



**Tight Tax Net,  
Loose Safety Net:  
Taxation and Social Protection  
in Accra's Informal Sector**

By Nana Akua Anyidoho, Max Gallien, Ghida Ismail, Florian Juergens-Grant,  
Mike Rogan and Vanessa van den Boogaard

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## Acknowledgements

The project is a collaboration between WIEGO, the ICTD and the ISSER at the University of Ghana. This work was supported by funding from the Swedish International Development Cooperation Agency (Sida), UK Aid under grant number 300211-101, the Bill & Melinda Gates Foundation under grant number OPP1197757, and the Norwegian Agency for Development Cooperation under grant number QZA-17/0153.

We would like to thank Dr Simon Bawakyillenuo and the team at ISSER for their essential work in the data gathering for this project. We also extend our sincere gratitude to all those who agreed to be interviewed for their patience and commitment.

**Publication date:** December 2022

**ISBN:** 978-92-95122-18-5

**Please cite this publication as:** Anyidoho, Nana Akua, Max Gallien, Ghida Ismail, Florian Juergens-Grant, Mike Rogan and Vanessa van den Boogaard. 2022. Tight Tax Net, Loose Safety Net: Taxation and Social Protection in Accra's Informal Sector. WIEGO Working Paper No. 45. Manchester, UK: WIEGO

Published by Women in Informal Employment: Globalizing and Organizing (WIEGO)  
A Charitable Company Limited by Guarantee – Company No. 6273538,  
Registered Charity No. 1143510

**WIEGO Limited**  
521 Royal Exchange  
Manchester, M2 7EN  
United Kingdom  
[www.wiego.org](http://www.wiego.org)

**Series editor:** Caroline Skinner  
**Copy editor:** Bronwen Dachs Muller  
**Layout:** Julian Luckham  
**Cover photograph:** Iris Lamiorakor at the snack stand she ran at Kwame Nkrumah Circle Market in Accra in 2015.  
Photo credit: Jonathan Torgovnik/Getty Images Reportage

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## Abstract

The COVID-19 pandemic has deepened the vulnerability of lower income groups, exposed the inadequacy of social protection systems, and severely decreased state revenues. In the wake of the pandemic, low- and middle-income countries (LMICs) face the dual challenge of increasing domestic resources, while also closing social protection coverage gaps. Both challenges have been closely associated with the large informal economies in many LMICs. While debates about taxation and social protection in relation to the informal economy are widespread, there is little empirical evidence to support them. Using new and representative data on informal workers in Accra, Ghana, this paper contributes novel evidence on the extent to which informal workers in Accra have access to social protection and benefitted from COVID-19 relief programmes. The paper further explores the tax burdens of informal workers in Accra, as well the degree to which they might be able to make additional contributions through taxes or contributions to social protection schemes. It investigates the equity, redistributive, and gendered impacts of informal workers' fiscal burdens and access to social protection and COVID-19 relief programmes. Three key findings emerge. First, most informal sector operators in Accra are not covered by social protection, with the exception of the National Health Insurance Scheme (NHIS). Furthermore, receipt of COVID-19 relief in the informal sector was very low. Second, in contrast to a number of claims, the paper finds that informal sector operators in Accra do pay a range of taxes, permits, levies and fees. Especially for informal sector operators at the lower end of the income spectrum, the ratio of taxes to earnings is substantially higher than for formal workers. Third, informal sector tax burdens are highly regressive, with a disproportionate burden falling on the lowest earning segments of the informal sector. The evidence therefore suggests that for substantial proportions of the informal sector there is little room for further taxation or contributions.

## 1. Introduction

As the world adjusts to the social and political realities following the COVID-19 pandemic, low and middle-income countries face a dual challenge. On the one hand, the pandemic has deepened the vulnerability of lower income groups and served as a reminder of the insufficient coverage of social protection systems. On the other hand, the pandemic has dramatically decreased state revenues and focused attention on low domestic resource mobilization. The IMF (2021) estimates that low-income countries will need at least USD200 billion to recover to pre-pandemic levels and an additional USD250 billion to make any progress towards catching up with high-income countries. In 2020, the ILO estimated that low-income countries need to invest an additional USD78 billion annually to close the social protection financing gap (Bierbaum and Schmitt 2022). This has been made all the more difficult by an impending crisis as national debt levels in 2020 increased by 12 per cent in low-income countries to a record level of USD860 billion (World Bank 2021). Amid these constraints, how can states finance an inclusive recovery and expand sustainable social protection systems?

These challenges have been closely associated with the large informal economies in many lower-

and middle-income countries. Covering over two billion people and over 60 per cent of the global workforce (ILO 2018), informal workers<sup>1</sup> have been hit particularly hard by the pandemic. They have struggled with the effects of lockdowns and collapsing value chains and experienced particular challenges in accessing relief and support (Gallien and Van den Boogaard 2021, WIEGO 2022). Consequently, expanding social protection systems to include informal workers has been an urgent and central tenant of “building back better” agendas and to achieving Universal Social Protection (USP) in line with the SDGs (World Bank 2021, UN Research Roadmap for Recovery 2020, Guven, Jain and Joubert 2021; ILO, FAO and UNICEF 2021). Beneath this consensus, however, are significant disagreements on the optimal design and financing strategies for USP, in particular regarding efforts to expand coverage to informal workers. A central point of disagreement is whether informal workers can be integrated into contributory social security systems or whether governments should focus on expanding social assistance financed through increased tax revenues, including from informal workers (WIEGO 2021a). For either approach it is essential to develop a nuanced understanding of informal workers earnings and existing tax burdens, to explore where there may be contributory capacity

<sup>1</sup> “Informal workers” is a broad term that includes employees, the self-employed and contributing family workers who do not have access to legal (*de jure* or *de facto*) and social protection through their employment. It also refers to all work in the informal economy which includes employment both inside and outside of the informal sector. Informal sector employment, in turn, refers to all employment in unincorporated or unregistered enterprises.

to join social security schemes and whether there is any scope to increase tax revenues.

Beyond social protection, the idea that informal workers should be taxed to finance the COVID-19 recovery is increasingly popular in policy circles. Frequently, these proposals rest on the assumption that informal workers benefit from government programmes but do not contribute to them, as they do not pay taxes. New tax registration programmes and new taxes on mobile money transfers represent attempts to capture more revenue from informal workers. While there has been plenty of policy enthusiasm around the “missing goldmine” of tax revenues in the informal sector, evidence suggests that these claims are severely overstated, as they ignore the contributions that informal workers already make (often at the local level), overestimate their ability to contribute more, and fail to account for the often high costs of collection (Gallien, Moore and Van den Boogaard 2021, Gallien and van den Boogaard 2021, Gallien et al. forthcoming).

While debates about taxation and social protection in relation to the informal economy are widespread, there is little empirical evidence to support them. Using new and representative data on informal workers in Accra, Ghana, this policy brief seeks to provide empirical answers to two key questions:

1. To what degree have informal workers in Accra benefited from social protection schemes and COVID-19 relief programmes?
2. What are the tax burdens of informal workers in Accra, and to what degree would they be able to make additional contributions through taxes or payments into social protection schemes?

We contribute novel evidence to begin to answer these questions, shedding light on the equity, redistributive, and gendered impacts of informal workers’ fiscal burdens and access to social protection and COVID-19 relief programmes.

Ghana provides a particularly fitting context to investigate these questions. Ghana’s informal economy is large even by regional standards, with over 90 per cent of its workforce in informal employment (ILO 2018). Despite several flagship social protection programmes, most of Ghana’s informal workers are not covered by a comprehensive set of social programmes. As

elsewhere, the pandemic has highlighted both the vulnerabilities of informal workers and created new pressures for state revenues, with both issues featuring prominently in policy discussions in Ghana in recent years. In particular, discussions around taxing the informal sector to finance the recovery and avoid further public debt have been prevalent in Ghana (“Ghana Beyond Aid”). They have also contributed to the recent introduction of a tax on mobile money transactions, known as the “E-Levy”, which is targeted at the informal sector (Anyidoho et al. 2022).

In April and May 2022, we surveyed 2,700 self-employed informal workers in the central AMA (Accra Metropolitan Assembly) area based on a probability sampling approach.<sup>2</sup> The self-employed in the informal sector form a large sub-group of the informal economy and we refer to these workers as *informal sector operators*.<sup>3</sup> Three key findings emerge. First, most informal sector operators in Accra are not covered by a pension programme, do not receive cash transfers, are not beneficiaries of poverty relief programmes and do not participate in microfinance schemes. While most (62%) are members of the National Health Insurance Scheme (NHIS), this is the only social protection programme with broad coverage among informal workers. Furthermore, receipt of COVID-19 relief in the informal sector was very low; only 2 per cent reported receiving any type of government support. Second, in contrast to a number of claims (see Danquah and Osei-Assibey 2016), we find that informal sector operators in Accra do pay a range of taxes, permits, levies and fees. Especially for informal sector operators on the lower end of the income spectrum, the ratio of taxes to earnings is substantially higher than for formal workers. Third, informal sector tax burdens are highly regressive, with a disproportionate burden falling on the lowest earning segments of the informal sector. This is aggravated through further substantial payments for basic services and business expenses.

<sup>2</sup> For more detail on our methodology, see Anyidoho et al. (2022).

<sup>3</sup> With respect to the sample of workers surveyed, this term can be used interchangeably with the “self-employed in the informal sector”.

## 2. The ‘Missing Majority’ of Social Protection and COVID-19 Relief in Accra’s Informal Sector

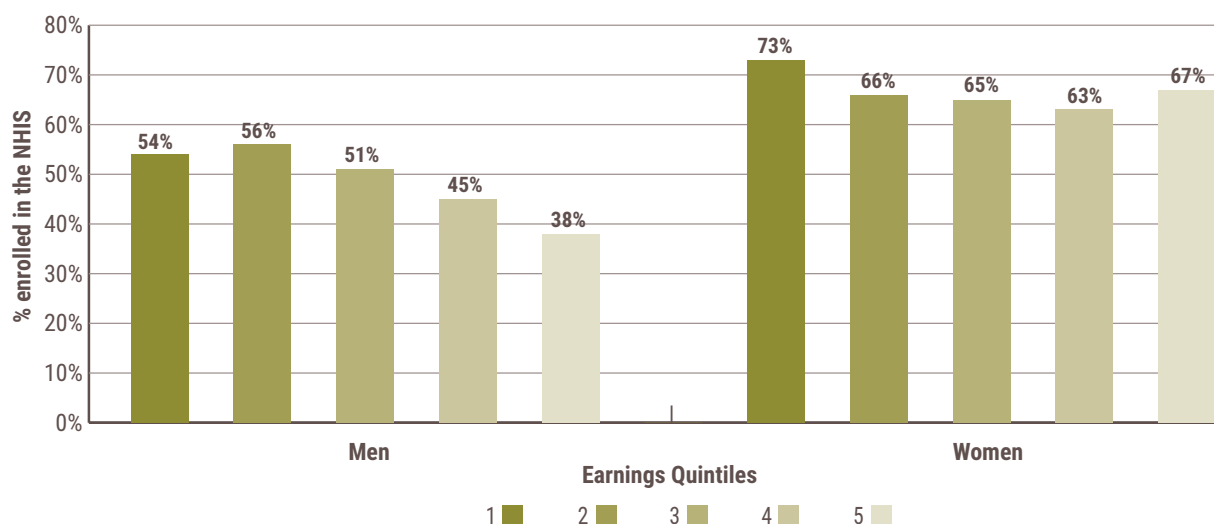
### 2.1. Access to Formal Social Protection

Ghana’s formal social protection system consists of a wide range of programmes, including public works, microfinance schemes, agricultural subsidies, youth employment programmes, support for students, pensions and health insurance. While these formal social protection systems have grown in size and relevance, their limited coverage means that most Ghanaians continue to rely on informal support systems built around the family and other social relationships.

Three main types of formal social protection programmes exist: First, the National Health Insurance Scheme (NHIS), which was set up in 2003, aims to provide basic health care to all Ghanaians. It is funded through a combination of taxes, public pension payments from formally employed workers, and premiums from informal workers joining voluntarily. It is generally recognized as being pro-poor (Nsiah-Boateng

et al. 2019). Membership is relatively high in the informal sector and the scheme remains popular, although there continue to be barriers to access for informal workers, including the level of premiums and the registration process (Alfers, 2013). Despite these barriers, we find that the majority of informal sector operators, and particularly women, are voluntary members of the NHIS (Figure 1). About 71 per cent of informal sector operators in the sample have had health insurance in the past and 62 per cent currently have insurance in the form of NHIS membership. This is likely due to the low premiums, ranging from GHS17 to GHS22 annually across regions and districts. In the Greater Accra Region, the research site, the premium is GHS22, with additional registration and annual renewal fees. In line with the literature on NHIS coverage (Nsiah-Boateng et al. 2019), our data show there is also evidence of a slight “pro-poor” distribution of membership. The lowest quintile of female informal sector operators has the highest rate of membership (73%) while membership rates are slightly, but not significantly, lower in each successive earnings quintile. There is also a significant gender difference in membership with women in all earnings quintiles being significantly more likely than men to be members of the NHIS.

**Figure 1: Proportion of informal sector operators with NHIS membership, by earnings quintile**



Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022). Notes: the data are weighted.

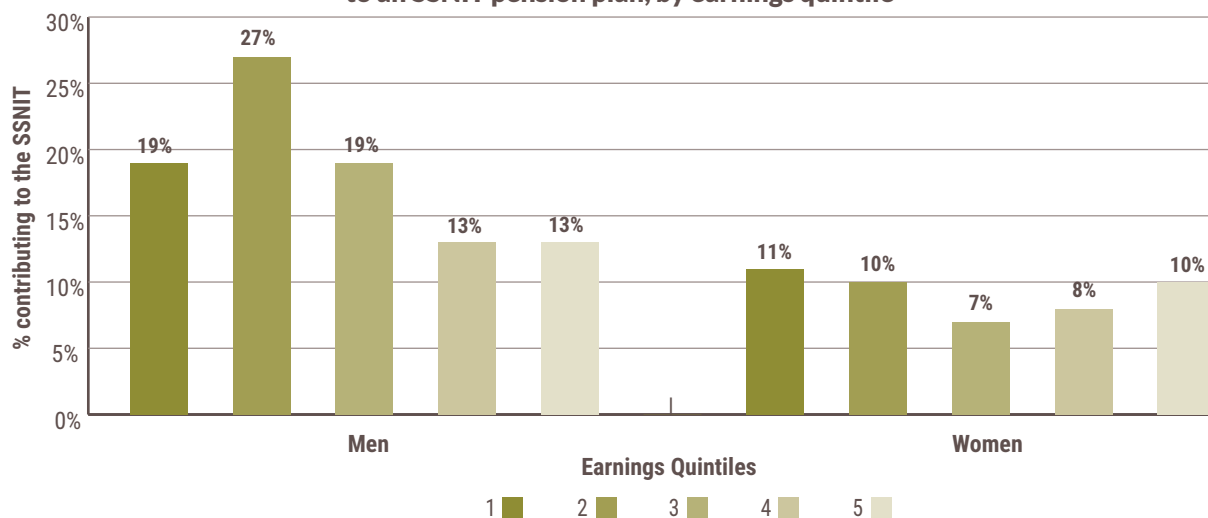
Second, Ghana’s pension scheme, introduced in 1972 and revised in 2009, is managed by the Social Security and National Insurance Trust (SSNIT) and provides replacement income at old age and in the event of disability. It is organized on social insurance principles and funded mainly by contributions from workers and employers. While it is open to non-salaried and informal workers, coverage remains limited, reaching only about

14,000 self-employed workers (SSNIT 2022). In line with this, access to a pension among informal sector operators is considerably lower relative to the NHIS (Figure 2 below). The public pension programme managed by the SSNIT was the main type of pension reported in the survey and 11.4 per cent of the sample overall contributed to the SSNIT fund. Just under one per cent of the self-employed in Accra’s informal sector contributed

to a voluntary private or community pension scheme. Thus about 88 per cent of informal sector operators reported not contributing to a pension fund. While these figures are very low, a slightly higher proportion (27%) of men in the second quintile reported contributing to the SSNIT

pension. There is, however, a large difference in SSNIT coverage between women and men and across occupations in the informal sector. Women were less likely than men to contribute to the SSNIT fund (roughly 17% of men and less than 10% of women).

**Figure 2: Proportion of informal sector operators with access to an SSNIT pension plan, by earnings quintile**



Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022). Notes: the data are weighted.

Third, the Livelihood Empowerment Against Poverty (LEAP) programme, introduced in 2008, is a cash transfer programme for households in extreme poverty (living on less than USD1.90 per person per day) that also include orphaned children, persons with a severe disability, pregnant women or persons 65 years and above. In addition to cash, LEAP provides complementary services such as free NHIS registration, agricultural inputs and services, and access to credit. In late 2022, the programme reached **close to 345,000 households**, primarily in rural areas. Given LEAP's focus on extremely poor households with limited labour capacity, very few (0.4%) informal sector operators received cash transfers.

Overall, our data highlights both the successes and shortcomings of Ghana's social protection system from the perspective of informal workers. On the one hand, the case of the NHIS shows that with affordable premiums and accessible design, larger segments of the informal sector can be integrated successfully into mainstream social insurance schemes. However, low levels of enrolment into the SSNIT pension scheme indicate that reforms are needed to make social insurance more popular, accessible and affordable for informal sector operators. The absence of direct support to informal sector operators, who may not be destitute but make up

a large proportion of the country's economically vulnerable population, represents an important gap in Ghana's social protection system. Moreover, this exclusion of most informal sector operators from social protection systems, and in particular social assistance schemes, has created significant challenges to government's efforts to provide COVID-19 relief.

## 2.2. Access to COVID-19 Relief

The pandemic, as well as the accompanying public health measures had significant implications for informal sector workers in Ghana (Schotte et al. 2021). A WIEGO study, for example, found that, by mid-2021, the median monthly earnings of a small purposive sample of informal sector workers was only one-third of their pre-COVID-19 earnings (WIEGO, 2022). In the context of the ongoing recovery from the pandemic, the severe impacts on informal workers' livelihoods and incomes, and the government's significant efforts to provide relief during the height of the crisis, it is important to explore how effectively government support reached informal sector operators.

The government's social protection response to the pandemic included both the expansion and deepening of existing programmes as well as new interventions. For the former, LEAP



provided an additional one-off payment to existing beneficiaries, **increased the frequency of their receipt of cash transfers** and **extended coverage to non-qualifying households affected by the pandemic** (UNICEF 2022). For the latter, in the early months of the pandemic, the government provided *ad hoc* and short-term relief to those outside of existing formal social protection systems, particularly in urban spaces under lockdown. This included distribution of food to the poor, supply of PPE to schools and public institutions, as well as freezes or subsidies on utilities payments. The measures were criticized for not effectively targeting those most in need and, in some cases, deepening existing income and spatial inequalities (Darkwah, 2021). As one illustration, while four out of 10 respondents in the **2020 WIEGO study** of informal workers in Accra reported experiencing hunger among adults in their household, only 15 per cent reported having received food relief (WIEGO 2021b).

More systematic efforts to protect workers and businesses include the **Coronavirus Alleviation Programme Business Support Scheme (CAP-BuSS)**, the **COVID-19 Alleviation and Revitalization of Enterprises Support (GhanaCARES)** “*Obaatan pa*” programme, and the Nkosuo programme. Under the CAP-BuSS, implemented from May 2020 to January 2021, the government set aside 600 million cedis to provide soft loans to micro, small and medium-scale businesses (MSMEs). The GhanaCARES scheme, worth 100-billion cedis, funded the establishment of a **National Unemployment Insurance Scheme** to address the loss of formal employment during the pandemic. Donors and development partners also initiated business- and livelihood-support programmes. The Mastercard Foundation contributed 90-million cedis to the **Nkosuo programme**, which supports MSMEs, and particularly those owned by or employing women and young people. A Seed-Funding Retraining Programme was created, with support from the World Bank, to help workers who were laid off to acquire new or improved skills for future work.

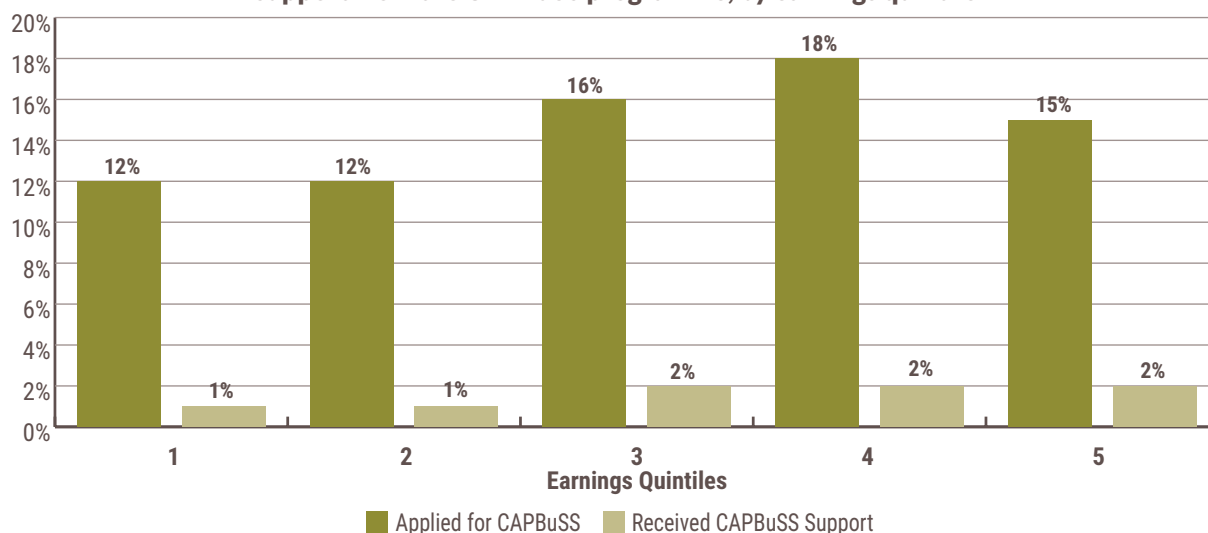
Despite these efforts, our data suggest that access to COVID-19 relief was very limited within the informal sector. Less than one per cent of informal sector operators received any support from either

the LEAP or Nkosuo programmes (0.4% and 0.1%, respectively). While low receipt of support through LEAP is not particularly surprising since it is targeted at households in extreme poverty, it is worth noting that the programme’s COVID-19-driven expansion of coverage did not reach informal sector operators either. Moreover, only 1.4 per cent of informal sector operators received a grant through the CAPBuSS programme, the government’s main relief programme for small and medium enterprises.

There appear to be two main explanations for the low uptake of the CAPBuSS grant. First, and as depicted in Figure 3, a relatively low percentage (15%) of informal sector operators applied for the relief, with an even smaller proportion among the two lowest earning quintiles. It is somewhat encouraging and keeping with the government’s objectives for the relief programmes, that women were significantly more likely to apply for a grant than men (16% vs. 10%, respectively). However, the vast majority of informal sector operators did not even apply for CAPBuSS support with the modal reason being “not having heard of the programme” (60%) followed by “an overly complicated application process” (15%).

Second, the success rates for those who did apply for support were very low. Overall, 90 per cent of applications for CAPBuSS support were unsuccessful. Even more concerning is that success rates were lower for the first two earnings quintiles (Figure 3). Among the first and second quintiles, less than one per cent received support through CAPBuSS (or about 6.1% and 7.7% of those who applied, respectively). The lowest earning informal sector operators were, therefore, less likely to have applied for support and, among those who did, a lower proportion were likely to have been successful. Moreover, while women were more likely to have applied for the support, they were no more likely to be successful in receiving a CAPBuSS grant (1.5% vs. 1.4% – and the difference is not statistically significant). This outcome undermines the government’s stated intent to ensure that women and young people who operate small business activities, both formal and informal, receive support to mitigate the negative impacts of the pandemic.

**Figure 3: Proportion of informal sector operators who applied for and received support from the CAPBuSS programme, by earnings quintile**



Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022). Note: the data are weighted.

Assuming that these workers live in lower-income households, it might have been expected that other types of social relief would have filled the gap in protection. However, as outlined earlier, the government's main poverty relief programme (LEAP) is targeted towards extremely poor households with limited labour capacity (e.g. older people, orphans and vulnerable children, and persons with disabilities) and not necessarily towards workers in the informal sector. Thus, informal sector operators seem to have fallen in the gap between small business support and household relief in terms of COVID-19 support. New relief programmes, while not explicitly excluding informal workers, appear to privilege formal workers and formal businesses, and present barriers for informal workers. These include administrative requirements for accessing support, such as a business address, bank account, employer details and evidence of tax payment (Darkwah, 2021).

### 3. Do the Self-Employed in Accra's Informal Sector Pay Taxes?

Despite both popular and policy narratives that informal workers do not pay taxes, overall tax payment in the informal sector in Accra is prevalent. The majority (66%) of self-employed informal sector operators in Accra reported paying at least one type of tax, fee or payment (excluding access to basic services while at work) related to their income-generating activity. While

the types of taxes or fees (see Box 1 below) that are paid in the informal sector often vary by the characteristics of the activity, on the whole, we find these to be regressive, with lower income earners paying more in relation to their income.

#### 3.1. Taxes

We first consider formal taxes, which are paid to the AMA or to the national revenue authority. Overall, 37 per cent of the sample reported paying at least one type of tax. We find only small variations in payment across earnings quintiles, which is not particularly surprising, given the flat structure of the presumptive tax regime (also called the "stamp tax") in Ghana. Our data indicate that a significant percentage of informal sector operators are already within the formal tax net, even when the narrowest definition of taxes is applied. Moreover, this is a fairly conservative estimate since it considers only direct taxes and not indirect taxes such as VAT.

Meanwhile, Figure 4 shows that informal sector taxes are highly regressive, with the lowest earning quintile paying about 4 per cent of their reported earnings, on average, in tax – or roughly four times higher than that of the highest earning quintile (an average of less than 1%).<sup>4</sup> If the analysis is restricted to informal sector operators who pay any formal tax, then the share of earnings paid in taxes in the lowest quintile increases to 13.1 per cent of women's earnings and 12.3 per cent of men's earnings.

<sup>4</sup> Women in the lowest earnings quintile report a slightly higher tax burden (4.4% of their earnings) compared with men in the same quintile (3.2%) but the difference is not statistically significant.

**Box 1: Overview of taxation in Accra’s informal sector**

Informal sector operators in Accra pay a range of taxes, fees and levies. These payments can be grouped into four broad categories.

**Formal taxes:**

Formal taxes are defined as non-required, compulsory and statutorily defined payments to state revenue. In Accra, these include the “stamp tax” (a presumptive tax on the earnings of informal workers), the daily toll (a tax collected by the AMA), import and export taxes, property taxes, a vehicle income tax, goods fees and a domestic conveyance of goods tax.

**Business licence and operating fees:**

Licence and operating fees, often paid to the AMA, are statutorily defined payments required to operate a business. These include an operating permit, an AMA fee, market fees, driver’s licence fee, commercial driver’s licence fee, an embossment fee, a roadworthy fee and a vehicle insurance fee.

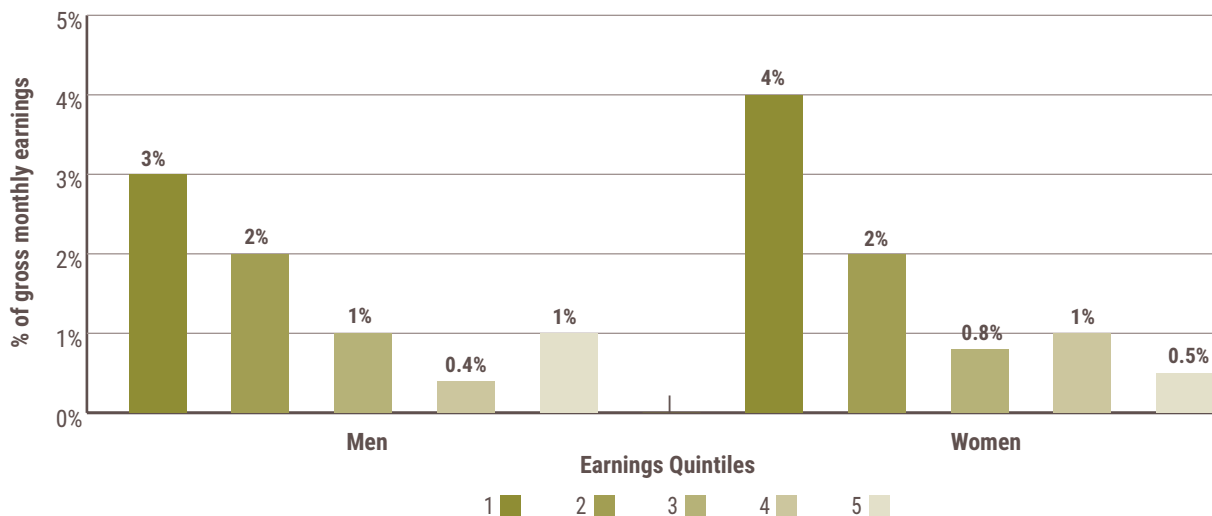
**User fees:**

Formal user fees are defined as payments for a specific service/benefit. In Accra’s informal sector, these include a station toll, a lorry park fee, a station entry fee, street parking fees, a road toll, stall rental fees, storage charges, cleaning service fees and security charges.

**Informal payments:**

Informal payments are non-market payments that are not defined or required by law and are enforced outside of the state legal system. Examples include payments to traditional authorities and additional payments/informal levies to access permits/licences.

**Figure 4: Average monthly tax payments as a proportion of monthly earnings, by earnings quintile**



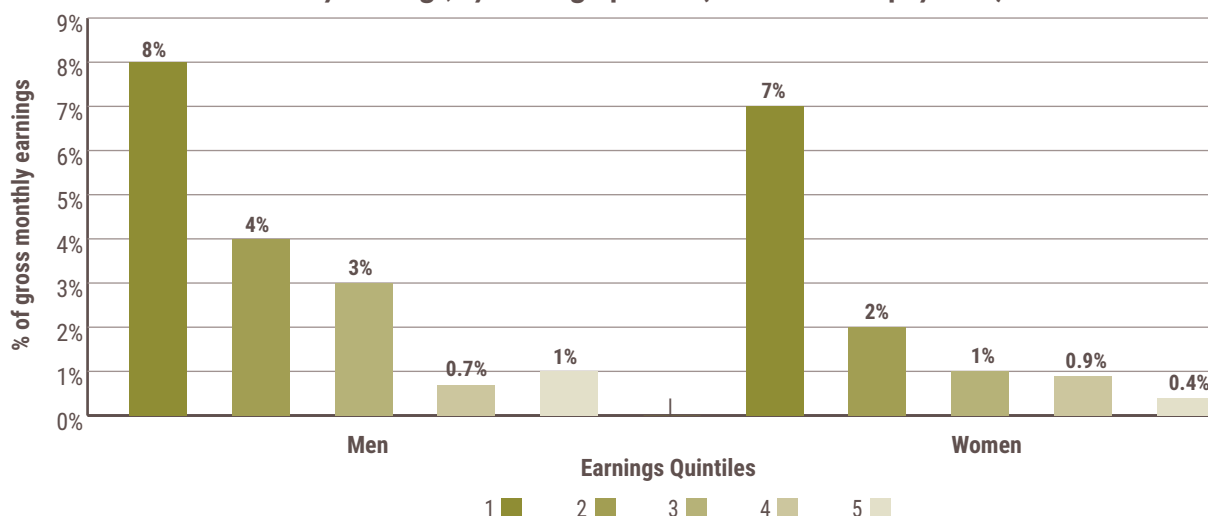
Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022).  
 Notes: Averages are not conditional on payment. The data are weighted

Considering the “stamp tax” on its own, Figure 5 shows that men in the lowest quintile pay about 8.3 per cent of their gross monthly earnings on the stamp tax and women pay about 7.2 per cent

Among men this is about double the “tax rate” of the next quintile; among women, the lowest earning quintile pays three times as much as the next lowest quintile in relative terms.

<sup>5</sup> The proportions in the graph are calculated as: Total monthly tax payments/Gross monthly earnings.

**Figure 5: Average monthly 'stamp tax' payments as a proportion of monthly earnings, by earnings quintile (conditional on payment)**



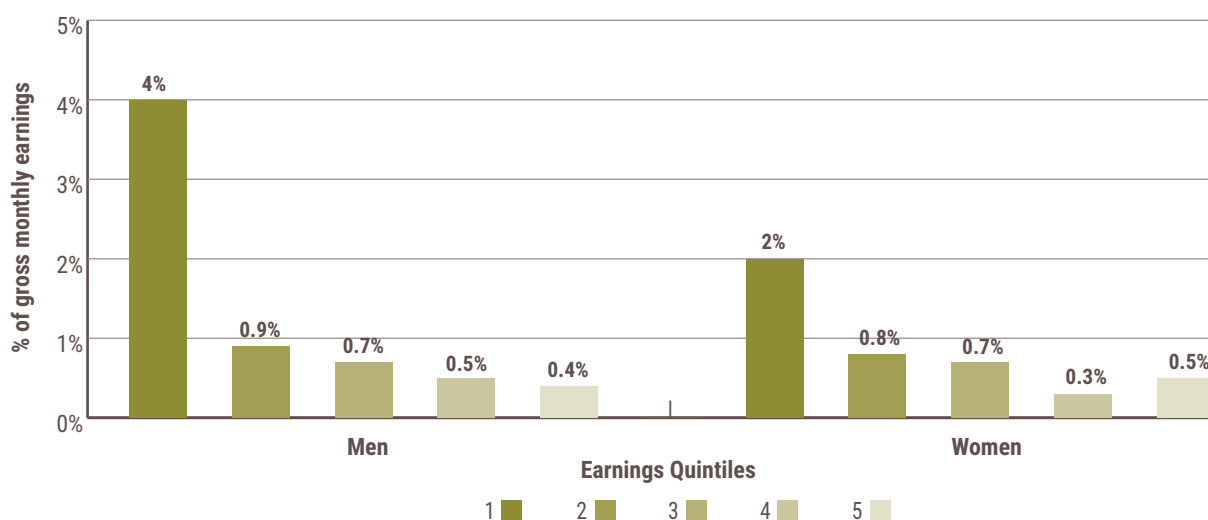
Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022). Notes: the data are weighted.

### 3.2. Business Licence and Operating Fees

Taxes, however, are only one type of payment that informal sector operators make to authorities. Operating and licence fees paid to local authorities are often fairly significant with at least one estimate from Ghana suggesting that they account for between 24 per cent and 27 per cent of local government revenues (Prichard & van den Boogaard 2015: 10). Figure 6 examines these types of licence and operating fees as a proportion of monthly earnings. Once again, the data suggest

that such payment schemes are highly regressive. The lowest earning quintile pays more than 2.5 per cent of their earnings towards these types of business, operating or licence fees. Men in the lowest quintile report paying an even higher share (3.8% of their earnings on these types of operating fees – although the difference is not statistically significant). Among those in the lowest earnings quintile who pay these fees (not shown in the graph), women pay 8.3 per cent of their earnings and men pay 10.2 per cent on licensing and operating fees.

**Figure 6: Average payments on business licences as a proportion of gross earnings, by earnings quintile**



Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022). Notes: the data are weighted

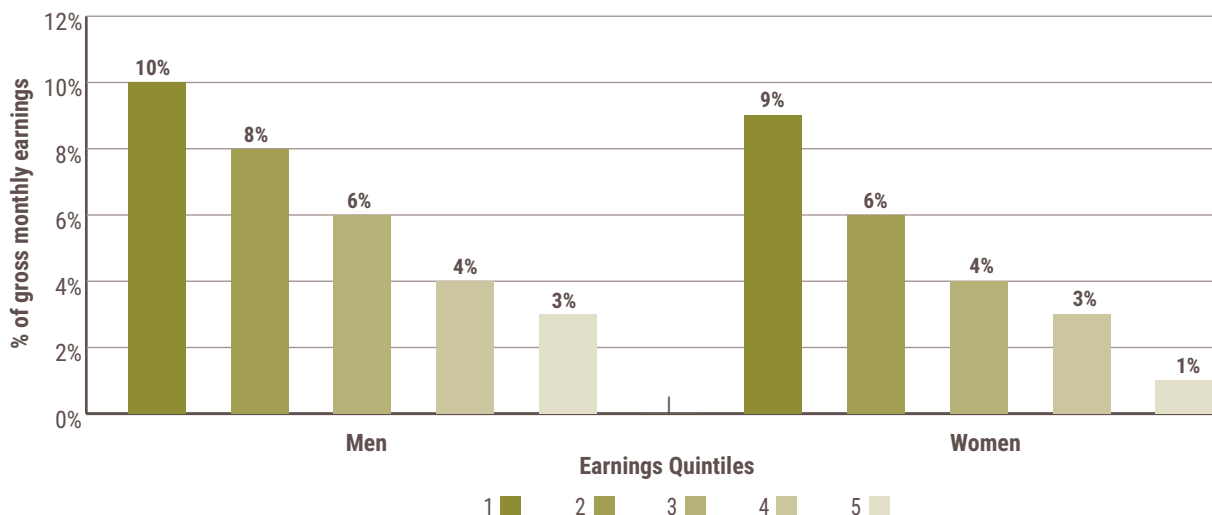
### 3.3. User Fees

User fees are another relatively common type of payment made by informal sector operators. As outlined in Box 1, these are payments that are made, typically to the local municipality, for access to spaces and infrastructure which are required to operate an income generating activity<sup>6</sup>. About 16 per cent of informal sector operators reported paying at least one type of user fee to operate their income generating activity. Overall, these payments account for 1.9 per cent of gross monthly earnings (or 11.7 per cent of monthly earnings among those who reported paying user fees). With respect to these types of work-related user fees, men were significantly more likely to pay them (about 25% of all male workers) and the payments accounted for a significantly higher share of earnings (2.8% among men). It is important to note that these estimates do not include the fees that informal sector operators pay for access to basic services such as water, electricity and sanitation while at work. The two lowest earning quintiles, for example, report paying more than 10 per cent of their monthly earnings for access to these services. One of the reasons for these relatively large expenditures on services is that 95 per cent of respondents reported paying for access to at least one service (water, electricity, waste removal and toilet access).

### 3.4. Overall Burden of Taxes and Fees

Combining the four<sup>7</sup> main categories of taxes and payments (from Box 1) provides a more comprehensive picture of the level of the tax burden as well as the regressive structure of taxes and fees levied at the informal sector (Figure 7). Once work-related taxes, fees and payments are aggregated and expressed as a proportion of gross monthly earnings, we find that the burden on the lowest earning informal sector operators is relatively high. This group reports paying, on average, 9.1 per cent of their gross earnings on taxes and fees. Thus, while their typical fee and tax payments may appear modest in absolute terms, relative to their earnings, they are paying far too much – particularly when considering that average annual earnings are only GHS2,221 in quintile 1 (i.e. much closer to the poverty line of GHS1,760 per adult equivalent per annum than to the lowest income tax threshold of GHS4,380 per annum). Moreover, the structure of these payments is highly regressive for both women and men. Among women, the lowest quintile, on average, pays almost seven times more than the highest quintile, relative to their earnings. For men, the lowest quintile pays more than three times the top quintile as a share of their respective earnings.

**Figure 7: Proportion of total taxes, fees and payments as a share of gross earnings, by earnings quintile**



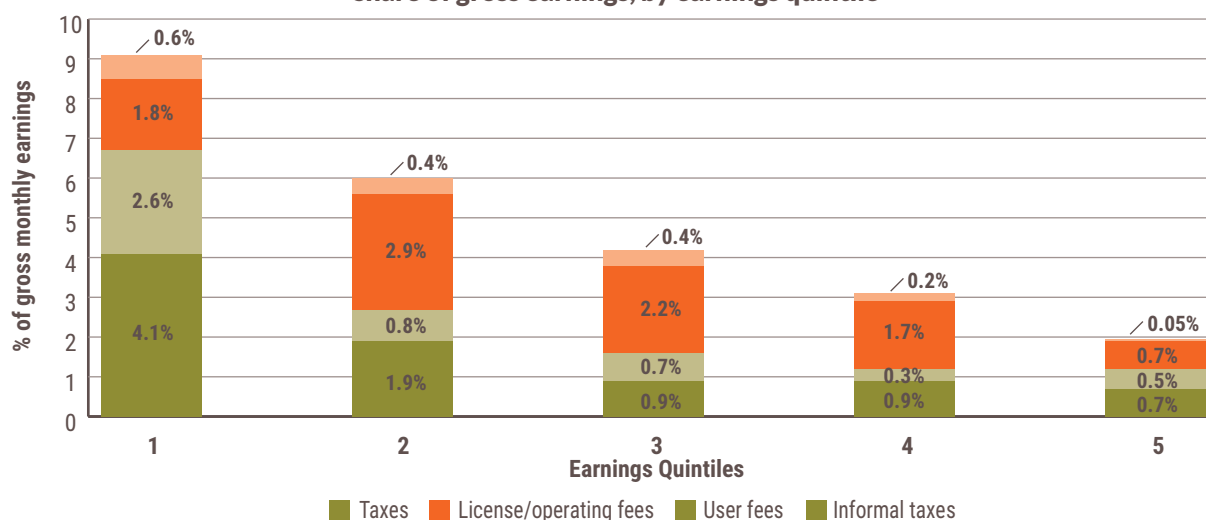
Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022).

Notes: the data are weighted. Averages are not conditional on tax payment.

<sup>6</sup> As such, these are defined as expenses related directly to the operation of the business (i.e. not the household).

<sup>7</sup> These include formal taxes, business licences, user fees, services fees as well as an additional category of informal taxes/ payments that are routinely paid to state or non-state collectors, as outlined in Box 1.

**Figure 8: Proportion of total taxes, fees and payments as a share of gross earnings, by earnings quintile**



Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022).

Notes: the data are weighted. Averages are not conditional on tax payment.

Figure 8 disaggregates the types of payments made by each quintile (as a share of earnings) and shows that, while user fees are the single largest portion of taxes and payments overall, it is clear that taxes and business licence fees are particularly regressive and account for 6.7 per cent of earnings in the lowest quintile. The graph also shows that, while payments on informal taxes and fees (see Box 1) are low, they account for a larger share of earnings (about 0.5%) in the lowest quintile.

Since about two-thirds of informal sector operators pay at least one type of formal tax, fee, or levy to operate their business or income generating activity,<sup>8</sup> it is perhaps more revealing to express payments as a share of earnings specifically for those workers that pay them. When the analysis is restricted to informal sector operators that pay taxes and fees, these payments account for about 17 per cent of earnings in the lowest quintile (where typical earnings are only GHS200 per month). As a share of earnings, this is about five times higher than the corresponding share in the fifth earnings quintile (where typical earnings are GHS2,675 per month). The largest share of payments made by the first quintile is in the form of taxes (paid both to the AMA and the revenue authority) and licence fees (paid largely to the AMA). Therefore, any assessment of tax liability which ignores these relatively large and regressive payments made at the local

government level would provide a misleading picture of taxation in the informal sector.<sup>9</sup>

#### 4. Is the informal sector in Ghana's capital 'undertaxed'?

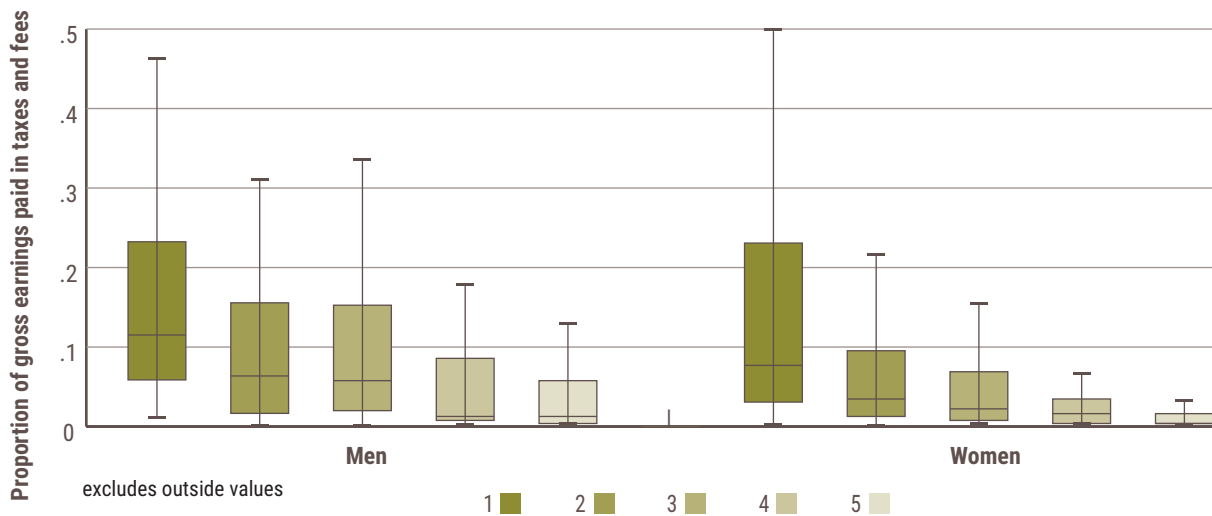
Having demonstrated that informal sector operators do pay a range of taxes and fees and that these payments are highly regressive, it is important to place these contributions into context. However, before examining these payments in relation to the Ghana Revenue Authority's tax thresholds, it is worth emphasizing that the estimates from the previous section are based on gross monthly earnings and not taxable income. In other words, informal sector operators pay a number of other costs associated with operating their informal businesses and the most prevalent of these, as outlined earlier, is for access to basic services such as water, electricity and sanitation while at work.

Not counting these additional costs (e.g. for services) of operating informally, Figure 9 examines the variation in tax and fee payments as a proportion of gross earnings. While Figure 8 showed that the lowest quintile paid about 9 per cent of their earnings in taxes and fees, Figure 9 shows that this average masks substantial variation in the tax burden both across and within quintiles. This variation is greatest for the first

<sup>8</sup> As noted above, our analysis here excludes fees for services related to income-generating activities, which significantly increases the total fiscal burdens for informal workers, and which will be further explored in Anyidoho et al. (forthcoming).

<sup>9</sup> As noted elsewhere, there is a common bias in tax analysis towards national level taxation.

**Figure 9: Variation of total taxes, fees and payments as a share of gross earnings, by gender (earnings quintiles 1-5)**



Source: WIEGO/ICTD/ISSER Informal Taxation Survey (2022). Notes: the data are weighted. Estimates are conditional on tax payment. The box plot identifies the minimum, first quartile (p25), median (p50), third quartile (p75), and maximum values. An outside value is defined as a value that is smaller than the lower quartile minus 1.5 times the interquartile range, or larger than the upper quartile plus 1.5 times the interquartile range (inner fences).

earnings quintile, where men paid up to about 47 per cent of their gross earnings in taxes and fees and women's contributions ranged up to 50 per cent of their earnings. Among those who do pay taxes and fees, the median proportion of their earnings is about 10 per cent while the upper quartile range (p75) extends to more than 20 per cent. Women's median relative contributions are lower than men's but, at the 75th percentile, women also paid about 22 per cent of their earnings in taxes and fees.

Considering that the poorest informal sector operators (quintile 1) pay up to 50 per cent of their total earnings (excluding outside values) in taxes and fees, comparing the earnings of the first two quintiles with the GRA's first lowest marginal tax threshold provides greater context. Nevertheless, it is important to recognize that the formal tax threshold is low in Ghana, with anyone earning more than GHS4,380 per annum (about USD420 per annum) liable to pay tax to the GRA. With this caveat, we still find that just over one-fifth of all informal sector operators in Accra earn too little to be liable for taxation. Overall, about 22 per cent of women and 17.5 per cent of men who are self-employed in the informal sector in Accra earn below the lowest tax threshold (GHS4,380 per

annum or GHS365 per month).<sup>10</sup> Since the lower bound marginal tax threshold is close to the first earnings quintile boundary (p20), the entire first quintile should be exempt from any taxation.<sup>11</sup> Such a comparison suggests that, not only is the structure of fees and taxes regressive but tax contributions are far too high in the informal sector – particularly for the lowest fifth of earners who pay up to about 50 per cent of their gross earnings in taxes and fees alone.

Finally, it is useful to compare gross earnings as a proportion of the lowest marginal tax threshold among the first earnings quintile to highlight the shortfall between earnings and the minimum tax threshold. The median earnings of men and women in the first quintile are just over 60 per cent and about 57 per cent respectively, of the tax threshold (or about 40 per cent short of the minimum tax threshold). At the first quartile (p25) men and women earn only about 38 per cent and 28 per cent respectively, of the minimum tax threshold. Therefore, not only does the entire first quintile earn too little to be expected to pay taxes, but earnings are often far below the minimum threshold set by the revenue authority for taxing income in the formal sector.

<sup>10</sup> While this is a very low-income tax threshold, it is well above the national poverty line of GHS1,760.80 per adult equivalent per year (in 2017 prices).

<sup>11</sup> Again, this is a fairly conservative estimate since the comparisons with the marginal tax thresholds are based on gross monthly earnings instead of taxable earnings.

## Conclusion

The self-employed in Accra's informal sector form part of a "missing middle" that exists above the threshold of extreme poverty<sup>12</sup> but does not earn enough to access contributory social insurance schemes (see also Alferts 2013).<sup>13</sup> This means that the poorest informal sector operators in Accra are not eligible for access to poverty relief through Ghana's flagship social protection programme (LEAP) but are also not likely to earn enough to meet the essential food and non-food needs of their households. Moreover, most (62%) informal sector operators do have access to health insurance through the NHIS but pay out of pocket for membership in the scheme. Nonetheless, Ghana's lauded health insurance programme shows that informal workers can, in fact, be integrated into national social insurance systems if there is political will and an understanding of their needs and (contributory) capacities. On the whole, however, the NHIS is the only form of social protection with significant coverage of informal sector workers in Accra.

The lack of social protection was particularly apparent during the COVID-19 crisis when, either by design or omission, informal sector operators were largely excluded from the government's range of support and relief packages. Crucially, about 15 per cent of informal sector operators applied for support from the government's main relief package for small businesses but only about 1.5 per cent of all self-employed informal workers in Accra received any form of support. The COVID-19 context was therefore, a stark illustration of how informal sector operators fall in the gap between households in extreme poverty and the segment of the small enterprise sector that is eligible for conventional business support measures.

Regarding the question of how to finance social protection for informal sector operators, the data suggests that most are in need of social protection but, with low incomes and substantive tax burdens, few have the resources to finance the extension of coverage by themselves without additional support.

In the face of a large gap in social protection and pandemic recovery financing, domestic resource mobilization has become a priority in Ghana, as elsewhere. However, our analysis has shown

that many informal sector operators in Accra are positioned close to the national poverty line and already pay a number of taxes and fees (as well as contributions to the NHIS), often at the local level. These local contributions are largely missed by analyses of gaps in taxation (see Danquah and Osei-Assibey 2016) or in conventional tax incidence analyses. Moreover, the taxes, fees and levies that informal sectors pay are highly regressive in their structure and, for the lower earning segments of the informal sector, tax payments are very high in relation to their earnings. For this group in particular, payments for electricity, water and sanitation further cut deeply into earnings.

In evaluating the potential of informal sector workers to increase their contributions to the tax base to fund, *inter alia*, greater access to social protection and the broader post-COVID-19 recovery efforts, our evidence does not suggest that there is a "missing gold mine" in the informal economy. For substantial proportions of the informal sector, and perhaps especially those who are in need of greater access to social protection, it is clear that there is very little room for further taxation. Critically, a rethinking of the tools of raising revenue in informal contexts is needed. Our data shows that attempts to tax the informal sector, both historically (such as the stamp tax) and more recently (such as the "E-Levy" on mobile money transactions introduced in May 2022) have ended up being extremely regressive and tend to double down on the burdens of the poorest informal workers. One recent set of estimates (Anyidoho et al. 2022) shows that the lowest earning informal sector workers who use mobile money are likely to be paying up to 8 per cent of their net earnings on E-levy payments.

Therefore, a more careful analysis of the structure of earnings and taxes is required (see Anyidoho et al. forthcoming) before evaluating the potential of even the higher earning informal sector workers to contribute more in taxes. While the tax burdens among the top two quintiles appear to be relatively low (where workers pay only 3-4% of their gross earnings in taxes and fees), this finding should be qualified by the caveat that "taxable" earnings are likely to be much lower after the costs of transport, basic services, transportation, the NHIS and banking are included.

<sup>12</sup> Comparisons between individual earnings and poverty lines are for illustrative purposes only since poverty is measured at the household level in terms of per adult equivalent household income.

<sup>13</sup> Average earnings (GHS2,221 per annum) in the lowest earning quintile of the informal sector are more than double the per adult equivalent extreme poverty threshold of GHS982.2 per annum (in 2017 prices) but only slightly higher than the upper bound poverty line of GHS1,760 per annum. For more information on the construction of poverty lines in Ghana see: Ghana Statistical Service (2018).



Therefore, simply adding new taxes, fees or levies on top of the existing payments that informal sector workers already make is likely to be counterproductive and result in overtaxation and an even more regressive tax structure. Rather than a hidden “goldmine” of unpaid taxes, we find evidence of the most vulnerable workers being taxed most, making a number of “hidden” payments to both local authorities and a range of private actors – all while falling largely outside of the reach of formal social protection programmes.

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