

2.4 Multiplicity of taxes

Multiplicity of taxes as a major challenge also continues to featured prominently in our Business Barometer reports from 2023 to date. Anecdotal evidence suggests a surge in cases of unfair trade practices such as smuggling possibly to avoid the taxes.

Table 2: Taxes on imports

Description	**Tax rate** (%)
Import duty	5.0
Import VAT	15.0
Processing fee	0
ECOWAS levy	0.5
Network charge	0.4
Network charge VAT	15.0
Network charge covid-19 health	1.0
Gh. Shippers Authority SNF Fee	
Import NHIL	2.5
Network charge NHIL	2.5
IRS Tax deposit	1.0
MoTI e-IDF Fee	
Special import levy	2.0
Ghana EXIM levy	0.75
GETFund	2.5
Network Charge GET Fund levy	2.5
Inspection fee	1.0
AU import levy	0.2
Covid-19 health recovery levy	1.0
Total	**52.85**

Source: Bill of Entry, Ghana Revenue Authority

From table 2 above, importation of raw materials eventually attracts over 50% taxes/levies and duties. Obviously, this multiplicity of taxes has significant impact on industrial growth in the country.

2.4.1 Covid levy (1%)
Covid-19 Health Recovery Levy Act 2021 was introduced to raise revenue to support covid-19 expenditures and others. To date, businesses are unsure of when this will terminate, and this 1% levy keeps increasing the cost of doing business. Indeed, the Act is silent on the sunset clause for this levy. AGI is calling for a removal of this levy.

2.4.2 Straight Levy (2.5% NHIL, 2.5% GET Fund, Covid levy 1%)
The straight levy regime continues to be a disincentive to local manufacturing. Before the straight levy came into force, Manufacturers will recover 17.5% input 17.5% output Standard rate VAT fully. With the 2.5% increase in VAT, Manufacturers can only claim 15%, leaving 6% as cost burden, likely to be passed on to consumers. In effect, manufacturers become less competitive. It therefore becomes cheaper to import and sell to make profits than to manufacture same commodity locally. The straight levy regime becomes a disincentive to manufacturers. It is unfair to shift this 6% tax burden to manufacturers (now 21% standard rate operators) and therefore AGI is urging the Ministry of Finance to re-consider this huge adverse on local manufacturing. A review of this policy also becomes more crucial with the coming into force of the AfCFTA area agreement.

2.4.3 Taxes on fruit juices/beverages
Some of the new revenue measures introduced are quite inimical to business particularly, the Excise tax on sweetened juices/beverages as well as the Growth and Sustainability Levy tax on profit before tax.

Government must reconsider these taxes which could stifle growth of the beverage sector. The sector has great potential to generate more revenue for Government, given some reliefs instead of adding more taxes.

2.5 Printing Sector
Forty-seven (47) countries including Ghana ratified an agreement known as the Florence Agreement which was signed on the 2nd of August 1952. This made all books imported by signatories to the agreement tax free and levy free, while local printers pay VAT and the duties on their productions. This UNESCO treaty has outlived its purpose and has become inimical to the development of the local print industry. The believe then was that enacting such legislation would benefit our schools and universities. Unfortunately, such legislation has worked against the local print industry which pays full duties and levies on all printing materials whiles imported books enjoyed full exemption, becoming cheaper. Thankfully, the last budget statement reversed this trend, where all imported print materials are now subject to VAT. Beyond the VAT, AGI will also like to see same imported materials subject to the duties/levies as well to ensure a lot more fairness in the local industry.
There's enough capacity in Ghana to print books/items in Ghana and therefore becomes the print hub of the sub-region.

2.8 Unfair trade practices
Smuggling is still rife in our markets, considering the numerous complaints from some of our local manufacturers and there is therefore the urgent need for the relevant institutions to check these practices. The sectors being heavily affected, among others, include,

- Electrical cables
- Textiles
- Diapers
- Beverages
- Vegetable cooking Oil
- Wheat flour
- Foam mattress

2.8.1 Electrical cables: Market intelligence reveals that significant quantities of cables and conductors are being imported into the country. The closeout prices at which these imports are being sold are not economically inconsistent with the international prices of the raw materials. In the cable manufacturing industry, the largest contributor to the cost of finished products is the Copper or Aluminum raw material, the prices of which are internationally benchmarked to the London Metal Exchange (LME). Based on prices of the key raw materials on the international metal markets, it is almost impossible to manufacture, transport, clear and market these imported electrical cables on the Ghanaian market at the prices at which they are currently available.

Furthermore, checks have established that most of these imports are also not submitted to the Ghana Standards Authority (GSA) for testing and certification as required by GSA Act. 2022-Act 1078. Whilst the major local manufacturers are required to be fully compliant with the GSA standard, some of the imported cables do not bear the GSA certification mark. This suggests that the locally manufactured cables which are already compliant to international and local standards are competing in the market with substandard, non-compliant and inferior imported products.

2.8.2 Textiles: The textile market is grappling with a substantial presence of counterfeit products, amounting to about 50% of the total market size, estimated at GHS3.3billion. Counterfeit products have significantly eroded the textile industry's contribution to Ghana's GDP over the years.

2.8.3 Diapers: In the case of the diapers, quite a number of imported diapers are not branded and sub-standard yet find their way onto our markets. Sunda FM Manufacturing, one of our local manufacturers has had to shut down two of its production lines, due to the competition from these diapers that sell at closeout.

2.8.4 Beverages: An influx of huge quantities of imported beverage products heavily subsidized continue to find their way to our market.

Manufacturers are at a loss as to how these imported beverage products could be priced much cheaper than what pertains on the local market if the required import duties on the real value of the goods have been paid as required by the law (since some manufacturers also import from the same sources as the importers).

The continuous flooding of the local market is impacting negatively on local production. The decline in sales over the past few years may also result in mass layoffs and the eventual shutdown of beverage manufacturer’s operations in Ghana.

The suspicion is that, some importers of these beverage products could be robbing the nation of several millions of cedis by declaring invoices having significantly lower cost prices than what they actually paid to bring the goods in and so end up paying less in terms of import duty and VAT. A deliberate effort is urgently required from the tax authorities to check this unfair trade practices.

2.8.5 Vegetable cooking oil: Local manufacturing will ultimately collapse with the influx of finished vegetable cooking oil. The selling price of some of these products suggest that they could not have entered Ghana through approved routes. Currently, Wilmar Africa and Avnash have enough capacity to meet national demand. Some of these imports to Ghana also enjoy significant export rebates from their countries of origin. With the advent of the AfCFTA, it becomes more imperative to chart a competitive path for industry as competitiveness is crucial.

The situation is further worsened if importers of finished goods are not registered and captured under the VAT scheme as is largely the case and end therefore up selling their products into the market without charging VAT/NHIL/GETFund.

2.8.6 Wheat Flour: Wheat flour milling companies' business in Ghana are under threat due to the influx of imported substandard wheat flour in the country from Turkey. The total installed capacity of the 4 flour mills in Ghana (Olam Agri, Irani Brothers, Takoradi Flour Mills and Flour Mill of Ghana) is 800,000MT per annum which surpasses our local requirement of 380,000 MT.

The utilization of installed milling capacity has dwindled from 57% to 40%. Most of the imported flours do not meet our FDA and Ghana Standards Authority (GSA) specifications. Per the FDA regulations, all wheat flour in Ghana should be fortified but most of the imported flour are not fortified, selling cheaper than the locally produced ones. Local wheat flour producers are urging the relevant institutions to institute countervailing measures in order to protect local flour industry.

2.8.7 Foam mattress: The are cases of serious effects of influx of expanded polyethylene products used as mattress which have flooded the Ghanaian markets of late. The expanded polyethylene is used in the construction and HVAC applications to insulate building, pipes and duct work. Alleged

Ghana Standards GS ISO 5999:2019 certification for flexible polyurethane foam mattress and cushions clearly specifies polyurethane foam materials with physical property requirement on compression set (Test method: ISO 1856) and elongation (Test Method: ISO 1798)

The expanded polyethylene products also known as EPE is not suitable for sleeping products like flexible polyurethane neither for foam mattress nor furniture. This unfair trade practice could displace about 2,000 workers out of job if allowed to continue. AGI recommends an immediate ban of the use of such expanded polyethylene products used as mattress.