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Research Article

Bridging Ghana's Tax Gap Through Licensure and Formal Recognition of Informal Labour: A Human Development Imperative

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Abstract

Ghana's economy is fundamentally dualistic, characterized by a vast, productive informal sector and a narrow yet heavily burdened formal sector. The few in the formal sector continue to bear a huge tax burden as compared to those in the informal sector who actually form our majority workforce base. According to official statistics, approximately 80 percent of employed persons operate informally, yet this sector contributes only 27.4 percent to GDP and an estimated less than 5 percent to total tax revenue. This structural dichotomy creates an unsustainable fiscal model and perpetuates significant human development deficits, including lack of social protection, precarious work, and constrained productivity. This paper moves beyond conventional tax enforcement narratives to propose a transformative, incentive-based licensure regime for informal trades. By integrating formal recognition with tangible benefits such as access to social security, financial services, and market opportunities, this model seeks to convert economic informality into structured economic citizenship, consistent with internationally recognized principles of equity, productivity, and decent work. It critiques current revenue collection strategies, proposes a licensure-benefit package, and offers a phased implementation roadmap. Evidence from neighbouring West African countries gathered shows that successful formalization depends more on building trust and creating attractive incentives than on coercive enforcement. The licensure framework is presented not merely as a revenue tool, but as a coherent strategy for inclusive growth, skills development, and equitable burden-sharing.

Keywords

Informal Sector, Tax Gap, Formalization, Licensure, Ghana, Incentive-Based Policy, Human Development, Economic Citizenship

1. Introduction: The Imperative of Structural Integration

Labour market structure is a definitive determinant of national development trajectories. Here in Ghana, the informal economy is not a marginal segment but the dominant engine of employment and livelihood. A good number of our private

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sector actors who form the engine of growth, unfortunately dominate the informal sector. According to the Ghana Statistical Service, eight out of ten employed persons are engaged in informal activities, typically characterized by low, irregular earnings and the absence of formal employer-employee contracts [2]. Concurrently, a staggering 92.3% of all business establishments operate informally, lacking registration and formal accounting systems [1]. This pervasive informality presents a profound paradox: while it is the lifeblood of employment, its contribution to GDP (27.4%) and, crucially, to the national tax base (under 5%) is disproportionately low [1, 2]. This imbalance places an inequitable fiscal burden on the formal minority and starves the state of revenues necessary for quality public services and social protection [13].

The implications extend beyond fiscal metrics to the core of human development; decent work, income security, and social equity. A system where the majority of workers and businesses remain outside the formal social contract undermines sustainable development [3]. This paper analyses the structural roots of the tax gap, critiques the limitations of current administrative measures by the Ghana Revenue Authority (GRA), and proposes a comprehensive licensure and formal recognition model. This model is designed to incentivize voluntary formalization, bridge the productivity gap, and create a fairer, more efficient, and inclusive fiscal ecosystem [5, 10].

2. The Anatomy of a Tax Disparity: Formal Burden vs. Informal Invisibility

The disparity in tax contributions is a direct function of visibility and systemic integration. In simple terms, the disparity is not primarily about willingness of actors to pay even from some moral commitments, but essentially, how easily and automatically the state can see income and compel payments through administrative processes largely dependent on information, traceability, enforceability and institutional linkages [4, 11]. Where these elements are present, taxation occurs almost automatically; where they are absent like in the case of Ghana’s informal sector, taxation becomes costly, selective and largely ineffective. The following presents the prevailing order between Ghana’s formal sector and the Informal.

2.1. The Formal Sector’s Automated Burden

Formal sector employment is enmeshed in mechanisms of automatic compliance. Pay-As-You-Earn (PAYE) deductions, withholding taxes on contracts, and embedded contributions to social security and health insurance (SSNIT, NHIS) ensure effective audits and an efficient revenue collection. These workers, and their employers, bear the brunt of direct taxation and are more fully captured within the net of indirect consumption taxes. Ghana's over-taxation of this formal minority creates perverse incentives and underscores the urgency of structural reform [13].

2.2. The Informal Sector’s Structural Elusiveness

Conversely, the informal sector is defined by its opacity to state systems. The GRA, despite a legal mandate and simplified schemes like the 3% VAT Flat Rate and fixed turnover taxes, faces profound challenges. As noted by GRA officials, these include: the unregulated, cash-based nature of service contracts (e.g., direct payments to artisans); the widespread lack of business registration and record-keeping; and a critical misconception where local market tolls and levies are conflated with national taxes, breeding resistance [4]. This environment renders coercive, broad-based tax enforcement economically inefficient and socially contentious.

It is important to note, recent GRA data shows that targeted efforts such as using the Ghana Card for identification and engaging trade associations, have yielded positive growth in informal sector revenue [4]. Indeed, a tripling of new taxpayer registrations in Ghana following digital ID integration has been documented, but registration alone does not guarantee sustained compliance [11]. This indicates an existing willingness and pathway that can be scaled. However, the underlying structural invisibility remains, limiting the potential for truly transformative, equitable revenue mobilization and human development gains.

3. Beyond Coercion: The Case for an Incentive-Based Licensure Regime

Current approaches often frame formalisation as a state-centric compliance exercise. Here, I propose a paradigm shift; "formalisation as a value proposition." A licensure regime for skilled and semi-skilled trades (e.g., electricians, plumbers, masons, hairdressers, tailors, etc) must be fundamentally attractive to the informal worker. It must be seen more as a development pact rather than a penalty. Comparative evidence from digital formalization efforts in Kenya and Nigeria shows that mobile money access reduced informality probability by 4 percentage points, while digital ID reduced it by 5-7 points, confirming that technology-enabled incentives can drive voluntary registration [14].

3.1. Regional Perspectives: Lessons from West African Neighbours

Ghana's informal sector challenge is not unique as it is shared across the West African sub-region [12]. Examining the experiences of Côte d'Ivoire, Burkina Faso and Togo; all neighbouring countries, reveal both cautionary tales and promising practices that can inform Ghana's licensure design.

Côte d'Ivoire offers perhaps the most instructive parallel.

Following the post-electoral crisis of 2010-2011, the Ivorian government launched the Agence de Développement de la Culture (ADCC) to register and formalize informal artisans, particularly in the sectors of woodwork, textiles and construction. The Ivorian model combined tax registration with direct access to micro-credit facilities administered through cooperative savings unions. Critically, the programme was implemented through pre-existing "associations professionnelles" rather than creating new state bureaucracies thereby reducing resistance and administrative overhead. However, some evaluation conducted indicate that uptake was highest among already-established artisans with fixed premises, while itinerant and market-based workers remained largely outside the system [7]. This reinforces the necessity of this paper's proposal of a tiered approach for Ghana, which explicitly accommodates the most vulnerable.

On their part in 2019, the Burkinabè government introduced the Système d'Immatriculation Simplifié (SIS), a voluntary simplified registration scheme targeting informal micro-enterprises. Theirs present an entirely different model. The SIS offered a single tax payment covering both national and municipal levies, alongside access to the national health insurance fund (RAMU). Despite its conceptual appeal, uptake remained disappointingly low, largely due to weak "Trust" in state institutions and the perception that registration would invite future harassment [8]. This experience underscores the centrality of trust-building and the need for visible and immediate benefits; precisely the "value proposition" I advocate in this paper. Hence, the proposal to adopt the Ghana Card and form partnerships with trusted trade associations will directly address this trust deficit.

Literature on Togo, the last under consideration, reveal they also experimented with sector-specific approaches and incidentally, theirs go a long way to affirm my proposed market advantage argument for licensed informal players (artisans, etc), and validates the potential of consumer-side incentives. The "Fédération des Artisans du Togo," (FAT) has worked with their government to establish voluntary certification programmes for electricians and plumbers, linking certification to eligibility for public works contracts. Preliminary data suggests that certified artisans earn approximately 30 percent higher incomes than their uncertified counterparts, creating organic market pull toward formalization [6].

What emerges from these regional experiences is a clear pattern: successful formalization is not imposed; it is attracted. Yes indeed, where benefits are immediate, tangible and delivered through trusted likeminded intermediaries, uptake improves. Yet indeed, where schemes are perceived as extractive or administratively cumbersome, they fail regardless of design elegance. Ghana, arriving later to comprehensive licensure, would have the advantage of learning from our neighbours; i.e., adopting Côte d'Ivoire's associative delivery model, avoiding Burkina Faso's trust pitfalls, and amplifying Togo's market-signaling successes [6-8].

3.2. The Licensure-Benefit Package

The core of this model is a Licensure-Benefit Package that delivers immediate, tangible value:

1) Formal Identity & Market Advantage: A government-issued license serves as a credible credential, enhancing consumer trust, for instance, people would be more willing to hire the services of strangers so long as they have a license, and allowing licensed tradespeople to access formal marketplaces, bid for government contracts, and build branded enterprises. This aligns with findings that formal contracts yield the highest wage returns for salaried workers in West Africa [12]. Digital identity systems like Ghana Card have demonstrated significant potential in expanding the formal tax net, with documented increases in taxpayer registration following its integration [9].
2) Integrated Social Protection: The license should be directly linked to streamlined contributions for pension (SSNIT) and health insurance (NHIS). Part of the collected fees or taxes could be directly allocated to these schemes, as suggested in GRA policy discussions, making the benefit visible and immediate [4].
3) Access to Financial Services: The license acts as a key financial identity document, facilitating access to microloans, business credit, and banking services from financial institutions that currently perceive informal operators as high-risk [10].
4) Simplified Tax Pathway: Licensed individuals would transition from being targets of complex tax assessments to beneficiaries of a simplified, predictable tax window; a presumptive tax based on trade tier, contributing to a sense of fairness and predictability [5].

4. Synergizing with and Scaling Existing GRA Initiatives

I must say however, that this structural shift proposition does not operate in a vacuum. It must deliberately integrate and enhance the following ongoing GRA efforts to avoid duplication and leverage established trust:

1) Ghana Card as Foundational ID: The national Ghana Card should be the prerequisite for obtaining a trade license, creating a unified, verifiable identity database [4]. Empirical validation for this approach demonstrates that Ghana's digital ID integration has already tripled taxpayer registrations, though compliance follow-through remains a challenge that incentives must address [11].
2) Partnerships with Trade Associations: Engagement with formidable groups like GUTA, GHABA (hairdressers), and the Artisans Association of Ghana is critical. Licensing should be administered in collaboration with these associations, using them as channels for education, registration, and standard-setting [4]. These bodies would

be empowered to manage their members more effectively as they subscribe to the new regime. This associative model mirrors Côte d'Ivoire's successful approach and avoids the bureaucratic trust deficits that plagued Burkina Faso's efforts [7, 8].

3) Incorporating Behavioural Incentives: Successful GRA tactics, such as public raffles for compliant taxpayers, should be adapted to reward newly licensed professionals, further bolstering the positive reinforcement model [4]. Evidence from Tanzania's VAT receipt lottery demonstrates the power of such incentives: customer-focused lotteries increased reported sales by 61% and VAT liability by 66% among registered firms, suggesting that Ghana could adapt similar consumer-side incentives to complement the licensure regime [15].

5. Implementation Roadmap: A Phased, Evidence-Based Approach

I admit, a blanket nationwide imposition would most likely replicate the failures of past coercive policies hence, implementation must be phased, participatory, and pilot-driven [10].

1) Pilot Phase (Years 1-2): Select two well-organized trade associations (e.g., electricians and dressmakers) in two contrasting densely populated regions (e.g., Greater Accra and Ashanti). Co-design the license criteria, benefits package, and simplified tax mechanism with association leaders.
2) Incentive-Led Roll-Out: During the pilot, heavily promote the "Licensed Professional" brand to the public through media campaigns, encouraging consumers to "Look for the License." This creates market demand that pulls workers into formalization [14].
3) Monitoring, Evaluation, and Adaptive Learning: Rigorously track KPIs: registration rates, pre- and post-license income changes, tax compliance ease, and access to credit/benefits. Use this data to adapt the model before scaling [5].
4) Gradual National Scale-Up (Year 3+): Expand to other trades and regions, incorporating lessons learned. The ultimate goal is a federated system where major trades are self-regulating under a national standards and benefits framework.

6. Addressing Risks and Ensuring Equity

A critical eye must be cast on the following potential pitfalls essentially due to the fact that the regime's ultimate success and legitimacy, hinge on proactively managing them:

6.1. Exclusion of the Most Vulnerable

The primary risk is that a one-size-fits-all license could paradoxically formalize inequality by erecting a new bureaucratic barrier for the poorest micro-entrepreneurs and subsistence traders [7]. The model therefore must include a micro-entrepreneur tier with minimal fees and maximum benefits focus (e.g., primary access to health insurance) to avoid marginalizing the poorest.

A sample model could be as follows:

1) A Multi-Tiered License System: The model should offer a gradient of formalization. A Basic Tier for market vendors and sole proprietors would require minimal proof of identity and activity, carry a symbolic fee (or be initially subsidized), and grant core benefits like access to the National Health Insurance Scheme (NHIS) and legal recognition. Advanced Tiers for established artisans or small workshops would involve demonstrable skill certification, higher fees, and unlock additional benefits like social security (SSNIT) enrollment, eligibility for government procurement, and facilitated loan applications. This proposal of a tiered approach aligns with recommendations for differentiated formalization pathways targeting women and youth specifically [14].
2) Direct Benefits-First Approach: For the Basic Tier, the value proposition must be immediate and non-financial. The license itself should function as a tool for empowerment. e.g., protecting against arbitrary eviction from market stalls or harassment with a clear, simplified path to later tiers as the business grows. This turns the license from a cost into an asset.

6.2. Bureaucratic Corruption

The introduction of a new licensing system creates new points of public interaction, which historically can become avenues for rent-seeking and delay.

A deliberate anti-corruption design is therefore essential for effective delivery [10].

1) Digital Portal as Primary Interface: All applications, renewals, fee payments, and grievance reporting must be managed through a centralized, user-friendly mobile and web platform. This minimizes discretionary face-to-face interactions with officials, a point in service delivery in Ghana, so grossly abused as an incentive for corruption [11]. As Agyeman and Asante [9] argue, technology-enabled platforms can enhance transparency and reduce opportunities for rent-seeking in public service delivery.
2) Transparent Criteria and Automated Processing: Clear, publicly listed qualification criteria for each tier and trade should be established. Where possible, approvals should be automated or subject to peer review by trade association committees, reducing bureaucratic discretion.
3) Oversight and Accountability: A joint oversight committee comprising GRA officials, trade association representatives, and civil society watchdogs should audit the process, review fee structures, and handle appeals, ensuring the system serves its users.

6.3. Consumer Adoption

The licensure regime cannot succeed if it is a supply-side policy only. Without consumer demand for "licensed" services, the market advantage for workers is nullified, undermining the core incentive. This calls for the following real efforts to rally the public behind its adoption:

1) National Public Awareness Campaign: A sustained campaign must educate the public on the meaning of the "Licensed Professional" seal, associating it with verified skills, accountability, and quality assurance. This transforms the license from a government certificate into a valuable market signal [15].
2) Creating Pull Factors: Public procurement rules can mandate the use of licensed tradespersons for minor contracts. Insurance companies could offer lower premiums for home repairs done by licensed professionals. These measures create tangible economic demand that pulls workers into the system [12].
3) Phasing and Demonstration: Piloting in visible, high-traffic sectors allows for the organic build-up of consumer recognition and trust, creating reference models before national rollout [6].

7. Conclusion

Ghana's future economic resilience and equity depend on integrating its dominant informal workforce into a structured, supportive, and productive fold. The current fiscal imbalance is a symptom of this deeper structural fissure [13]. The incentivized licensure regime proposed here is more than a tax policy; it is a vehicle for human development [3]. It replaces extraction with opportunity, invisibility of actors with recognition, and vulnerability with security. By offering a credible value proposition where the state provides tangible benefits in exchange for voluntary formalization, Ghana can build a broader, fairer, and more sustainable tax base while fundamentally enhancing the dignity, productivity, and welfare of the majority of its workers [2, 5, 10]. As the West African regional evidence demonstrates, successful formalization is not imposed but attracted [6-8, 12]. Ghana has the opportunity to learn from its neighbours and design a licensure regime that truly delivers economic citizenship and inclusive growth.

Abbreviations

GRA	Ghana Revenue Authority
GSS	Ghana Statistical Service
GUTA	Ghana Union of Traders Association
GHABA	Ghana Hairdressers and Beauticians Association
MMDAs	Metropolitan, Municipal and District Assemblies
NHIS	National Health Insurance Scheme
ORCID	Open Researcher and Contributor ID
PAYE	Pay As You Earn
SSNIT	Social Security and National Insurance Trust
UNDP	United Nations Development Programme
VAT	Value Added Tax

Author Contributions

Michael Agyei Sarfo-Kantanka: Conceptualization, Investigation, Methodology, Project administration, Resources, Visualization, Writing – original draft, Writing – review & editing

Conflicts of Interest

The author declares no conflicts of interest.

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