

POLICY BRIEF

Improving the tax compliance behaviour of Ghana's informal sector: opportunities and challenges

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1.0

Executive Summary

The informal sector contributes significantly to output and employment in Ghana, accounting for over 70% of GDP and more than 80% of employment. In spite of its huge share in both economic output and employment, the contribution of the sector to the total tax take in Ghana is low, estimated at around 2% of total tax revenues. This reveals a large gap between the sector's economic importance and fiscal contribution, highlighting an urgent need to tackle the tax compliance issues holding back revenue mobilisation in this sector.

The findings from the study revealed that while most informal sector workers recognise the validity of taxation and indicate their intention to comply, actual compliance rates are low (mean behaviour score of 3.18 on a 7-point scale). This is not due to tax resistance, but to structural obstacles like distrust in government, limited tax awareness, cumbersome procedures, and perceived lack of visible public returns. Compliance

tends to be reactive, stimulated by threats of enforcement rather than intrinsic civic commitment. Notably, women, who comprise more than 60% of the informal workforce, indicated that they felt disproportionately harassed by local tax officers, reinforcing the call for gender-sensitive approaches.

In response to these challenges, the study recommends reforms that are digitally supported, community-based, and equity-focused. Informal workers specifically demanded flexible mobile tax payment channels like USSD and mobile money platforms to reduce the compliance burden. Similarly, forging partnerships with informal sector associations, enhancing trust through transparent engagement and training tax officers on gender-sensitive practices can help shift the system from coercion to voluntary compliance. These field-informed, practical measures are critical to re-engineering Ghana's tax administration and unlocking the full potential of the informal economy.





2.0

Introduction: Revealing the Potential of Ghana's Informal Sector for Sustainable Growth

2.1 The Economic Significance of Ghana's Informal Sector

Globally, the informal economy provides employment for about 60% of the 15-years-and-older workforce, with Sub-Saharan Africa at an even larger proportion of 67.6% of their workforce in 2020 within the sector. For Ghana, it is estimated at up to 83% of all jobs. The informal sector is the pillar of the Ghanaian economy, accounting for 70% of the Gross Domestic Product (GDP). This brings into perspective its pivotal role in economic activities and wealth generation. Besides its contribution to GDP, the sector is also an important provider of livelihood for over 65% of the nation's active labour force and accounts for about 62% of the country's commercial activities. An interesting demographic characteristic, especially in Greater Accra, is the dominance of women in informal work, which introduces a significant gender aspect to the otherwise more prominent dynamics

of the sector.

2.2 The Challenge of Low Tax Compliance

Although the informal sector makes significant contributions to the economy and society, its participation in the national tax system is exceptionally low, accounting for less than 2% of total tax revenue. This inconsistency poses a major policy issue. It does not only point to systemic issues in tax compliance but also perpetuates an inequitable distribution of the national tax burden, where the formal sector bears a disproportionately larger share. As a result, the government's capacity to raise adequate revenue for funding public spending in the area of education, health and infrastructure, for example, is severely limited. In addition, the complexities of this issue are intensified by distinct gender-related dimensions, as women, who constitute a major portion of informal sector operators, face unique





challenges in meeting their tax obligations.

2.3 Research Methodology Overview

The study employed a sequential exploratory mixed-methods approach, which began with nine Focus Group Discussions (FGDs) that included 70 participants (77% female) from the retail, hospitality, and creative/manufacturing sectors to collect contextual insights regarding perceptions and challenges related to tax compliance. This was

succeeded by a cross-sectional survey of 500 informal sector workers (61% female) across four zones in Greater Accra, Coastal, Industrial, Peri-Urban, and Central Business District to measure levels of tax compliance. The study characterised the informal sector according to the ILO framework as economic activities that are generally outside formal legal and regulatory systems, encompassing unregistered micro-enterprises and informal employment arrangements.





3.0

Key Insights into Informal Sector Tax Compliance

1. Low and Fragmented Tax Knowledge

The study reveals a complex scenario in the field of tax knowledge among workers in the informal sector. While 69% of survey respondents reported having some awareness of taxation, qualitative probing through focus group discussions revealed that this awareness is often superficial and fragmented. Many respondents equated central government taxes with daily market tolls or local levies collected by municipal authorities, without recognising the difference between these payments and their formal obligations to the Ghana Revenue Authority (GRA). The issue is not that informal workers know nothing about taxes, but that they confuse local levies and daily tolls with taxes owed to the GRA. Most participants believed that paying fees to market collectors or municipal officers fulfilled their tax obligations,

showing that their understanding of the national tax system is limited and often inaccurate.

Additionally, the majority of participants reported a deficiency in formal tax education, with knowledge usually gained intermittently through interactions with GRA officials, market groups, or personal experiences. One of the common issues mentioned was the lack of concerted and active training efforts, particularly highlighting the gap between what participants believe they know and their actual understanding of formal tax obligations. While the study did not assess the design or effectiveness of GRA's current awareness campaigns, the findings suggest that many informal workers remain unfamiliar with key distinctions between tax types and procedures. Therefore, there is a need to complement existing general outreach with more





localised and tax-type-specific training programs that clearly outline GRA responsibilities, clarify formal obligations, and address the real-world contexts in which informal workers operate. This also underscores the need for improved and harmonised communication by the Ghana Revenue Authority.

2. Compliance Driven by Fear, Not Duty

In Ghana, tax compliance in the informal sector is significantly low and tends to be reactive. Payments are generally made only when informal sector operators perceive a direct threat from enforcement officials, rather than voluntarily embracing it as a civic responsibility. The study assessed current tax compliance behaviour and future intentions using a 7-point scale. Actual compliance averaged 3.18, indicating only occasional adherence to tax obligations. Conversely, future compliance intentions scored higher at 4.49, reflecting a willingness to comply if obstacles like financial strain, lack of awareness, or distrust are resolved. The overall mean score across compliance items was 3.70, positioned between low past behaviour and a stated intention to improve. Importantly, the gap between intention and action highlights the need to identify factors that influence whether people follow through. Furthermore, very few of the respondents ever filed tax returns in

the past, typically seeing it as a responsibility reserved for established business firms or salaried employees.

Nevertheless, a noteworthy discovery is the strong intention to comply in the future, which is highlighted by a mean score of 4.49 out of 7, reported by numerous respondents. The study identified a significant gap between observed tax compliance behaviour (Mean: 3.18) and declared intention to comply in the future (Mean: 4.49). Although the survey did not explicitly ask respondents to explain the reasons for this change, this trend is consistent with the existence of latent willingness on the part of informal workers to fulfil tax obligations under altered conditions. When considered in conjunction with qualitative data, this divergence may be indicative of the impact of structural disincentives, such as procedural complexity, poor communication, and a lack of trust in public institutions, all of which were identified as key disincentives to current compliance. While the research cannot determine causality, these results suggest that systemic reforms, as opposed to punitive enforcement, will be more effective in translating positive intent into long-term compliance behaviour.

3. Business Formalisation and Registration

The study highlights existing barriers to the formalisation of businesses in





Levels of Tax Compliance in Ghana's Informal Sector (Greater Accra)

Compliance Measure	Mean Score (out of 7)	Standard Deviation
Current Tax Compliance Behaviour	3.18	1.72
Future Tax Compliance Intentions	4.49	1.68

Note: Scores are based on a 7-point Likert scale where 1 = Never, 2=Rarely, 3= Occasionally, 4 = Sometimes, 5= Frequently, 6= Almost Always and 7 = Always. A score below 4 indicates a generally low frequency of compliance.

Source: Adapted from Table 3, S_D33

Ghana's informal sector, where more than 70% of the respondents reported that they are not registered with the Registrar General's Department and 67% are not registered with the Ghana Revenue Authority (GRA), with the majority of the operators in the sector being outside the formal tax net. Conversely, 54% had registered with the local Metropolitan, Municipal, and District Assemblies (MMDAs), indicating that informal sector operators find registration at the local level more accessible, easier and rewarding. Lower cost fees, reduced bureaucracies, and more visible local advantages render MMDA registration more attractive. Most of the respondents were ready to

formalise but mentioned cost factors, complicated procedures, and uncertain benefits as disincentives. This suggests that the Ghana Revenue Authority can draw lessons from MMDAs' success by decentralising, simplifying and localising tax registration, possibly through mobile or community-based services and enhancing coordination with MMDAs to develop a unified, user-friendly system to catalyse widespread formalisation.

4. Moderating Effect of Demographic Variables

The tax compliance behaviour of informal sector operators in Greater Accra is shaped by various important





demographic factors, suggesting that a single policy approach may not be effective. Key factors include gender, educational background, business registration status, years of experience, and the specific type and income level of the enterprise. For example, women tend to be more compliant with everyday levies, while men's compliance is more conditional on formality and business size. The study found that education level appears to enhance informal workers' understanding and willingness to engage with tax systems. At the same time, qualitative insights suggest that individuals with longer entrepreneurial experience may develop selective or strategic compliance behaviours based on prior interactions with tax authorities. However, these associations were not formally tested through regression analysis. Additionally, the findings suggest that businesses with more stable income streams perceive it as easier to make regular tax payments, while those with low or unpredictable revenues often experience taxes as a financial strain. However, this relationship was not formally tested through regression analysis.

Notably, these demographic variables are not only associated with compliance, but they also moderate how and why compliance occurs, which suggests that policy responses must be differentiated. New businesses may require clear information and reassurance to minimise fear, whereas experienced operators may require material benefits to build up trust. Women, who are more likely to face income volatility and higher compliance costs, require tailored solutions distinct from men, who may be more likely to want to know about tax law. In line with the study's findings, effective tax policy must be demographically segmented. The research highlights that compliance is shaped by education, income stability, gender, and business type. Respondents also emphasised the need for clearer tax education, greater payment flexibility (especially through mobile platforms), and visible government support to encourage voluntary compliance. These factors collectively call for a policy design attuned to informal sector realities.





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Deep Dive: Barriers to Compliance and Gendered Realities

1. Pervasive Distrust and Perceived Inequity

The most entrenched barrier to voluntary tax compliance in Ghana's informal economy is the deep-seated distrust of government, fostered by widespread skepticism regarding corruption and wastage of tax revenue without any evident benefits in the form of public goods or infrastructure, a situation which is justified by grievances regarding poor roads, lower standards in healthcare and weak local government. More than 60% of the survey respondents showed strong agreement that corruption and a lack of concrete benefits deter them from paying taxes, eroding the social contract between government and people, as well as tax morale. This mistrust is reinforced by the belief that weak and small firms are singled out by tax officers, while multinational companies shun their share,

heightening perceptions of injustice and estrangement. Therefore, it is necessary to combat corruption and enhance transparency in order to restore faith, promote voluntary compliance, and persuade informal businesses to formalise, since the majority of them currently view formalisation and the associated tax burden as unwarranted and without material advantages.

2. Structural Barriers to Compliance and Formalisation

Beyond the issue of trust, a range of structural barriers significantly impede tax compliance and business formalisation in the informal sector.

- **Complexity of the Tax System:** The existing tax system is widely perceived as complex and difficult to navigate. This complexity is particularly challenging for individuals with limited formal





education or those lacking sophisticated record-keeping capabilities.

- **High Compliance Costs:** Both direct costs, such as fees and transportation expenses to tax offices, and indirect costs, like time spent away from business operations, represent significant financial burdens. These costs are especially prohibitive for businesses operating with already tight margins.
- **Limited Record-Keeping Capacity:** Many informal businesses operate without formal accounting practices, making it exceedingly difficult for them to accurately assess and report their income for tax purposes. This lack of capacity is a fundamental barrier to engaging with a formal tax system.
- **Irregular and Unstable Income:** The unpredictable nature of income for a large segment of informal sector workers poses a substantial challenge to consistent tax planning and payment. Daily or weekly earnings can fluctuate wildly, making fixed or regular tax obligations difficult to meet.

These constraints are interdependent as they pertain to the overall operational

framework for the informal sector. For instance, uncertain income directly impacts the ability to cope with compliance costs. Also, apart from tax-related problems, informal sector workers have frequently faced broader systemic barriers such as the unavailability of formal financial services like bank accounts and loans, and limited opportunities for training and capacity development. These broader economic problems directly impact the capacity and motivation of an informal enterprise to formalise and comply with taxes. If the process of formalisation does not result in better access to credit or opportunities for skill development, the perceived advantages diminish, making the related costs, including taxes, appear even steeper. This implies that effective tax compliance requires a strategy that goes beyond simply streamlining tax documentation. It should combine integrated policies that encourage financial inclusion, foster business growth, and improve capability, thereby improving overall viability and appeal of formalisation. Tax policy cannot be formulated in isolation, it should be linked with other economic development strategies so that a framework is established where formalisation is genuinely profitable and sustainable for informal economy businesses.





Key Challenges and Barriers to Tax Compliance in Ghana's Informal Sector

Challenge/Barrier	Mean Score (out of 7)	% Strongly Agree (6 or 7 on scale)
Perceived mismanagement or misappropriation of tax revenues	>4.50	>60%
Perceived corruption among government officials	>4.50	>60%
Perceived corruption among tax officers	>4.50	>60%
Lack of tangible benefits from paying taxes	>4.50	>60%
Irregular and unstable income	>4.50	>30%
High compliance costs	>4.50	>30%
Complexity of the tax system	>4.50	>30%
Limited record-keeping capacity	>4.50	>30%
Limited tax education	>4.50	>30%

Source: Adapted from Table 9, S_D37 and Table 10, S_D39





3. Significant Gender Disparities in Tax Experience

Women make up the vast majority of informal sector operators in Ghana, accounting for 92% overall, 61% of survey respondents, and 77% of Focus Group Discussion participants. While survey data showed no statistically significant gender difference in overall tax compliance levels, qualitative findings revealed clear disparities in women's experiences with the tax system. Women encounter more frequent and intimidating enforcement of daily levies, gender-insensitive treatment from tax officers, and significant challenges due to income instability and high formalisation costs, which uniquely intersect with their roles in managing household finances and caregiving responsibilities. Although both men and women identified corruption as a key issue, women were more likely to emphasise irregular income and increased compliance costs, whereas men tended to focus on the lack of benefits from taxes and the

ambiguity surrounding tax regulations.

Consequently, similar compliance levels conceal more profound disparities in the depth of challenges and paths to compliance. Women often comply under harsher conditions, experiencing harassment, bearing higher indirect costs, and coping with volatile household incomes, all of which lead to practical inequalities in the system. Addressing this matter requires gender-sensitive taxation in the form of ease of payment, anti-harassment policy, and preferential support to women-owned micro-enterprises. The lack of substantial advocacy from women for gender-specific reforms highlights the necessity for proactive policy actions and sensitisation towards their rights to ensure that their unique economic circumstances and roles are taken into account in the process of formulating tax policies in order to develop a more equitable and inclusive system.





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Pathways to Enhanced Compliance: Integrated Policy Recommendations

A transformation of the informal sector tax system in Ghana requires an integrated and harmonised effort that addresses the causes of low compliance and lack of trust. The recommendations below aim at fostering voluntary compliance, trust, and equity in the tax system.

1. **Simplify and Localise Tax Processes**
To make tax compliance more accessible and less burdensome, processes must be simplified and brought closer to informal sector workers.

Establish Mobile Tax Registration and Payment Booths: The deployment of mobile kiosks and services directly in markets and transport hubs is crucial. This approach significantly reduces travel time and costs for informal sector workers, making engagement with the tax system more convenient.

Introduce Simple, Tiered Tax Rates: Implementing tiered tax rates based on verified income bands will ensure fairness and simplicity. This structure

makes it easier for businesses with varying income levels to understand their obligations and comply, moving away from a one-size-fits-all approach.

Translate Guidelines into Local Languages and Visual Formats: To bridge the knowledge gap and ensure widespread understanding, tax compliance guidelines must be translated into local languages and presented in easily digestible visual formats. This addresses the fragmented understanding of tax obligations.

2. **Leverage Mobile Technology**
Digital solutions offer a powerful avenue for enhancing convenience, transparency, and record-keeping in tax administration.
Roll Out MoMo-based Tax Payment Systems: The implementation of mobile money (MoMo) based tax payment systems, coupled with instant SMS receipts, will significantly enhance convenience for taxpayers, improve transparency of transactions,





and provide immediate proof of payment.

Develop a GRA Tax USSD Platform and Mobile App: Creating user-friendly USSD short codes and dedicated mobile applications will promote digital inclusion, allowing for easy registration, payments, and reminders directly from mobile devices.

3. Adopt Gender-Responsive Tax Practices

Given the significant presence and unique challenges faced by women in the informal sector, tax practices must be specifically tailored to their realities.

Train Tax Officials in Gender Sensitivity and Anti-Harassment: Mandatory training programs for tax officers are essential to ensure respectful, non-intimidating, and gender-sensitive enforcement practices. This directly addresses concerns about disproportionate enforcement and insensitive treatment reported by women.

Introduce Flexible Tax Incentives or Relief Programs for Women-Led Microenterprises: Policies should be designed to acknowledge women's unique economic vulnerabilities. This could include flexible payment schedules, tax credits for caregiving responsibilities, or simplified compliance options specifically for

women-led businesses.

Empower Women in Policy Co-Design: Establishing formal forums and workshops where women traders and representatives from women's associations can actively participate in co-designing tax reforms and enforcement protocols is crucial. This ensures that policies genuinely reflect their lived realities and specific needs.

Recruit and Train Female Community Tax Agents: Prioritising the recruitment, training, and deployment of women as peer tax educators and community tax agents can significantly build trust, improve communication, and provide tailored support to female taxpayers, fostering a more approachable tax environment.

4. Rebuild Trust through Transparency and Visible Reinvestment

The pervasive distrust in government's use of tax revenue is a major barrier. Transparency initiatives are not merely about accountability; they are strategic interventions to directly address this distrust and foster a sense of civic duty.

Launch "Your Taxes at Work" Campaigns: Implementing highly visible, community-focused campaigns that publicly link tax collection to tangible community investments (e.g., sanitation





improvements, street lighting, upgraded market stalls, or improved local infrastructure) is vital. These initiatives directly counter the perception of misuse by providing visible, verifiable evidence of tax revenue utilisation.

Publish Simple Annual Tax Impact Reports: Producing and widely disseminating accessible annual reports that clearly detail how informal sector tax revenues are utilised in specific districts and communities will further enhance transparency.

Develop the Ghana Community Tax Tracker: A publicly available and easily accessible digital dashboard that monitors tax payments and underlying investments at the community level will greatly improve visibility and encourage compliance at the local level. These tools for transparency are not just reporting tools; they are behaviour-changing tools and pillars for sustainable tax compliance in an environment of low trust. When the public witnesses their contributions actually impacting their communities, their motivation changes from fear to civic responsibility, triggering greater voluntary compliance.

5. Foster Partnerships with Community Associations

Leveraging existing community structures and trusted leaders can

significantly enhance outreach and compliance efforts.

Formalise the Role of Trade Associations and Cooperatives: Incorporating associations from the informal sector as key collaborators in encouraging collective tax payments, facilitating group registrations, and disseminating tax education will leverage their existing networks and influence.

Co-create Simplified Compliance Guidelines: Greater buy-in and adherence will be ensured by working with local leaders and market queens to develop tax guidelines that are easily understood, culturally relevant, and generally supported.

Encourage Group Registrations and Collective Payments: Associations can increase compliance by streamlining procedures and utilising community networks to provide peer reminders and collective mobile money tax payments.

Partner with GRA on Compliance Incentive Schemes: Exploring incentive programs, like raffles or compliance certificates for compliant businesses, run in collaboration with associations, can promote and reward involvement, shifting the perception of taxation from that of a burden to one of shared responsibility with possible incentives.






6.0

Roles for Key Stakeholders: A Collaborative Approach

The successful reform of Ghana's informal sector tax system requires the active and collective participation of all stakeholders. Each party has a crucial role to play in transforming the current landscape.

1. Ministry of Finance & Ghana Revenue Authority (GRA)

As the primary policy and revenue collection bodies, the Ministry of Finance and the GRA must lead the reform efforts.

Lead Policy Reform: They must champion the development and implementation of gender-responsive tax policies and conduct equity-focused audits to ensure fairness across all segments of the informal sector.

Drive Simplification and Digitalisation: Spearheading initiatives to streamline registration

and payment processes through mobile kiosks, USSD platforms, and a dedicated mobile app is essential for accessibility and efficiency.

Formalise Partnerships: Establishing formal partnerships with informal sector associations is crucial to leverage their extensive networks for tax education, facilitating bulk registration, and gathering valuable feedback from the ground.

Commission Further Research: In order to ensure that the policies are inclusive and evidence-based, the Ministry of Finance and the Ghana Revenue Authority (GRA) should finance and support a national-level mixed-methods study to ascertain a comprehensive understanding of the dynamics of the informal economy in Ghana, including rural settings, migrant workers and youth populations





2. Metropolitan, Municipal, and District Assemblies (MMDAs)

MMDAs play a vital role at the local level, serving as direct points of contact for many informal sector workers.

Coordinate with GRA: Harmonising tax collection and revenue-sharing systems with the GRA is critical to reduce duplication of efforts and improve efficiency for taxpayers, alleviating confusion and multiple demands.

Set Up Mobile Kiosks and Local Services: Establishing mobile kiosks at transport hubs and markets will bring tax services and education directly to where informal workers operate, enhancing accessibility.

Localise Tax Education: MMDAs should actively encourage localised tax education initiatives in community centres, religious platforms, and through associations, ensuring guidelines are translated into local languages and delivered in culturally appropriate ways.

3. Civil Society Organisations (CSOs) & Development Partners

CSOs and development partners are instrumental in advocating for marginalised groups, building capacity, and facilitating dialogue.

Advocate for Equity and Co-Design: They should champion the inclusion

of women and marginalised groups in the tax reform process, advocating for gender-sensitive policies that address unique vulnerabilities.

Build Capacity for Associations:

Providing training to market associations and other informal groups on fiscal literacy, dispute resolution, and effective government engagement will empower these groups to better serve their members.

Independent Monitoring and Research:

Carrying out independent assessments of tax collection methods and supporting research that explores the tax experiences of frequently marginalised groups, like rural workers, migrants, and young people, will offer important external validation and reveal new policy requirements.

Facilitate Dialogue: Acting as intermediaries, CSOs can foster constructive dialogue between informal sector workers, the GRA, and MMDAs, helping to build trust and find common ground for effective reforms.

4. Informal Sector Associations & Community Leaders

These groups are trusted voices within their communities and can serve as powerful agents of change.

Act as Tax Education Champions:

They should serve as





community-based tax education champions and liaisons with GRA/MMDAs, leveraging their trusted positions to disseminate accurate information and bridge communication gaps.

Co-create Guidelines: Partnering with authorities to co-create simplified and translated tax compliance guidelines will ensure that the information resonates with their members and is culturally appropriate.

Encourage Collective Compliance:

Promoting group registrations, collective MoMo tax payments, and peer reminders can foster a culture of compliance within their networks, leveraging social cohesion for tax adherence.

Partner on Incentive Schemes:

Collaborating with GRA to administer compliance incentive schemes, such as raffles or certifications, can reward participation and further encourage voluntary compliance within their communities.





7.0

Conclusion: Towards an Inclusive and Equitable Tax System

Transforming Ghana's informal sector tax environment requires reforms that are strongly grounded in the community, propelled by values of fairness, and strongly underpinned by digital technology. The study, although centred in the Greater Accra Region, identifies that the challenges for informal economy workers are multidimensional, stemming from disjointed knowledge, generalised distrust of the government, and widespread structural obstacles, such as disparities along gendered lines.

A clear, straightforward, and inclusive tax system, founded on mutual trust and responsibility, holds the key to harnessing the huge potential of the informal sector in making a more

significant contribution to national development. The objective is not just to garner greater tax revenues; it is really about forging a more robust social contract between citizens and the state. This includes improving public services delivery, stimulating inclusive economic development, and making sure that all Ghanaians, especially the vulnerable groups in the informal economy, benefit from an efficiently managed and equitable tax system. Through the adoption and implementation of the integrated policy proposals outlined in this study, Ghana can be steered towards a future where the informal sector will no longer be a hidden economy but a revealed, dynamic and contributing force for national prosperity.



