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INTEGRATING GHANA'S INFORMAL SECTOR FOR GROWTH & DEVELOPMENT



Assessing Opportunities for the Sustainable Integration of Ghana's Informal Sector Contributions into Socio-Economic Development of Ghana



Good Governance Africa

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A BRIEF PROFILE OF GGA-WARO

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- The Ghana Anti-Corruption Coalition (GACC)
- Ghana CSOs Platform for the Monitoring of the SDGs
- The Ghana Urbanisation Think Tank (GUTT)

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Acronyms

ETS	Excise Tax Stamps
GDP	Gross Domestic Product
GGA	Good Governance Africa
GLSS	Ghana Living Standards Survey
GoG	Government of Ghana
GRA	Ghana Revenue Authority
GSS	Ghana Statistical Service
ICLS	International Conference of Labour Statisticians
ILO	International Labour Organization
MSEs	Micro and Small Enterprises
NDMW	National Daily Minimum Wage
NIA	National Identification Authority
NTC	National Tripartite Committee
PAYE	Pay As You Earn
PHC	Population and Housing Census
PPP	Purchasing Power Parity
SMEs	Small and Medium Enterprises
SSNIT	Social Security and National Insurance Trust
TIN	Tax Identification Number
VAT	Value Added Tax
WHO	World Health Organisation

Executive Summary

The informal sector is a global phenomenon and represents an important source of income for households in different world regions. Its origin remains unclear. However, discussions about the informal sector tend to associate the informal sector with the traditional economy. Other discourses define the informal sector based on three main variables, i.e., legality (registration, payment of taxes etc.); enterprise size; and level of capital intensity. It is seen generally as a sector characterized by low-skill, low-technology and household led enterprises.

Irrespective of the difficulties associated with defining the informal sector, it remains an important sector of many national economies, and makes significant contributions to the development of countries in the developing and transition countries of the world. Estimates for different world regions between 2005 – 2010 show that the informal sector employs 58.4%, 65.9%, 57.7%, 69.7% and 22.6% for North Africa, sub-Saharan Africa, Latin America, Southern and southeastern Asia and transition countries, respectively. In terms of the contributions of the sector to the Gross Domestic Product (GDP) of these different sub-regions, it is estimated that the informal sector makes a 63.6% contribution to the GDP of sub-Saharan African Countries ranging between a maximum of 72.6% for Niger to a minimum of 51.5% for Senegal.

In the specific case of Ghana, the informal sector is used mainly to refer to non-agricultural activities. The sector which constitutes about 62 percent of all commercial enterprises in Ghana, employs about 65.3% of the active labour force of the country. The sector is also estimated to represent about 35.6% of the Ghanaian economy, approximately \$66 billion at GDP PPP levels. The informal sector of Ghana is also seen to provide the poor and the vulnerable, including women a means to gaining income and improving their livelihoods. The importance of the informal sector, notwithstanding, it has not been effectively and sustainably integrated into the larger Ghanaian economy and its full potentials are yet to be tapped. This study is therefore commissioned by Good Governance Africa, West African Office to review the extant literature on the subject, to pull together in a single document, the disparate pathways by which the informal sector can be integrated into the larger Ghanaian economy to allow for a full realization of its potentials. The study will be guided by the following specific objectives:

1. To characterize the informal sector of Ghana.
2. To assess the regulatory and policy environment to identify enabling and inhibiting factors to the development of the informal sector.
3. To examine the opportunities and pathways that exist for sustainably

integrating the informal sector into the Ghanaian economy.

The study undertook an extensive desktop review of over 70 published articles and books dated between 1960 and 2022 to understand the state of knowledge on the subject matter and to establish the opportunities that exist for sustainably integrating this important sector into the Ghanaian national economy. The study found that Ghana's informal sector is theoretically dualist in character. The regulatory regime for business establishment is cumbersome and there are several procedural and regulatory requirements that serve as impediments to any efforts to streamline the operations of the informal sector and formalize the sector. The informal sector is well-known. Its actors are scattered in areas such as agriculture, fishing and fish processing and agro-industrial activities. Working conditions in the sector are also deplorable.

The study makes some important policy recommendations for integrating the informal sector into the larger economy. It is recommended that the state must take the lead in providing services required by the informal sector. That can incentivize actors in the informal sector and provide an easy pathway for formalization and integration as access to services will be linked to formalization. There is also the need to harmonise the plethora of legislation and regulatory procedures governing the registration of businesses in Ghana. This will reduce or eliminate the drudgery associated with registration and enhance the formalization drive. The country must also leverage on recent policy initiatives such as the Ghana Card, the Ghana Post GPS and Digital Address System to identify the physical location of informal sector businesses for purposes of registering, formalizing and ensuring that value created in the sector is sustainably integrated into the national economy. It is concluded these initiatives, among others will help transition the country from an informal to a formal economy and from a cash based to a cashless one.



Chapter One

The Informal Sector: Meaning and Definitions

1.1 Conceptualization of the Informal Sector Economy

The informal sector has existed and acted as a source of income for many generations and for many households, globally. Originally, it was identified as the traditional form of work, and historical evidence suggests that the term informal sector was used as a replacement for the traditional sector (Benanav, 2019). The traditional economy was perceived as a low-skill and low technology field. This perception still exists today, hence encouraging many people to venture into it for its simplicity. Also, widespread economic restructuring of the past decades, a shift from the manufacturing to service sector jobs in addition to the above, resulted in the increase in forms of marginal employment and an increase in small businesses (informal sector).

Definitions of the informal sector are based on three main variables, i.e., legality (registration, payment of taxes etc.); enterprise size; and level of capital intensity (Mead, 1996). It is seen generally as a sector characterized by low-skill, low-technology and household led enterprises. The 15th International Conference of Labour Statisticians (ICLS) resolution states that the informal sector consists of “units engaged in the production of goods or services with the primary objective of generating employment and incomes for the persons concerned. These units typically operate at a low level of organization, with little or no division between labor and capital as factors of production and on a small scale” (ILO,

1993, par. 5). The informal economy on the other hand, is seen as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” (ILO, 2021, p.7). Dell’anno, (2021) faults the ICLS’s definition of the concept of informal sector, indicating that it is at variance with the notion of informal employment which is the main source of the informal economy in the developing world. For purposes of this study, the informal sector and the informal economy would be used interchangeably, as they are connected by a single thread, i.e., the legality or lawfulness of the activities of economic units.



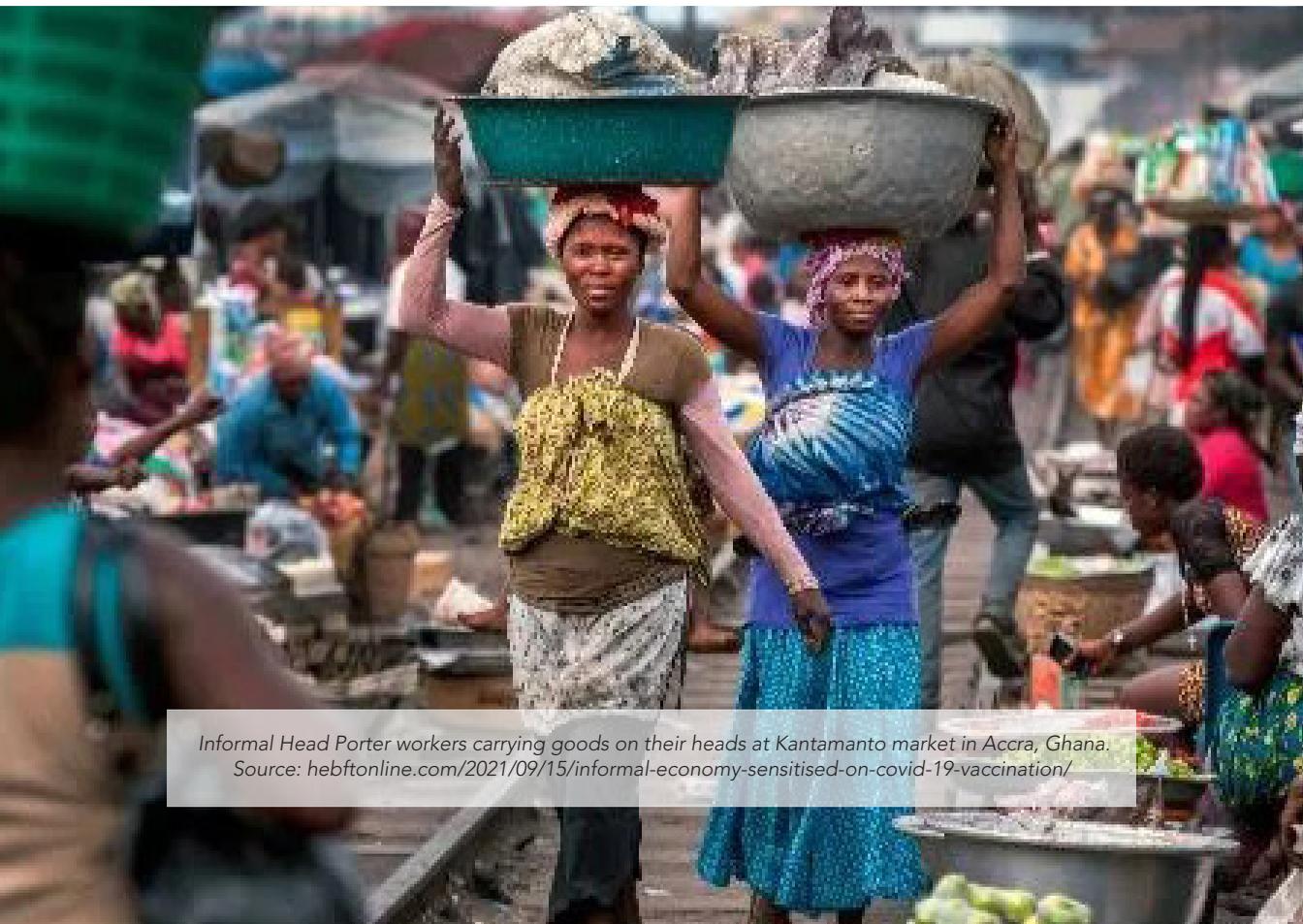
Definitions of the informal sector are based on three main variables, i.e., legality (registration, payment of taxes etc.); enterprise size; and level of capital intensity (Mead, 1996)

Historically, the concept of informal sector was introduced by a British Anthropologist, Keith Hart in 1971 during his study of economic activities among rural migrants in Ghana (Hart, 1973). This term was accepted when the International Labour Organization (ILO) (1973) studied this particular sector in Kenya. The concept of informal sector was subsequently changed to informal economy to underline the fact that, informality is not a sector, but a certain way of carrying out economic activities. In this study the informal sector and the informal economy will therefore be used interchangeably to refer to the same thing. The informal sector/economy is a global phenomenon and represents an important source of income for households in different world regions and an avenue for several people to be gainfully employed other than in the traditional government sector, which is now virtually incapable of absorbing the teeming graduates from

various academic institutions into the formal work force.

The informal sector, popularly known as 'grey economy' (Chima, 2016; Henshaw, 2017) plays a vital role in the economic growth of countries. Globally, two billion workers – representing 61.2% of the world's employed population – are in informal employment (ILO, 2018). The informal economy comprises more than half of the global labour force and more than 90% of micro and small enterprises (MSEs) worldwide. The concept 'informal economy' encompasses a diverse range of situations and phenomena. Indeed, the informal economy manifests itself in a wide variety of forms across and within economies.

Working in the informal economy is always characterized by small or undefined workplaces, unsafe and unhealthy working



*Informal Head Porter workers carrying goods on their heads at Kantamanto market in Accra, Ghana.
Source: hebftonline.com/2021/09/15/informal-economy-sensitised-on-covid-19-vaccination/*

conditions, low levels of skills and productivity, low or irregular incomes, long working hours and lack of access to information, markets, finance, training and technology. Workers in the informal economy are not recognized, registered or regulated; they often work without a formal contract and are therefore not protected under labour and social protection laws. The root causes of informality include elements related to the economic context, the legal, regulated and policy frameworks and to some micro level determinants such as low level of education, discrimination, poverty, and lack of access to economic resources and other business services.

The informal sector is a type of economy that applies to all income classes and all sectors of the economy. It comprises of various types of economic activities, spanning from the self-employed such as second-hand clothing dealers, hawkers, dressmakers, wage workers, housekeepers, security guards to registered businesses, such as, law firms, private hospitals and schools that underestimate their incomes and overestimate their expenditure (Greenidge, Holder & Mayers, 2009; Murunga, Muriithi & Wawire, 2021; Ngui, Muniu & Wawire, 2014). Furthermore, the informal sector according to the ILO (2002a, b; 2003) is seen as consisting of wage workers including workers of informal enterprises, home workers, part-time employees, and remunerated domestic employees. The informal sector can be understood from the perspective of revenue and employment enhancing potential as business enterprises with potentials to contribute to national economic growth and wealth creation, entities or families who engage in informal business for survival and individuals who commit to informal business activities alongside their informal jobs (Oberay & Chadaw, 2001; ILO, 2002a, b).

1.2 Informal Economy in sub-Saharan Africa

The informal economy makes significant contributions to the development of countries in the developing and transition countries of the world. At 67.6%, sub-Saharan Africa has the highest labour force participation rate of all regions in the world, compared with a global average of 60.5% in 2020 (ILO STAT, 2020). According to the most recent estimates, non-agricultural employment in the informal economy is approximately 77% of total employment in sub-Saharan Africa. The informal economy makes significant contributions to the national economies of sub-Saharan African countries, with its constitutions ranging from a low of 20 to 25% for Mauritius, South Africa and Namibia to a high of 50 to 65% for Benin, Tanzania and Nigeria (Medina, Jonelis, & Cangul, 2017).

Most recently, Charmes (2021) has undertaken some estimates on the share of employment (%) in the informal economy in total non-agricultural employment for different world regions for a five-year interval from 1975 to 2010. The 2005 – 2010 estimates show that the informal sector employs 58.4%, 65.9%, 57.7%, 69.7% and 22.6% for North Africa, sub-Saharan Africa, Latin America, Southern and southeastern Asia and transition countries, respectively. In terms of the contributions of the sector to the Gross Domestic Product (GDP) of these different sub-regions, it is estimated that the informal sector makes a 63.6% contribution to the GDP of sub-Saharan African Countries ranging between a maximum of 72.6% for Niger to a minimum of 51.5% for Senegal. The informal economies' share in total employment and GDP is expected to increase as a result of the COVID-19 crises (Schwettmann, 2020).

1.3. Gender and the Informal Economy in sub-Saharan Africa

Growth in the informal sector has seen an increasing trend over the years and continues to rise. Previous literature attributed the rise in the informal sector to the barriers to entry into the formal sector. However, in recent models and literature, the situation is blamed on burdensome tax and regulatory obligations and poor quality of government institutions (Okran, 2018). The number of females participating in informal sector work across the globe is considerably larger than their male counterparts (Chen, 2014). For women, informal employment is pervasive. In some parts of sub-Saharan Africa, the gender gap (difference between male and female) in informal employment is more than 20 percentage points. Among the youth, the gender gap is even wider (ILO, 2018). The feminization of poverty, combined with discrimination by gender, age, ethnicity or disability, also means that the most vulnerable and marginalized groups tend to end up in the informal economy, and this is especially the case for women and young people, who have no other choice than the informal economy for their survival and livelihood.

1.4. Objectives of the Assignment

The importance of the informal sector, notwithstanding, it has not been effectively and sustainably integrated into the larger Ghanaian economy and its full potentials are yet to be tapped. This study was therefore commissioned by Good Governance Africa, (GGA) West African Office to review the extant literature on the subject, to pull together in a single document, the disparate pathways by which the informal sector can be integrated into the larger Ghanaian economy to allow for a full realization of its potentials. The study will be guided by the following specific objectives:

1. To characterize the informal sector of Ghana;
2. To assess the regulatory and policy environment to identify enabling and inhibiting factors to the development of the informal sector; and
3. To examine the opportunities and pathways that exist for sustainably integrating the informal sector into the Ghanaian economy.

1.5. Methodology

The study is fundamentally desktop research which relied on secondary sources of data and other published material to understand the informal sector in Ghana. As a result, the study made use of data gathered primarily from databases and publicly available sources. Grey literature sources such as Google (and Google Scholar) and PDF Search were also be made. Mainly, some search terms used included "the informal sector in sub-Saharan Africa and Ghana", "characteristics of the informal sector in Ghana", "regulatory and policy environment of the informal sector", "opportunities and pathways for sustainably integrating the informal sector into the Ghanaian economy" among others. The search processes followed Cronin et al.'s (2008) step by step approach to the classical literature review. The steps in the process are (1) initial review of relevant documents on the informal sector of Ghana; (2) selection of relevant reports and literature for analysis; and (3) analysis of obtained documents (Anafo et al., 2021). Over 70 publications dating

from 1960 and 2022 were reviewed. The results from the extensive review were analyzed by collation and aggregation of content based on themes, comparing and organizing. The extracted data were presented by narrative analysis. Essentially, these represent the processes that the team adopted in getting the study executed.

1.6. Summary

This Chapter sought to understand the meaning and definition for the concept of informal economy, its relevance to the national economies of countries in different world regions and the need for countries to find innovative ways of sustainably integrating the benefits of the informal sector into their national economies. The Chapter also defined the broad goal and objectives of this assignment and detailed the methods that were employed in getting the study executed. The next Chapter will attempt to unpack the different theoretical thoughts about informality. That exercise is to allow for the informal sector of Ghana to be situated within a certain theoretical frame for ease of analysis of its evolution, features and therefore amenability to integration into the national economy.



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Chapter Two

Theorizing The Informal Sector

2.1 Introduction

The informal economy has received widespread academic inquisition. There are therefore varied theoretical explanations for the existence and functioning of the informal economy in different regional and country contexts. It is instructive to indicate that Tokman (1978) is one of the pioneering authors to have reviewed the theories of informality. Tokman's (1978) work focused on the nexus between the formal and informal sectors, based on which two theoretical approaches to informality were identified. These were the benign and subordinate views which were subsequently followed by the integrated approach which Tokman (1978) labelled as "heterogenous subordination". Since then several other attempts have been made to theorize about the informal sector. Recently, Yussuf (2011) identified four overarching theories for studying the informal economy. These include the modernization theory, the dependency theory, neoliberalism and structuralism. For purposes of this review, however, the categorizations and analysis undertaken by Dell'Anno (2021) are found to be more compelling. He identifies the theories of informal economy as comprising modernization theory, dualists theory, structuralists, neoliberal, free-riding and two-tiered. This Chapter will delve into each of the theories, culminating in a comparative assessment of the theories and an exposition into whether Ghana's informal economy is reflective of any of them or a unique system in its own right.

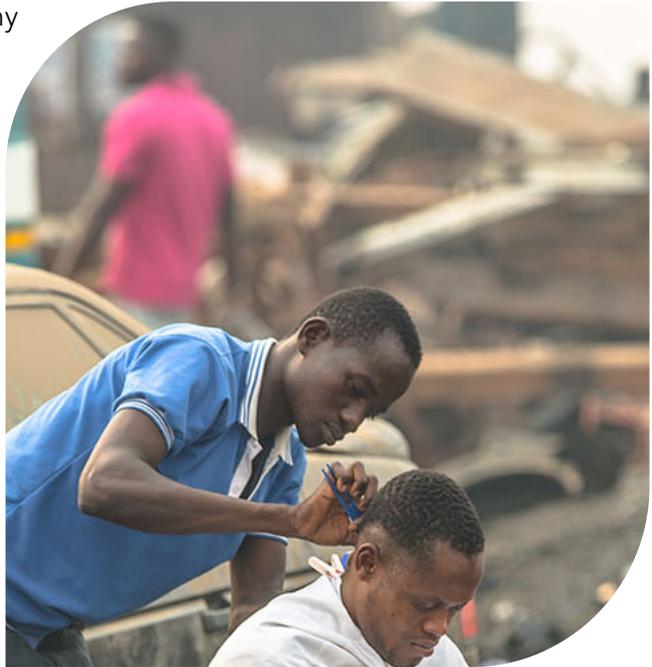
2.2. Theories of the Informal Economy

2.2.1. The modernization theory

The modernization theory was initially propounded by Rostow (1960) as an approach to national development in the post-World War II era. The fundamental argument of Rostow then was that the underdevelopment of the developing world was due to the embrace of values and practices that were deemed backward (Yusuff, 2011). If these developing countries were to achieve any form of development, then it was important for them to discard their backward values and acquire "modern" values in the form of "modern" legal institutions, and "modern" capitalist systems (Yusuff, 2011). The term "modern" as used by Rostow was in reference to Western values as opposed to values which were different from some traditional values being practiced elsewhere.

Applied to the concept of informality, the main contention of modernists adherents is that informality persisted in many developing countries because those countries had not been modernized into the world and the international economy.

The modernization theory gained some currency in academic and policy cycles and its proponents have often argued that informality is a residue of traditional, pre-capitalist and subsistence-based production, which are commonly associated with rural and isolated systems. These rural economies remained informal because they did not possess the essential



An informal worker(Barber) providing service to an inhabitant at Agbogbloshie-Accra Ghana- Source: <https://africasacountry.com/2019/03/six-myths-about-electronic-waste-in-agbog-bloshie-ghana>

ingredients required to transform their economies from informal to formal ones. They argued that such economies lacked proper education, skilled manpower and the needed value orientations to transform their economies (Moser, 1978; Yusuff, 2011).

The arguments of modernists were that as countries transition from informal to formal economies, urban surpluses would disappear with the rise of industrialization. It was basically canvassed that informal sector workers became a certain “reserve army” that facilitated the accumulation of capital through the process of release of cheap labour onto the formal, a process which Mkandawire (1985) observed as

facilitating the exploitation of the working class in such a manner that weakens the bargaining position of formal workers with the effect that it lowers wages down. The modernization ideas were eventually subjected to scrutiny by the works of the International Labour Organization (ILO) (1972) and Hart, (1973) in Kenya and Ghana, respectively. The ILO (1972, p.5) observed for instance that “far from being only marginally productive” the informal sector although relatively small in scale and dependent on simple technologies with little operational capital has proven to be economically efficient and profit-making, and employment “has probably increased a good deal faster in the informal than in the formal sector” (ILO, 1972, p.6).

2.2.2. The Dualist Theory Of Informal Sector

The dualist theory has been around for well over a century but was popularized by the ILO in the 1970s. It fundamentally argues that the informal and formal sectors of every economy are clearly distinguishable from each other. While the informal sector is characterized by marginal activities, the formal sector is populated by privileged members of the labour force (Hart 1973; ILO 1972; Chen, 2005). At the roots of the theory is the notion that the persistence of informal activities is due largely to the relative lack of sufficient modern job opportunities to absorb surplus labour, a situation which is attributed to slow economic growth and/or to rapid population growth (Chen, 2005).

The theory originated from the United States from America, deriving from the work of institutional economists. It emerged as a result of the relative inability of some American Labour Economists, the dualists to explain the persistence of poverty and

unemployment among disadvantaged groups such as minorities and women in spite of the pace of economic reform (Uys & Blaauw, 2006). The Dualists theory argues that there exist a dual labour market which are characterized by intra market mobility but with minimal or no inter market mobility, whatsoever. According to Doeringer-Piore (1971), the two markets are divided into two main strata which did not have relevance for specific occupations or industries but possessed some general characteristics. Interaction between the two main strata results in emergence of two labour markets, i.e., the primary and secondary sectors (Uys & Blaauw, 2006).

The primary sector is characterized as the domain of the privileged members of the labour force. It is well structured and governed by internal labour market mechanisms. Wages in the primary sector are relatively quite high, working conditions are good and employment in the sector is very stable. There are clear and predictable career progression pathways, coupled with job security and opportunities for mobility along seniority tracks and more importantly the administration of work rules and regulations are equitable, transparent and fair (Doeringer & Piore, 1971). Workers are also at liberty to form associations and trade unions to protect their interest and fight for their welfare (Uys & Blaauw, 2006).

The secondary sector on the other hand is predominantly composed of jobs that do not require of workers to possess much skill specificity. The required labour pool for jobs within this sector is to a large extent undifferentiated, with a certain degree of homogeneous mass of raw labour power (Uys & Blaauw, 2006). Actors in the secondary sector receive little to no on-the-job training in the performance of

their job tasks and where some form of training is provided at all, it is often of a general nature. The essential characteristics of the sector is the absence of any form of grievance procedures, the absence of union protection, the lack of codified work rules and rules governing career progression, low wages, and the absence of job security. In light of all of these challenges, workers exhibit traits that are a manifestation of the weak institutional environment within which they work. They exhibit poor work discipline, are unreliable on the job, unstable work patterns, disregard for punctuality, are inattentive, regular absenteeism and petty pilfering of their employers (Doeringer & Piore, 1971). The secondary sector also experiences very high labour turnover, considerable variability in employment and a rather personal work relationship between different categories of workers that creates the opportunity for favouritism and breeds high levels of abuse of discretionary power and the imposition of harsh disciplinary measures (Uys, & Blaauw, 2006.). The operations of the primary and secondary sectors of the labour market has in recent times been referred to as the core and the periphery of the economy, respectively with firms in the core offering primary jobs and adhering to primary labour market practices, while firms in the periphery offer secondary jobs and are inclined to follow secondary labour market practices (Bluestone et al., 1973).

2.2.3. The Structuralists Theory

The structuralists bring an entirely new dimension to the informality discourse. Popularized by Moser (1978) and Castells and Portes (1989), they describe the informal economy as a subordinated system whereby the actors in seeking to maximise their economic gains, end up through the invisible hand increasing the competitiveness of large capitalist firms (Chen et al., 2004). In this sense informality is not taken to be the product of excessive regulation or abundance of labour supply but a unique and distinct way of labour utilization and to some extent exploitation by capitalists' interests (Yusuff, 2011). Structuralists are of the view that the formal and informal economy are essentially linked and interdependent (Dell'Anno, 2021). It derives its essential elements from the "exploitative integration" within the "subordination approach" as discussed by Tokman (1978). Examined in this way, the structuralists see a strong level of dependence of the informal sector on health and sanctity of the capitalists system (Chen et al., 2004).

Yusuff (2011) indicates that the contributions of the structuralists

to the informal economy discourse can be summarized into two main points. First, they argue that informality is nothing, but a system that provides sustenance for the capitalist structure, which in turn is supported by globalization, with the coupled effect of maintaining market competitiveness as producers seek to minimize the costs associated with production, especially wages (Yusuff, 2011). In this regard, Castels and Portes (1989) observed a trend whereby Guatemalan local cloth makers were supplied with cloth, design patterns and given loans by clothing companies in the US for the production of clothing for the US market, but with no social security. The contractors who were mainly operating in the informal sector relied on manual labour from Indian women who worked for wages that were below the prevailing market rates. The conclusion was therefore reached based on a range of similar case studies that there is often the tendency to conceal subcontracted informal activities in formal sector documents, when indeed they are not.

Second, structuralists such as Roberts (1990) and Centeno and Portes (2006) have provided important pointers behind the prevalence of the informal economy and its relevance to the development of different economic systems. A major strength of the informal economy as postulated by structuralists is the creation of a market that has in abundance cheaply produced goods and services, which are mostly unavailable in the formal markets. The informal economy also provides cheap and readily available labour to the capitalists, a process which had the tendency to drive down costs, if labour were to be employed from the formal sector. Globalization has increased the relevance of the informal

sector as it allows for the outsourcing of production processes in a manner that enables informal producers to capitalize on the growing demand of their labour (Yusuff, 2011). The main argument against the structuralists view to informality is that structuralism is relatively non-existent in developing countries outside of Latin America (Aeroe, 1992).

2.2.4. The Neoliberal Theory

The neo-liberal theory of informal economy is credited to the work of Hernando de Soto (1989). The fundamental argument of the theory is that the emergence of the informal economy in any country is the result of a spontaneous reaction to over regulation and not that of under-regulation as we are made to understand. As De Soto (1989: xiv–xv) puts it, the informal economy represents the people's "spontaneous and creative response to the state's incapacity to satisfy the basic needs of the impoverished masses". Neoliberalists indicate that as individual rational actors in the labour market, when confronted with high taxes, a corrupt public system, and excessively high interference in the market, symptoms of the formal system, people make the rational decision to exit the formal system for the informal, instead (Williams, 2017). De Soto (1989) therefore made the argument that for as government procedures remain cumbersome and overly bureaucratic, individuals will have some justification to continue to operate in the informal sector.

Given the approach taken by neo-liberal thinkers (de Soto, 2001; Perry and Maloney, 2007) in respect of the informal sector, their policy prescriptions have often favoured less state regulation. To them, eliminating the phenomenon requires the pursuit of

measures to reduce taxes, aggressively fight graft in the public sector and pursuing deregulation policies by reducing state interference in the operations of the market and the welfare system (Williams, 2017). Based on this understanding, de Soto (2001) has been at the forefront of advocating for the formal recognition of property deemed to be held extra legally. It is argued that it is only through the formalization of the property rights held in extra-legal property that the full potential of the informal sector to create wealth, reduce cost and democratize politics can be realized (Yusuff, 2011).

The neo-liberal explanation to the informal economy debate has suffered several criticisms. One fundamental argument that has been advanced against the neo-liberal economic theory is that there is insufficient evidence to prove that policies based on neo-liberal approaches have been successful at helping the informal sector overcome problems of over taxation, corrupt governments and interference in the market (de Olarte, 2001). Williams (2013) and Williams (2015) based on studies carried out in the European Union and Eastern and Central European nations respectively, did not find evidence to support neo-liberal explanations on the existence of the informal economy. Rather, their evidence supported modernization and political economy explanations for the existence of the informal economy in these respective regions.

2.2.5 The Free-Riding Theory

The free-riding theory is the same as that referred to by Chen (2012) as Voluntarist theory of informal economy. It is traced to the work of Maloney (2004) who undertook

some empirical analysis of the informal economy of Latin American countries by focusing on the intentional and rational choice that informal sector actors make to either avoid regulations, taxation or both. This theory takes the view that the size of the informal economy is not a reflection of the cumbersome nature of business registration procedures in a country. Rather, the free-riding school argues that over a period of time informal businesses create unfair competition for their formal counterparts due their ability to gain a price advantage evading or avoiding the payment of taxes and refusing to comply with regulations. Maloney (2004, p.1173) therefore summarizes the view thus: “the urban informal microenterprise should be viewed as a part of a voluntary small firm sector similar to those in advanced countries that, due to the laxity of enforcement of labor and other codes, is able to choose the optimal degree of participation in formal institutions”. Chen (2012) makes the point that if the state is able to bring the informal free riders into the formal space, there will be an increase in tax revenue and a fairer business regime for formal enterprises.

2.3. The Two-Tiered Theory

The two-tiered theory of informal economy is credited to the ILO (2015). This approach to the understanding of the informal economy is similar to that used by Williams and Nadin (2011) on describing the post-structuralists approach. The main argument of the two-tiered theory is that the labour market economy can be categorized into two main but distinct branches, i.e., the lower-tier and the upper-tier. The main features of the lower-tier of the labour market economy are easy entry, low wages, poorly organized and marginal



A picture of a trader at Tema Lorry Station Market in Accra-Ghana.
Source: WIEGO report on COVID-19 Crisis and the Informal Economy. Photo credit: Benjamin Forson

work. On the contrary, the upper-tier of the labour market economy is characterized by restricted entry mainly to self-employment ventures, involving people who voluntarily exited the formal economy to pursue their personal economic interests (Fields, 1990). There are significant differences between the two distinct tiers based on their rationales. While actors within the lower-tier sector are exploring ways of exiting the system and aspiring to rather enter the upper-tier by engaging in self-employed activities, those in the upper-tier, on their part are seeking for ways to evade excessive regulation and high taxes (Fields, 1990).

2.4. Perspectives On The Informal Economy In Selected Sub-Saharan African Countries

2.4.1 The Kenyan Perspective

The informal economy in Kenya, also known as “Jua Kali” (World Bank, 2016) is where majority of individuals who are not employed, partially employed, street children, street subsistence workers, workers on casual contracts of service, and members of the underworld derive their livelihoods (Kinyanjui, 2014). It is characterized by ease of entry, enterprises mainly owned by families, reliance on indigenous resources, labour intensiveness, small-scale operations, unregulated but competitive markets, skills acquired outside the formal school system

and use of low and simple technologies (Kinyanjui, 2014; Nguni et al., 2014).

Kenya's public policy orientation has, since attaining independence in 1963, favoured local ownership of economic enterprises (Republic of Kenya, 1965). Formal employment in Kenya has been decreasing while informal employment has been increasing. Increasing employment in the informal economy is an indication of a shrinking capacity of the formal economy to create adequate jobs to absorb the growing labour force. The employment gap paves way for a flourishing informal economy, which offers the much-needed solace for the job seekers. As observed by Obare (2015), failure by the state and the private sector to support the formal labour market enabled the informal economy to step in to fill the employment gap. From approximately 90,000 jobs created by the formal sector in 1974, it has shrunk to less than 20,000 in 2018. On the other hand, informal sector jobs have increased in Kenya from below 10,000 in 1974 to a little above 80,000 in 2018 (Federation of Kenya Employers, 2021).

The growth of the informal sector in Kenya can be attributed to factors such as liberalization and privatization policies, strategies for promotion of growth and development of the informal economy and broadening of the definition and more consistent capturing of informal economy data in national statistics (Omolo, 2010). The Government of Kenya has also introduced policy initiatives aimed at promoting growth and development in the informal economy. These policies include *Economic Management for Renewed Growth, Small Enterprises and Jua Kali Development, Economic Recovery Strategy for Wealth and Employment Creation (2003-2007), Development of Micro and Small Enterprises*

for Wealth and Employment Creation for Poverty Reduction, Kenya National Trade Policy (2016) and The Kenya Vision 2030.

2.4.2. The Nigerian Perspective

Nigeria's informal economy is one of the largest in the world (Dell'Anno & Adu, 2020). Ogbuabor and Malaolu (2013) estimated that the average size of the informal economy in Nigeria is about 64.6% of Gross Domestic Product. Consequently, millions of Nigerians, particularly those residing in the economic centre of the country, Lagos State, live, work, and trade in the informal sector and also employ the most vulnerable residents. In terms of employment and output, the informal sector in Nigeria is larger than the formal sector in terms of employment and job creation, according to contextual observations. In certain instances, in Nigeria, the informal economy is referred to as a "shadow economy" if it is involved with unlawful and criminal activities such as online scams, black markets, crime, manufacture and smuggling of illegal items, or money laundering. One thing is certain regarding the informal economy: informality provides crucial economic possibilities for the poor and disadvantaged.

According to the International Monetary Fund, the informal economy employs approximately 5.5 million people in Lagos State alone—roughly three-quarters of the state's 7.5 million labour force—and in the country as a whole, with nearly 200 million people, over 80 percent of the population work in the informal sector. Given the labour intensity, there is little doubt that the bulk of businesses and entrepreneurs are in the informal sector. Unlike the formal economy, the informal economy's

operations are not included in the country's Gross Domestic Product (GDP) (Olubiya, 2022). As a result, the GDP figure computation is a significant underestimate of the country's GDP when the massive informal economy is excluded. Meanwhile, the country's informal sector continues to flourish in various situations and, based on demographic and economic data, may be the biggest in Africa. Agreeably, across the country, it is easy to notice street traders, artisans, vendors, nano and micro-businesses, commercial buses, tricycles, and motorbikes (Okada riders), domestic workers, market traders, among others, all operating informally. Broadly speaking, you can easily see informality all around Nigeria.

In Nigeria, the informal economy has grown dramatically over the last two decades, with the root causes including elements related to the country's economic context; decreasing levels of market regulation; weak policy frameworks; and socio-demographic drivers such as population growth, urbanisation, rising unemployment, widening inequality between rich and poor; and low-level education, including poverty. The major driver of the informal economy, on the other hand, is that such enterprises do not need to register with any relevant government authorities. When citizens cannot find jobs in traditional wage employment, the requirement for sustenance forces them to look for jobs elsewhere. The alternative is mainly in the informal sector of the economy, where there is no minimum wage and workers are unlikely to pay taxes, have no holiday or labour rights, and frequently work in unsafe conditions. Most of the time, it is difficult for them to obtain microcredit since they lack economic stability and concrete employer-employee ties.

The majority of the elite in Nigeria view the enlarged and vast informal economy to be at the bottom rung of the economic system, whereas in fact, they are the key drivers of the economic system because they are too large, significant, and relevant to be ignored. Employment in the informal sector in Nigeria is appealing owing to the simplicity with which operations are carried out as a consequence of the absence of a bureaucratic regulatory framework and little or no formal educational qualification requirements. There are multiple perspectives on the informal economy in Nigeria. Some associate it with unfair competition, low productivity, human rights abuse, and environmental degradation, while others associate it with entrepreneurship, flexibility, and resilience. In general, the informal economy in Nigeria is enduring, but suitable regulations and policies are required to improve the sector and introduce formalization. The decision for these businesses to formalise depends on the benefits that are derived from formalisation over the risks of remaining in the informal economy (Olubiya, 2022).

2.5 Informal Economy Theories and the Ghanaian Context

In this section we seek to put the Ghanaian informal system as discussed in Chapter Three of this work to the spotlight by examining the extent to which it mirrors the features of any of the theories, or otherwise. This is important because the informal sector is not a mass of undifferentiated poor entrepreneurs. There are structural and historical issues that influence the nature and character of the informal sector and how it operates. These variables contribute to the classification of the informal sector of any country under one theory or the other. For purposes of

this exercise the framework produced by Dell'Anno (2021) is found useful and therefore reproduced here to enable us decide as to which of the theories best portray the informal economy of Ghana.

Table 2.1: Conceptual Framework for the different Forms of Informality

	Modernization	Dualist	Structuralists	Neoliberal	Free-riding	Two-tiered approach
General view	The informal sector is seen as a stage of the evolutionary process of the market economy. The informal activities will disappear as a result of economic progress in developing countries.	The informal sector is a premodern, distinct and persistent sector acting as an intermediate space between the mainstream (modern) formal system and complete unemployment	The IE is a structural feature of modern capitalist development. Capitalist firms attempting, acting with the complexity of the state, to reduce wages, labor safety standards and enhance flexibility by exploiting unprotected informal workers.	The IE is a market-led response by entrepreneurs to excessive state regulation (as opposed to a temporary condition of excess labor supply).	The IE is a result of firms and workers who choose to operate informally after weighing the costs and benefits of informality versus formality.	Different factors drive different segments of the IE, that is, exclusion of firms and people from state benefits or to voluntary exit decisions resulting from private cost-benefit calculations.
Types of activities	Workers with lower human capital work in informal and smaller firms and receive lower wages, whereas those with higher human capital are allocated to the larger and more productive firms and receive higher wages	Survivalist activities by the working poor with few (if any) links with the formal economy.	Vulnerable workers, such as women, youth, immigrants, and unskilled are exploited by formal firms.	"Plucky" micro-entrepreneurial activity. Informal firms are innovators and rational actors. They are similar to official ones but are kept down by excessive taxes and regulations.	Opportunistic informal firms who choose to operate informally are constrained to operate below a certain detection threshold, therefore, lack the necessary scale to produce efficiently. According to Levenson and Maloney (1998), informal firms in developing countries behave similarly to those in industrialized countries.	High level of heterogeneity in terms of rationales and demographic characteristics between informal salaried and self-employed.

Source: Dell'Anno (2021, p. 1628)

Table 2.1 (Cont'd): Conceptual Framework for the different Forms of Informality

Causal roots	Modernization	Dualist	Structuralists	Neoliberal	Free-riding	Two-tiered approach
	<p>The informal sector is due to the excess of labor supply (unskilled rural migrants). These “excluded” informal workers will find a job in the formal economy with the modernization of the economy.</p>	<p>Informal workers are excluded from modern economic opportunities. The informality is due to the mismatch between people’s skills and the structure of modern Economic opportunities (Chen, 2012). Especially in developing countries, informality is enlarged by imbalances between the growth rates of the urban population and formal labor demand.</p>	<p>The IE is a side-effect of capital accumulation and globalization. It is not a stage in the transition from a traditional to modern society. It does not depend on the inability of the formal economy to absorb workers, or on some voluntary decision of self-employed.</p>	<p>Informal entrepreneurs represent efficient market forces that emerge as a populist reaction to over-regulation and government oppression (Williams, 2015).</p>	<p>The rational choice to operate informally depends on lack of enforcement, negligible economies of scale, and benefits associated with formality. According to Farrell (2004: 28) “substantial cost advantage that informal companies gain by avoiding taxes and regulations more than offsets their low productivity and small scale.”</p>	<p>Two main groups of informal workers with different motivations (on average); informal self-employed opt-out of formality after implicitly making a cost-benefit analysis. They choose their occupations according to their individual needs (especially their desire for flexibility and autonomy) and abilities. Informal salaried workers are not choosing to opt-out of the formal economy. For them, exclusion rather than exit from formality appears to be the driving force behind their present informal status.</p>

Source: Dell’Anno (2021, p. 1629)

Table 2.1 (Cont'd): Conceptual Framework for the different Forms of Informality

	Modernization	Dualist	Structuralists	Neoliberal	Free-riding	Two-tiered approach
Nature of choice	Exclusion-driven	Exclusion-driven	Exclusion-driven	Exit-driven due to excessive state regulation	Exit-driven due to opportunistic behavior	Exclusion-driven and exit-driven
Policy implications	Depending on the specific theories of economic development. In general, it is sufficient to develop the formal economy (e.g., by a "Big push," higher capital accumulation and saving rates, more international trade, etc.)	More job opportunities, better credit and business development services to informal operators, enhanced infrastructure and social services to families of informal workers.	More regulation of commercial and employment relationships between the informal and formal economies in order to address unequal relationships between "big business" and subordinate producers.	Less state regulation and more free-market policies can enable/unlock the growth potential of informal entrepreneurs (particularly through the legalization of informal property rights).	Access to mechanisms that ensure property rights. To improve law enforcement because it increases the benefits of formality. To increase enforcement of government regulations and taxation because it raises the costs of informality. Bringing informal activities into the formal regulatory environment increases the tax base and reduces unfair competition to formal businesses.	No "one-size-fits-all" solution. The policies should be tailored to the diverse characteristics, circumstances, and needs of the workers and economic units concerned. Perry et al. (2017) suggest actions to: increase the aggregate productivity in the economy; raise human capital levels (especially for the poor); reduce the costs and increase the benefits of formalization; enhanced enforcement of laws and regulations; improve the quality and fairness of state institutions and policies.

Source: Dell'Anno (2021, p. 1628)

Table 2.1 (Cont'd): Conceptual Framework for the different Forms of Informality

	Modernization	Dualist	Structuralists	Neoliberal	Free-riding	Two-tiered approach
Link to the formal economy	Counter-cyclical relationship. The informal sector declines with the growth of the formal sector. Informal workers will be absorbed by the formal economy with economic development.	Undetermined. According to Hart (1973: 87) "the possibility that the informal economy [...] may be developing at a rate faster than other sectors of the national economy, [...] cannot be dismissed on a priori ground."	Pro-cyclical relationship. Informal and formal modes of production are inextricably linked within the same economic system (Chen et al., 2004).	In the short run, the IE consists of firms "exit" from the formal economy (i.e., negative correlation). In the long run, it may have a positive effect if the state reduces overburden to promote formalization.	In the short run, the IE consists of firms "exit" from the formal economy (i.e., negative correlation). In the long run, this negative effect is reinforced because informal activities are detrimental to the overall economic growth because this unfair competition reduces market efficiency.	Undetermined. It depends on the composition of the IE (e.g., the relative size of informal salaried workers and self-employed).
Prevalent in	Developing countries	Developing countries	Developed countries	Developed countries	Developed countries	Coexist with different intensity in developing and developed countries.
Proposer(s) of the theory	Lewis (1954), Rosstow (1960), Harris and Todaro (1970), Rauch (1991).	Hart (1973), ILO (1972).	Moser (1978), Castells and Portes (1989), Portes (1994), Thomas (1995).	de Soto (1989).	Levenson and Maloney (1998), Maloney (2004), Farrell (2004), Bailly et al. (2005).	Fields (1990), Felge (1997), Jacob (2003), Perry et al. (2007).

Source: Dell'Anno (2021, p. 1628)

Table 2.1 (Cont'd): Conceptual Framework for the different Forms of Informality

	Modernization	Dualist	Structuralists	Neoliberal	Free-riding	Two-tiered approach
Different labels used for comparable Theoretical view	Subordination due to marginalization (Tokman, 1978), dual view (La Porta & Schleifer, 2008), residual (Williams, 2008), exclusion (ILO, 2015b).	Duality-benign (Tokman, 1978), dualist (Chen, 2012), complement (Williams, 2008), exclusion (ILO, 2015b), alternative-neoliberal (Williams, 2008).	Subordination due to exploitation (Tokman, 1978), by-product (Williams, 2008), political economy (Williams & Kadir, 2018), driven by market competition (ILO, 2015b).	Complementarity-Benigna (Tokman, 1978), Legalist (Chen, 2012), Romantic (La Porta & Schleifer, 2008), Exit (ILO, 2015b).	Voluntarist (Chen, 2012), Parasite (La Porta and Schleifer, 2008), Exit (ILO, 2015b).	Heterogeneous subordination (Tokman, 1978); Holistic, Multi-segmented, Exit-Exclusion (Chen, 2012); Post-structuralist (Williams & Nadir, 2011); Institutional (Williams & Kadir, 2018); Two-tiered informality (ILO, 2015b).

Source: Dell'Anno (2021, p. 1628)

Based on the summary provided by Dell'Anno (2021), it is submitted that Ghana's informal sector can be classified as dualists in nature. This is because it is generally premodern, distinct and persistent sector acting as an intermediate space between the mainstream formal system and complete unemployment. It is dominated by survivalists' actors who have been excluded from modern economic opportunities. The sector also offers more job opportunities and appears to grow at a rate faster than other sectors of the economy. And of course, it was unearthed through the work of Hart (1973) and the ILO (1972) based on studies conducted in Ghana and Kenya, respectively.

2.6. Summary

This chapter reviewed the theories underpinning the concept of the informal economy to determine the theory which best describes the informal economy of Ghana. The main theories reviewed are the modernists theory, the dualists theory, the structuralists theory, the neoliberal theory, the free-riding or voluntarists theory and the two-tiered theory. Following the reviewed it was realized that the informal economy of Ghana exhibits the features of the dualists informal theory as opposed to the other five theories. Chapter Three will seek to have a thorough understanding of the nature and characteristics of the informal sector of Ghana, all of which will feed into the identification of policy options for sustainably integrating the informal economy into the larger Ghanaian economy.



Chapter Three

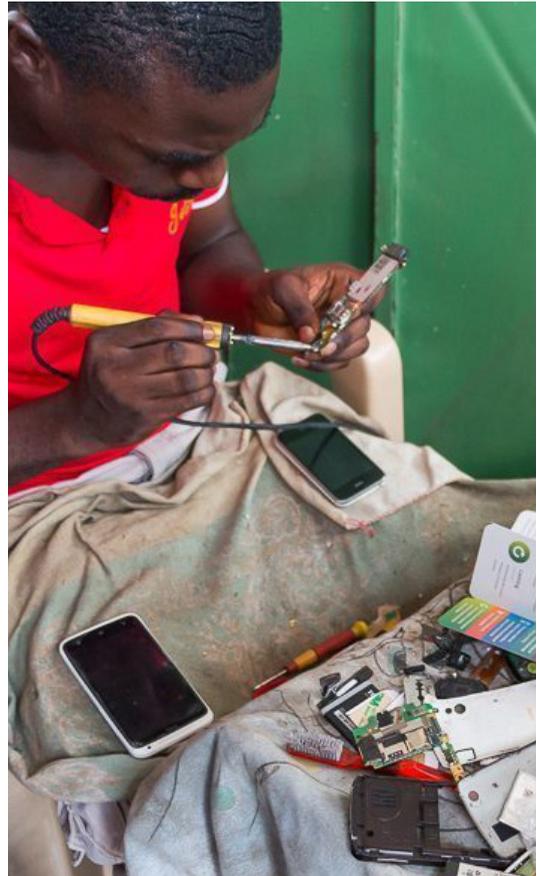
Nature and Characteristics of The Informal Sector in Ghana

3.1 Introduction

Based on the review of the theories of informal economy in Chapter Two, the conclusion was reached that Ghana's informal economy is more of a dualists system. This determination was based solely on the elements of the theories reviewed. In this Chapter a detailed analysis of the nature and characteristics of Ghana's informal sector will be undertaken. This will help us understand the extent to which the informal sector of Ghana is amenable to regulation and the extent to which its contributions can be sustainably integrated into the national economy.

3.2. The Informal Sector in Ghana

The origin of the informal sector in Ghana's economy can be traced back to the very beginnings of colonial capitalism in the then Gold Coast. Even at such an early stage, an essential feature of labour in the informal sector was its heterogenous character that provided for varieties of peasant proprietors and agricultural labourers, distribution agents, buyers, transport owners and employees, porters, repairers etc. (Ninsin, 1991; Adu-Amankwah, 1999). Throughout the decades, instead of disappearing as the modern industrialized and formal economy expanded, the informal sector has actually grown in the rural and urban areas of Ghana (Osei-Boateng & Ampratwum, 2011).



A phone repairer busily working on a faulty phone

Source: <https://www.fairphone.com/en/2014/02/13/first-visit-ghana-e-waste-collection-program/>

The large-scale retrenchment of labour as overriding consequences of the Structural Adjustment programme in Ghana, mass Ghanaian returnees from Nigeria in the mid-1980s, coupled with the inability of the government and formal private sectors to generate jobs in their required

quantities, has led to a situation where a large pool of unemployed persons have naturally gravitated towards the informal sector (Barwa, 1995; Turkson, Amissah & Gyeke-Dako, 2022; Osei-Boateng & Ampratwum, 2011). The share of total employment provided by the public sector has continued to decrease from about 13% in 1992, to 9.4% in the late 1990s, 9% in 2006 and 6.3% in 2010. As of 2021, 9.5% of the over 30 million Ghanaians work in the public sector (GSS, 2021).

The Ghana Living Standards Survey Round Seven (GLSS7) estimated the national unemployment rate to be 8.4% in 2019. However, the 2021 Population and Housing Census also puts the unemployment rate of 2021 at 13.44% of the total population (Ghana News Agency, 2022). Ghana's economy is not developing fast enough to cater for the increase in population growth and rapid rural-urban migration. This has led to the labour force growing faster than the availability of formal jobs (Aryeetey, 2009). Following the high trend of unemployment, and as government continues to maintain a policy of net hiring freeze into the public sector exacerbated by IMF conditionalities over the years, and the challenges faced by the private formal sectors to create jobs, the formal sector continues to lose grounds in terms of its share of total employment. In the absence of appropriate social protection mechanisms, informal activities have become survival strategies for many Ghanaians (Osei-Boateng & Ampratwum, 2011). Ghana's large informal sector continues to rob the economy of potential revenue for development projects as the informal sector pays little or no tax (Zogli, 2016).

3.2.1 Composition of the Informal Sector in Ghana

The informal sector in Ghana is made up of proprietary micro and small-scaled enterprises, basically consisting of producers, wholesalers, retailers and consumers. Intermediary service providers (suppliers) also exist along the value chain. Ghana's informal sector workers are largely self-employed persons such as farmers, traders, food processors, artisans and craft-workers, hawkers to mention but a few. In general, the nature of the informal sector in Ghana is largely categorized into two broad categories, that is rural informal sector and urban informal sector.

3.2.2. The Rural Informal Economy Of Ghana

The Ghana Statistical Service (2021) reports that about 87.7% of the employed population above 15 years in the rural areas are employed in the informal sector. The rural informal economy consists of agricultural activities, fishing and fish processing activities and rural agro-based processing activities. The agricultural activities are predominantly farming units largely dependent on family labour and comprise of large numbers of small farmers. These farmers who are largely illiterate and have no formal training acquired the farming skills through apprenticeship from their forebearers. Along the coastal areas and inland fishing areas, the most predominant informal economy evident are fishing and fish processing activities. This category of employees also like their colleagues who engage in agricultural activities (farming) are mostly illiterates and not having any form of formal training, having acquired their fishing and swimming

skills from their parents, relatives or friends. They also do add value to the fish through processing activities (smoking and drying). Lastly, the rural agro-based processing sector is one of the several informal sector activities engaged in by people living in rural areas. In this activity, they process cassava into products such as gari, starch, cassava dough, tapioca etc., palm wine tapping, pito brewing, local gin distilling, traditional soap making, and extracting of oil from palm kernel and groundnut, among others. In the same vein, their skills are passed on from family members and the individuals have low-skills and are illiterates. There are some people who are also engaged in the processing of forest products (timber) through carpentry, masonry, craftsmen, artist among others also in the rural areas who are part of the informal sector/economy (GSS, 2021).

As regards the labour activities of these rural informal sector workers, their source of labour is usually family labour. All the three aforementioned rural-based activities, rely heavily on family labour since they practice subsistence activities and do not have the wherewithal to acquire labour for their activities. Occasionally, casual labour, popularly known as “by day”, which is usually on contract basis are acquired to also help out in carrying out these rural-based informal activities. In the case of some agro-processing activities, and other activities such as carpentry, masonry, craftsmanship among others, owners of these activities also engage apprenticeship labour. In Ghana, there is a highly developed apprenticeship system

where young men and women undertake sector-specific private training, which yields skills used primarily in the informal sector. According to Monk, Sandefur and Teal (2008), apprenticeship makes up nearly 25% of working-age Ghanaians, and over the years, this has increased. Under some circumstances permanent labour is engaged to work in agricultural, fish and fish processing and agro-based processing activities. This is also influenced by the size or proportion of the rural-based activities being engaged in. Finally, in a typical rural-based economy, communal labour is very effective. Communal labour is an arrangement by which farmers within an area bound by common agreement pool their labour together to assist each other in turns. Some communities also use child labour as the informal sector workforce, however, several pieces of legislation have been made and assented to by the Government of Ghana seeking to make this form of labour illegal.



The origin of the informal sector in Ghana's economy can be traced back to the very beginnings of colonial capitalism in the then Gold Coast.

A Collage of the Various informal Sectors of the Ghanaian Economy



Source: <https://theworld.org/stories/2016-01-05/ghana-s-market-women-were-once-so-powerful-they-were-targeted-coup>

Source: <https://www.viator.com/tours/Accra/Accra-City-Tours/d5517-175600P3>



Source: <https://www.dreamstime.com/unidentified-ghanaian-boy-chops-coconuts-cart-elmina-elmina-ghana-jan-unidentified-ghanaian-boy-chops-coconuts-image126343781>



Source: <https://www.ghanaskills.org/node/136>

3.2.3. The urban informal economy of Ghana

Hart's (1973) study among rural migrants in Ghana was the turning point of the informal sector/economy in urban areas in Ghana. Within the urban areas, several informal sector activities are grouped into three (3) main categories, that is, services, construction and manufacturing. The 2021 Population and Housing Census (PHC) confirmed that 69.7% of the urban population are employed in the informal sector (GSS, 2021). Within the urban areas, informal sector 'services' undertaken include food trading and processing activities either on wholesale or retail basis (bakers, caterers, cooked-food sellers). These service providers are mostly women who are predominantly illiterates or semi-literates. However, due to high unemployment rates among graduates, an increasing number of graduates are taking opportunities within this sector of the urban economy, thereby reducing the illiteracy rates in this sector. The services industry in the urban economy also consists of health and sanitation workers (chemical sellers, drugstore operators, funeral undertakers, night soil carriers among others).

Domestic workers, electrical and electronic equipment repairers, garage operators (auto mechanics, sprayers, welders, vulcanizers etc.), graphic designers, audio-visual workers and hairdressers/barbers, and private security men are all included in the urban informal sectors. With exception of domestic workers, the apprenticeship system takes prominence, in that most individuals have to undergo almost 3 years of training under their "masters" before graduating and establishing their own businesses. The construction and manufacturing sub-sectors within the urban areas also form part of the informal sector/economy.

Construction workers, mainly masons, carpenters, steel benders, plumbers, house-wiring electricians also have some basic form of training either in technical and vocational schools or also through the apprenticeship system. The manufacturing sub-sector of the informal sector predominantly covers activities but not limited to food processing, textile and garments makers, wood processing and metal works. In this category women dominate the food processing, textile and garments sub-sector, while men dominate the wood processing and metal works sub-sector. The apprenticeship system is also common in the construction and manufacturing sub-sectors of the informal economy in Ghanaian urban areas.

3.3 Main Characteristics Of The Informal Economy Of Ghana

According to Ofori (2009) and Farrell et al. (2000), the informal economy in Ghana have four main characteristics that define the sector. These include nature of employment, type of enterprise, habitat and access to credit. In the former, it is characterized by, the absence of official protection and recognition (that is, since most of the informal sector employees do not want to be identified for the purposes of taxation, they remain susceptible to industrial fraudsters and are therefore not protected by law or legislation). It is also predominantly dominated by self-employment work, where most of the workers are self-employed, that is, owners of the businesses. Also, the employees in the informal economy do not benefit from the daily minimum wage and social security system, hence are paid at the discretion of the employer and are therefore not qualified for pensions. Also, it is characterized by the absence of trade union organisations, low income and wage and little or no job security (Farrel et al., 2000; Ofori, 2009). There is no job-security in the informal sector, employers hire and fire at their own discretion.

Secondly, in terms of the enterprise

characteristics, the urban informal system is usually on a small scale and largely family owned and very easy to enter/establish or operate. Since the informal sector is not regulated by law and legislation, issues of business registration and licensing becomes difficult. In this regard collecting taxes and levies from them becomes difficult. The informal sector also relies heavily on locally available resources, and has low technology adoption. In terms of the low technology adoption, since they do not have enough capital to invest in their businesses, some of them still make use of 'primitive' tools.

Furthermore, as regards the habitat or location characteristics of the urban informal sector, businesses are usually located in vacant public or private lands. Most often the manufacturing sub-sector of the informal economy such as garage operators are most often located on vacant public and private lands, as well as some of the service providers who erect small wooden kiosks or metallic container kiosks for their operations (Barwa, 1995). They do rely on this system as a result of the lack of capital to purchase properties for the purpose of their businesses. Last but not least, another characteristic of the urban informal sector is issues based on credit. Businesses are usually granted very small loans on short term basis to enhance their operations as compared to the rural informal sector.

3.4. Employment In The Informal Sector

Informal employment encompasses employment in the informal sector and informal employment outside the informal sector but excludes formal jobs in the informal sector (ILO, 2003). In this regard, all employment in the informal sector can be found in the informal employment bracket but not all informal employment is employment in the informal sector. The different categories of informal sector employment in this respect are:

- Informal own account workers in informal sector enterprises
- Informal employers in informal sector

enterprises

- Contributing family workers in informal sector enterprises
- Informal employees in informal sector enterprises
- Formal employees in informal sector enterprises (this rarely exists)
- Informal members of producers' cooperatives in informal sector enterprises (Asamoah, 2018)

Irrespective of the meager wages that the sector mostly provides to its employees, it is still a major source of income to the poor. Despite the increasing possibility of the informal sector's positive contribution to the economy, this sector faces severe challenges with regards to the workers' human and legal rights and their social and economic benefits. They face challenges such as insecure income, no social protection and bad working conditions (Osei-Boateng & Ampratwum, 2011).

3.5. Working Conditions In The Informal Sector

Alfers (2009) asserts that not only are informal jobs "flexible, precarious and insecure", but the working conditions of workers in that sector flouts several ideal labour working conditions. The World Health Organisation (WHO) (2014) estimates that two-thirds of the world's workers work in conditions that do not meet the International Labour Organisation's minimum standards. The rudimentary nature of informal sector work exposes informal sector workers to hard working conditions ranging from issues pertaining to income/wages, non-wage benefits, social security, employment relations, working hours, and occupational safety, health and environment (Adei et al., 2021; Ametepeh, Adei & Arhin, 2013; Amponsah-Tawiah & Darteh-Baah, 2011; Osei-Boateng & Ampratwum, 2011).

First and foremost, workers in the informal economy do not enjoy the desired benefits in terms of their income/wages. Ghana has a National Daily Minimum Wage (NDMW) which applies to all forms of employment and is determined by the National Tripartite

Committee (NTC). The NDMW is the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or individual contract. The negotiations for NDMW is always in line with Section 113(1) (a) of the Labour Act, 2003 (Act 651). The NTC therefore meets every year to propose the daily minimum wage of workers both in the public and private sector and it is expected that no worker in the country is to be paid below the NDMW. For the year ending 2023, the NDMW has seen a 10% increase from the 2022 figure of 13.53 to 14.88 Ghana Cedis (Yire, 2022). Although the NDMW is quite low, a substantial number of workers in the informal economy earn below the legislated NDMW. Most informal sector workers are self-employed and are in control of their income, thus might not need to pay themselves the NDMW. Also, since this sector is not regulated, irregular and can be subjected to environmental (weather) and market factors (demand and supply) employers adhering to paying their employees the NDMW can also be challenging. Thus, on a “good day” employers can pay their employees above the NDMW and vice versa.

The other area of concern is non-wage benefits. The Labour Act, 2003 (Act 651) provides several non-wage benefits to every Ghanaian worker. These include general conditions of employment such as leave entitlement (sick leave, maternity leave, paid annual leave, severance pay etc.), social security (pensions), continuous service, fair and unfair termination of employment, freedom of forming a trade union and employer’s organizations among others. Sadly, most employees in the informal sector do not enjoy these non-wage benefits. Even in terms of injury at work, there is no form of compensation for them.

Again, social security payments due workers in the informal sector are not made. Section 70, of the Labour Act, 2003 (Act 651) on “permitted deductions”, makes provision for workers in Ghana to be deducted a specified amount monthly from the worker’s salary in respect of contributions to any provident, pension or

other fund or scheme agreed to by the worker. Whilst this is the norm in the formal economy, where these deductions are made on payroll and paid to the agreed fund managers, this is usually not the case in the informal sector. The number of informal sector workers who have access to social security benefits through institutionalized social security schemes are negligible (Osei-Boateng & Ampratwum, 2011). As of April 2022, a little over 14,000 self-employed workers or workers in the informal sector contributed to the Social Security and National Insurance Trust (SSNIT) pension scheme (SSNIT, 2022). The situation is blamed on the nature of the Ghanaian economy where most people are engaged in their own businesses and do not see the need to enroll onto a structured social security scheme. With this low enrolment number, SSNIT has continuously been advocating for informal sector employers to enroll their employees on pension schemes, which has still not fully materialized. In March 2022, the Ghanaian Times published an article entitled “Ghana: SSNIT to enroll more informal sector workers on pension”. In this article, it could be deduced that the state’s pension fund managers are undertaking serious sensitization activities to ensure that employers and employees in the informal sector see the need to enroll on pension schemes to safeguard their future. With pensions for the informal sector becoming important, SSNIT has also called for the enactment of a law to ensure that the informal sector is absorbed into the pension scheme to ensure workers enjoy pension benefits (Peprah, 2023).

Another critical issue of concern is employment relationships. Part III of Ghana’s Labour Law (Act 651, 2003) on protection of employment seeks to ensure that employees in Ghana are given their due. The labour law requires that employment relationships are formalized with the signing of a written contract between employers and employees. Sections 12(1) and (2) state that “the employment of a worker by an employer for a period of six months or more or for a number of working days equivalent to six months or more within a year shall be secured by a written contract of employment”

and “a contract of employment shall express in clear terms the rights and obligations of the parties therein”. These clauses may not be binding on self-employed workers, but where people have been employed, these clauses are binding on the employer. However, in Ghana, several employees within the informal sector do not have contracts, thus, their continuous stay in employment is at the whims and caprices of their employers and a complete violation of the labour laws of the country.

The appropriate duration under which workers must work have also been provided for by law. Section 33 of Act 651 (2003) provides the minimum working period of eight per day or forty (40) hours per week. Section 35 (1) and (2) of the Labour Act also states that “subject to subsections (2) and (3), where a worker in an undertaking works after the hours of work fixed by the rules of that undertaking, the additional hours done shall be regarded as overtime work” and “a worker in any such undertaking may not be required to do overtime work unless that undertaking has fixed rates of pay for overtime work”. Osei-Boateng and Ampratwum (2011) in their study among domestic workers in Accra, concluded that employers largely complied with the statutory working hours.

Workers are also required by law to work under safe and healthy working environments. The informal sector in Ghana is characterized by poor working conditions (Adei et al., 2021; Ametepah, Adei & Arhin, 2013; Amponsah-Tawiah, & Darteh-Baah, 2011). Kumar (1997) asserts that although the informal sector

offers a better alternative to unemployment, the unprotected nature of working in the sector causes more harm than good with dire consequences on worker’s well-being and livelihoods both in the short and long term. Conducting their studies in the Sekondi-Takoradi Metropolis, Ametepah et al. (2013) observed that informal service workers such as drivers, beauticians, head porters (kayayei) and mechanics were exposed to psychological, physical and ergonomic hazards. To them, exposure to these hazards led to injuries and self-reported diseases such as respiratory disorders, skin rashes, malaria and abdominal pain. Alfors (2009) in a study among market women in Accra also found that these traders are exposed to psychological and fire hazards, poor sanitation and food poisoning. Osei-Boateng and Ampratwum (2011) also reported that in major markets in cities such as Accra, Kumasi, Takoradi and Tamale traders are exposed to garbage heaps which poses health threats to them. Table 3.1 summarises the legally prescribed conditions under which workers in Ghana should work.

According to Ofori (2009) and Farrell et al. (2000), the informal economy in Ghana have four main characteristics that define the sector. These include nature of employment, type of enterprise, habitat and access to credit.

Table 3.1: Legally Prescribed Working Conditions of Work in Ghana

Working Conditions	Legal Provision
Hours of work	Five days or 40-44 hours in a week is prescribed by law
Wages	National minimum wage is GH¢ 14.88 per day
Overtime	Overtime is allowed in Ghana for mostly emergency cases without pay. However, most enterprises do not pay for overtime.
Annual leave	Two days per month or a full month per year
Sick leave	Entitled to paid sick leave
Maternity leave	Entitled to at least 12 weeks of paid maternity leave. (Labour Act 2003, Act 651)
Paternity leave	Not in the laws of Ghana
Trade unions	Freedom to join and form a union
Protective clothing	An employer is mandated to provide protective clothing to the worker at no cost, otherwise, the employer will be fined or jailed. (Section 118 of the Labour Act)
Minimum age	The minimum age is 15 years to be able to enter the labour market in Ghana (The Children's Act, Act 560, 1998)
Severance benefits	No severance benefits for dismissals based on the individuals' conduct. However, if the dismissal is based on economic reasons, then the individual is entitled to severance benefit subject to negotiations between the employer and the employee or trade unions. (Labour Act [LA], Act No. 651 of 2003)

Source: Adapted and Modified from Asamoah (2018)

3.6. Contributions of the Informal Economy to GDP

Employment in Ghana is overwhelmingly informal and this sector cannot be overlooked in the Ghanaian economy. Beck, Demirgüç-Kunt and Maksimovic (2006) and Beck et al. (2011) argued that the informal sector can serve as the engine of economic growth and development. In Ghana, about 91% of the small and medium enterprises (SMEs) are informal (GSS, 2015). Baah-Boateng and Vanek (2020) also put forward that informal employment in Ghana is about 89% of employment nationally. However, the 2021 PHC report shows that 77.1% of the employed population above 15 years are in the private informal sector (GSS, 2021). According to Abor and Quartey (2010) and Turkson et al. (2022), the informal sector contributes about 70% of GDP. Akorsu (2013) also noted that the informal sector employment, especially in the areas of agriculture/fisheries, manufacturing/craft and service/sales is the second largest informal sector contributor to GDP in terms of employment and household income source. The World Economics (2022) also estimated Ghana's informal economy to be 35.6% which represents approximately \$65 billion at GDP, Purchasing Power Parity (PPP) levels.

3.7. Summary

This Chapter provides details on the nature and characteristics of the informal sector of Ghana as distinguishable from the informal sector of other Countries. The analysis show that Ghana's informal sector is a net employer of the labour force and makes significant contributions to the GDP of the country. However, the sector is beset with low skills, low technology, weak access to credit and generally poor working conditions. Efforts to formalize the sector must be accompanied by efforts to improve the overall working conditions of the sector, and reduce bureaucratic inertia. In the next Chapter the regulatory measures will be reviewed to ascertain the extent to which they inhibit or support efforts to integrate the informal sector into the formal system.



Roadside Hawkers in the streets of Accra

Source: <https://jujufilms.tv/2016/01/01/roadside-hawkers-in-accra-2/>



Chapter Four

Regulatory Regimes for Businesses in Ghana

4.1 Introduction

Just as in any sovereign jurisdiction, there are regulatory requirements that govern the commencement, establishment and operations of businesses in Ghana. In this chapter, the regulatory procedures and requirements governing the operations of businesses in Ghana are itemized. In addition, types of business establishments in Ghana, the procedural requirements to follow in registering businesses, and the regulatory charges that are applicable in establishing businesses in Ghana have been examined. The Chapter also delves into other policy and regulatory initiatives that are deemed helpful in the quest to formalize the informal sector of the country. These include the Ghana Card, Digital Address System, Excise Tax Stamps and Mobile Money.

4.2. The Regulatory Regime

The main regulatory requirements for businesses in Ghana are:

1. Registration of Business Names Act, 1962 (ACT 151)
2. Registration of Business Names (Amendment) Act, 2012 (ACT 837).
3. Incorporated Private Partnerships Act, 1962 (Act 152)
4. Incorporated Private Partnerships (Amendment) Act, 2012 (Act 839)
5. The Company's Act, 1963 (Act 179)
6. Companies Act, 2019 (Act 992)
7. Factories, Offices and Shops Act, 1970 (Act 328)
8. Taxpayers Identification Numbering System Act, 2002 (Act 632)
9. Income Tax Act, 2015 (Act 896)
10. Ghana Revenue Act, 2009 (Act 791)
11. Revenue Administration Act, 2016 (Act 915)
12. Revenue Administration Amendment Act, 2020 (Act 1029)
13. Public Private Partnership Act, 2020 (Act 1039)
14. Revenue Administration Act, 2016 (Act 915)
15. Excise Tax Stamp Act 2013 (Act 873)
16. Labour Act, 2003 (Act 651)
17. National Pensions Act, 2008 (Act 766)

4.3. Forms of Business Operations in Ghana

Like any other jurisdiction, businesses in Ghana either formal or informal operate in under some theoretically defined category. These forms are based on two-broad categories, that is, non-incorporated businesses and incorporated businesses.

4.3.1. Non-incorporated businesses

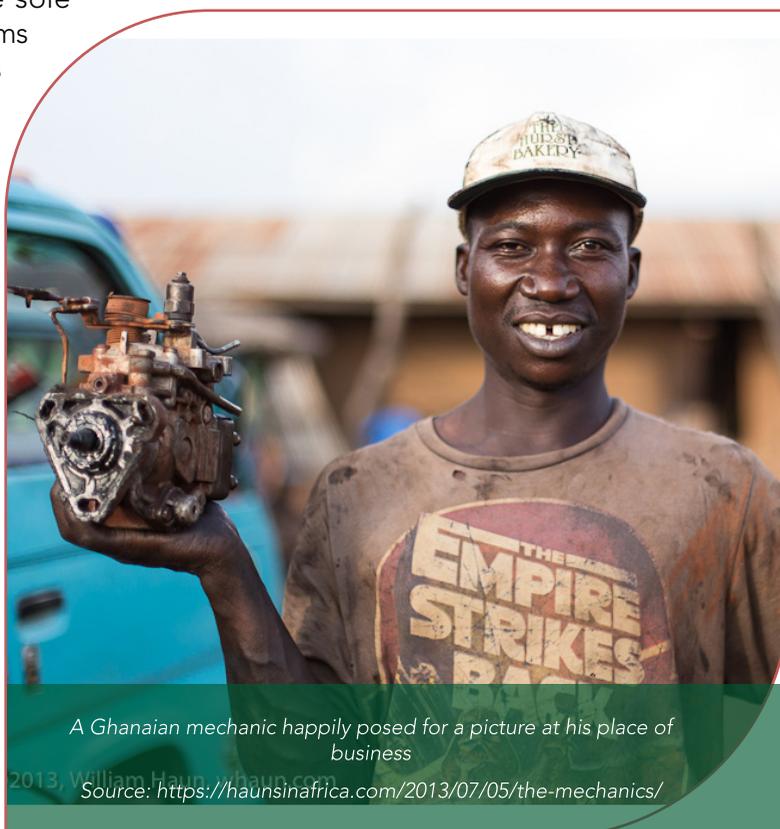
A non-incorporated business is a business that does not possess a separate legal identity from its owner(s). In this regard, the owner(s) bear full liability for any action or inaction attributable to the business. They can sue or be sued for business

activity or inactivity (Campbell & Craig, 2005). Examples of non-incorporated businesses include sole proprietorship and partnerships.

a. Sole Proprietorship: this is the simplest form of business arrangement. In sole proprietorship, the person is usually, but not necessarily, a sole person carrying out some sort of business. As there is no legal requirement to declare oneself as a sole trader, nobody knows exactly how many sole proprietorship businesses exist in the world, and for that matter Ghana. This form of business organization operates on micro- and small-scale level in areas such as mechanic shops, retail outlets, restaurants, salons, and farms among others. The advantages of engaging in sole proprietorship business include: no legally required procedures to begin trading as a sole proprietor; the sole proprietor has total claims on all the business's earnings; the sole proprietor is his own boss, thus making decisions without having to consult anyone; lower taxes and relatively free from regulations. On the other hand, the disadvantages of operating as a sole proprietor also include: operating as a sole proprietor is labour intensive; small size of sole proprietorship businesses mean they usually suffer from poor economies of scale; and have unlimited liability

(Campbell & Craig, 2005). In Ghana, the operations of sole proprietorships are governed by the Registration of Business Names Act, 1962 (Act 151). In Ghana, sole proprietorships dominate the informal sector.

b. Partnerships: The Partnership Act, 1890 defines partnership as the relationship which subsists between persons carrying on a business with a view to make profit (Campbell & Craig, 2005). In other words, it is an association of two or more people who come together to establish a business. By definition, there must be at least two partners in a partnership with no legal upper limit even though partnerships largely do not exceed 20 partners. In contrast to the sole proprietorship, partnerships are a legally acknowledged and recognized



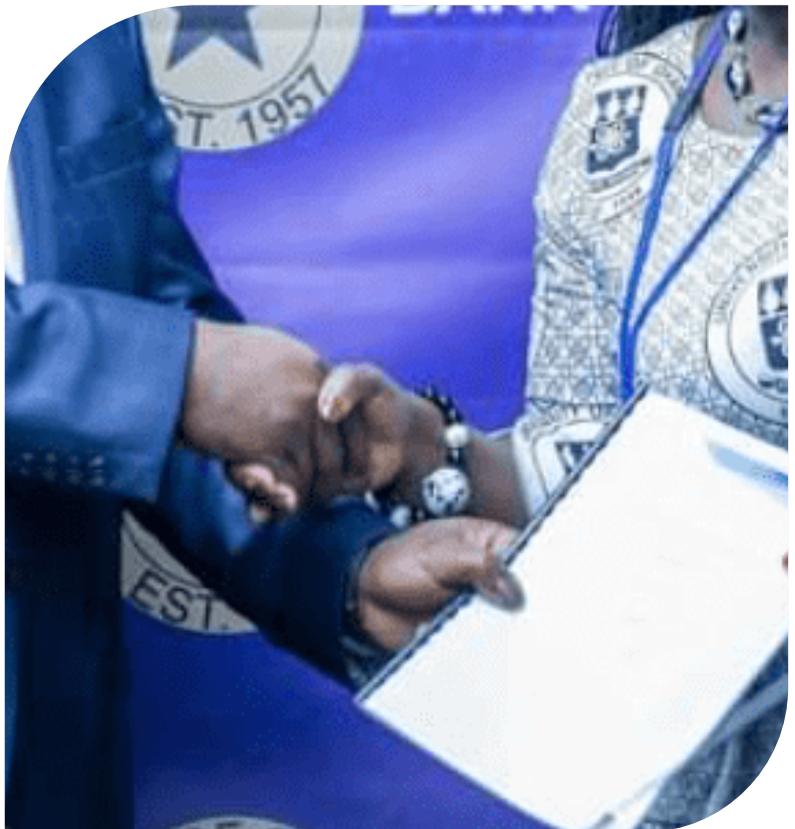
A Ghanaian mechanic happily posed for a picture at his place of business

Source: <https://haunsinafrica.com/2013/07/05/the-mechanics/>

form of business. Partnerships are usually set up by all partners signing a legally binding partnership agreement. This procedure even though simple and not costly requires the services of a solicitor. The legally binding document in partnerships is meant to avoid two possible unpleasant situations, that is, partners “ganging-up” on one partner to not give him/her, his/her rightful share of the partnership’s profits and also ensuring partners also absorb losses.

Partnerships have advantages such as ability to raise more capital to invest in the business; profits and losses are shared or borne by the partners; partnerships have expanded financial resources; and there is likely to be a breadth of skills and abilities from which the business can benefit. On the contrary, partnerships have unlimited liability; incur costs to set up a legal partnership agreement; and unlike the sole proprietorship, decisions must be arrived at by consultation and agreement between partners. Partnerships, just like sole proprietorships operate on a small scale.

There are two main Acts that also regulate the activities of businesses that operate



under partnership arrangements. They are the Incorporated Private Partnerships Act, 1962 (Act 152) and the Incorporated Private Partnerships (Amendment) Act, 2012 (Act 839). Usually, professionals such as lawyers and solicitors, accountants, architects, surveyors, and general practitioners operate under the umbrella of partnerships in Ghana. With the growing situation of unemployment in Ghana, some youth also come together to form partnerships and engage in business activities in the informal sector. For instance, two or more friends coming together to establish a “check-check” joint, pub, farming or any other informal business would qualify as a partnership.

4.3.2. Incorporated Company/ Businesses

An incorporated business is one that the government recognizes as a separate legal entity. Incorporating a business has several advantages such as owners benefiting from limited liability, ownership interest being easier to transfer, financing and grants are easier to access, tax rates are lower and the credibility of the business is boosted. There are two main types of incorporated companies/businesses in Ghana, i.e., a company and a cooperation.

a. A Company Is A Form Of Business

that operates as a separate entity from the owners. In other words, it is a separate legal entity from its owners. In Ghana the Companies Act, 2019 (Act 992) identifies four different forms of companies, and businesses can operate either as companies limited by shares, companies limited by guarantee, unlimited liability companies, and external companies.

i. Limited Company: this is a form of company that raises capital from individuals

through the sale of shares. Individuals are allowed to make part payment for the shares. Any liability that arises is limited to the remaining amount to be paid. The formation of this form of company requires at least one shareholder, two directors, a company secretary and an auditor. With the exception of the shareholders, the rest must officially indicate via letter writing their consent to their appointment. It is also required that the directors submit statutory declarations that clears them of any wrong, fraud or dishonesty in the past five years. The company operates with “company Ltd” or “LTD” at the end of the name. If it is a public company its name ends with “public limited company” or PLC”. The advantage of this type of company is that the company is a completely separate “legal person” from the shareholders.

Although it is quite expensive to run or register, it can continue to operate after the demise of the original owners. It has the capacity to do business in its own name, sue, and be sued. The law requires that within a year issues such as meetings, decisions and change of names are filed with the Registrar of Companies, this makes it a bit cumbersome to run (Kukah, 2021).

ii. Unlimited liability company: for this company capital is also raised through the sale of shares and individuals can make part payment for the shares. However, liabilities go beyond the unpaid amount on their shares. In this case any debt incurred by the company, the burden will be borne by the shareholders (Kukah, 2021). Its registration must meet the requirements under Limited Liability Company. A private company of this nature is registered with “Private Unlimited Company” or “PRUC.” For a public unlimited liability company its name ends with “Public Unlimited Company” or “PUC”. It has the capacity

to do business in its own name, sue, and be sued (Kukah, 2021).

iii. Company limited by guarantee: businesses under this form are formed not with profit motive. It includes NGOs, churches, unions, societies and councils among others. These organizations are allowed to embark on activities to fetch them some amount of profit in order to run their organizations. Any debt incurred by the company is limited to specific amounts that members of the organization pledge to pay. If it is found that the organization is operating with the aim of making profit then it will be required to register and operate as a profit-making entity. In registering the organization for operation, it must end with "Limited by Guarantee" or "LBG" (Kukah, 2021).

iv. External Company: This is a form of business operating outside Ghana but has established branch, office, or place of business of the company in Ghana. It is required that the company hires at least a local manager to manage the business of the company. It should also have an authorized agent in Ghana to accept service of documents on behalf of the company. Also, the following are to be notarized and filed: the local manager, articles of association of the head company, and a certificate of incorporation of the head office (Kukah, 2021).

b. Cooperative: This is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise as defined by the ICA Statement on the Cooperative Identity. The activities of cooperatives in Ghana are regulated by the National Liberation Council Decree 252, the Legislation Instrument 604 and

Cooperative Credit Union Regulation 2015. The formation of cooperatives requires a minimum of 10 members. They are exempted from paying taxes on profit but they are audited by the Department of Cooperatives which is led by the Registrar of Cooperative Societies (Boakye, 2018). Cooperatives in Ghana are divided into four main categories: agricultural co-operatives; financial co-operatives, industrial co-operatives and service co-operatives (Kuenyehia, 2021).

4.4. Registration of Businesses in Ghana

Businesses in Ghana are registered by the Registrar General's Department. The registration procedures for all business types are the same. However, there are some variations in terms of requirement. Kuenyehia (2021) has provided detailed information of the requirements and procedures for registering a business in Ghana which are outlined in the subsequent sections.

4.4.1. Registration Of Sole Proprietorship

To register a business as a sole proprietorship in Ghana the following processes are to be followed:

- 1. Obtain a National Identification Number.** According to the Taxpayers Identification Numbering System Act, 2002 (Act 632) and Revenue Administration Act, 2016 (Act 915), this number is required of anyone that is liable to pay tax or withhold tax at source. When a person who operates sole proprietorship has already registered and obtained his/her TIN the business will not be required to

register for a TIN but in the event that the individual does not have a TIN then it is a must for him/her to register for a TIN at the Ghana Revenue Authority.

2. Based on Registration of Business Names Act, 1962 (Act 151), Section 1, a sole proprietor who runs the business using his own personal name, surname or initials, does not need to register the business name.

3. It is required that the registration is done within two weeks of commencing business.

4. The Procedure for Registration of Business Name involves:

a) Pay for and pick up a prescribed Form A from the Registrar General's Department (RGD).

b) Submit the completed form with the processing fee to the in-house bank at the RGD.

c) Collect your business registration certificate and a certified true copy of the submitted form once the registration is complete.

d) The business registration certificate must be renewed annually. In registering a business, the following requirements are needed:

- i. Business name
- ii. Nature of business
- iii. Principal place of the business
- iv. Any other places at which the business is carried out
- v. Name, nationality, residential address and business occupation of the sole proprietor

4.4.2. Registering A Partnership

As documented by Kuenyehia (2021) individuals that want to enter into a partnership need to prepare a partnership agreement to govern the relationship. The agreement usually should contain issues such as:

- a. Commencement date of the partnership.
- b. Name of the partnership.
- c. Financial contribution of each partner.
- d. How profit (or loss) will be shared among the partners.
- e. Ownership of partnership assets.
- f. Drawings and/or salaries.
- g. Decision-making and roles for each partner.
- h. How the partnership assets and the existing business would be dealt with in the event that the partners decide to dissolve the partnership.
- i. Payment in the event of retirement or death of a partner.
- j. Restraint of trade following the departure of a partner.
- k. How disputes among partners may be settled.

4.4.2.1. Procedure For Registration Of The Partnership

There are procedures involved in the registration of partnership businesses. The procedures involved are:

- a) Purchasing and completion of Form A for Incorporation of Partnerships from the Registrar General's Department (RGD).

b) Submitting a copy of the partnership agreement (if any) together with the duly completed Form A signed by all the partners. The partners are required to provide the following particulars:

- i. Name of partnership
- ii. General nature of business
- iii. Postal address of partnership
- iv. Address of principal place of business as well as details of all other places that the business would be carried out.
- v. Personal details of each partner – name (including where applicable, former name), address and occupation.
- vi. Pay the prescribed fee.
- vii. Collect your certificate of registration once the process is complete. It takes about 5 to 15 working days to complete the registration.
- viii. A TIN will be generated for the partnership during the registration.

4.4.3. Registering A Company

The Companies Act, 1963 (Act 179), Section 5 indicates that a company must be registered before it can operate in Ghana. As documented by Kuenyehia (2021) before a company can be registered the following requirements are regarded as the minimum requirements to be met:

- a) The name of the business shall not be misleading or undesirable and the last word should be "Limited".
- b) The company shall have at least two (2) directors. These directors must be competent in law to be directors and should have consented in writing to be directors before being appointed as directors.

c) A company shall have at least one shareholder. Where the company is a private company, it shall not have more than fifty (50) shareholders.

- d) A company shall have an auditor.
- e) A company shall have a secretary.
- f) There should be regulations to govern the business entity and serve as a contract between the company and its shareholders, directors and officers.
- g) There should be objects which tells the purpose for which the business has been set up.
- h) The proposed name of the company submitted to the Registrar General's Department should be available meaning that it should not be in use by another company, it should not be misleading and it should not be similar to another name.

4.4.3.1. Procedure For Registering A Company

A company is to be registered with the Registrar General's Department. There are procedures involved in registering a company. The procedures involved are:

- a) Purchase registration forms at the Registrar General's Department (RGD) or download forms at www.rgd.gov.gh.
- b) Complete and submit the registration forms which consist of:
 - i) Regulations
 - ii. Form 3
 - iii. Form 4, and
 - iv. Tax Registration form
- c) Pay the registration fee.
- d) Pay 0.5% of the stated capital of the company.

e) Receive Certificate of Incorporation, Certificate to Commence Business and certified copies of Form 3, Form 4, and the Regulations when the registration is complete. A TIN will also be generated for the company. It takes about 7 to 21 days to register a company.

4.4.3.2. Registration Requirements For Companies

The following requirements are needed for the registration.

- a) Particulars of the first directors (present name, former names, nationality, residential address, occupation, details of other directorships, TIN).
- b) Particulars of the company secretary.
- c) The name and address of the auditor.
- d) The company's registered offices and post office box number.
- e) The stated capital of the company – the actual consideration for shares issued.
- f) Name, address, date of birth, nationality, occupation and TIN of each shareholder.

4.4.3.3. Registering with Ghana Revenue Authority (GRA)

Upon incorporating a company, it is a requirement for the company to register with the Ghana Revenue Authority. This registration allows the company to collect Value Added Tax (VAT) and National Health Insurance Levy (NHIL) and make other domestic tax payments. Before the

registration with the GRA can be done the firm needs to provide:

- a. Certificate of Incorporation
- b. Certificate to Commence Business
- c. Regulations of the company, and
- d. Detailed curriculum vitae of the directors of the company.

The procedure is that the company should:

- a. Obtain and complete GRA registration forms.
- b. Before a VAT certificate will be issued.
- c. The revenue officers will inspect the physical location of the business, and
- d. Pay provisional tax assessment.

4.4.3.4. Registering with Social Security & National Insurance Trust (SSNIT)

Companies are to register with the SSNIT because they have a duty to pay social security contributions on behalf of their employees. The registration process will require:

- a. Certificate of Incorporation
- b. Certificate to Commence Business
- c. Form 3
- d. Form 4, and
- e. Regulations of the company.

The procedure is for the company to obtain and complete SSNIT registration form. After this the form is submitted and will be given certificate of registration when the registration is complete.



Office Complex of the Ghana Revenue Authority

Source: <https://thebftonline.com/2022/01/28/gra-to-release-list-of-active-businesses-to-data-protection-commission/>



Office Complex of the Social Security and National Insurance Trust (SSNIT) of Ghana

Source: <https://citinewsroom.com/2022/07/ssnit-saves-ghana-over-gh%2%A2320m-after-clearing-ghost-names-on-pension-roll/>



4.4.3.5. Registering with Local Government

This is required so that the business will obtain a business operating permit from the local government authority. This also requires the documents submitted for the registration with the SSNIT. There is annual payment to be done for business operating permits.

4.4.3.6. Registering with Ghana Investment Promotion Centre (GIPC)

This is required of companies that are local subsidiaries of foreign companies or where shares in the company are held by a person who is not a citizen of Ghana. The registration requires that in addition to the documents needed for registering with SSNIT/Local Government, the Bank of Ghana Equity Transfer Confirmation letter must also be provided. Where the foreign shareholder is a corporate entity, the entity's constitutional documents and copies of constitutional documents of the shareholders of the local company are required where the applicant is owned by a corporate entity; and where the foreign shareholder is a listed entity a listing certificate is also needed.

4.5 Registration Of External Company

Like other companies, external companies are also to be registered in conformance with the Company's Act. Any foreign company that wants to operate in Ghana should be registered with the Companies Registry. Such company must provide the following:

- a) Certified true copies of the constitutional documents of the company from its country of origin.
- b) The following information:
 - Name of company
 - Nature of business of the company
 - If applicable the number and nominal value of the authorized and issued shares; the amount paid for the shares; and the amount yet to be paid for the shares.
- c) Registered office address.
- d) Address of principal place of business in Ghana including postal address.
- e) Details (name, address of one or more persons authorized to act as the company's Local Manager(s). This must be a person competent to be appointed as a director in Ghana). A resolution of the board of directors and a power of attorney are needed to authorize the establishment of an external company and to authorize the Local Manager to act on behalf of the external company.
- f) The name of the process agent authorized to accept service of process and other documents on behalf of the company; and
- g) Complete a Taxpayers Identification Number (TIN) form for the local manager(s).
- h) In addition to the above, the external company must also undertake the following:
 - i) Registration with Ghana Revenue Authority (GRA) by following the procedure for company explained above.
 - ii. Registration for Value Added Tax.
 - iii. Registration with Social Security & National Insurance Trust (SSNIT).
 - iv. Permits from local government authorities.

4.6. Registration Regulations: Charges

The registration process for companies in Ghana involve some cost. Table 4.1 is a summary of the charges at the Registrar General's Department for registering a company and other activities based on the form of business operation.

Table 4.1: Charges for Registration a Business and Other Related Activities

Activity	Form of Business	Charges
Business Registration	Limited Liability Company	<ul style="list-style-type: none"> Gh¢ 230.00 Administrative Fee of Gh¢ 50.00 for filing of Form 3 Stamp Duty equivalent to 0.5% of Stated Capital
	Company Limited by Guarantee	Gh¢270.00
	External Company	\$1,200.00/Cedi Equivalent
	Partnerships	Gh¢160.00
	Sole Proprietor	Gh¢60.00
	Subsidiary (SBN)	Gh¢60.00
Name Reservation	Limited Liability Company	Gh¢50.00
	Company Limited by Guarantee	Gh¢50.00
	Partnerships	Gh¢50.00
	Sole Proprietor	Gh¢50.00
	Subsidiary (SBN)	Gh¢25.00
Annual Returns or Renewals	Limited Liability Company	Gh¢50.00
	Company Limited by Guarantee	Gh¢50.00
	External Company	\$600.00/Cedi Equivalent
	Partnerships	Gh¢50.00
	Sole Proprietor	Gh¢25.00
	Subsidiary (SBN)	Gh¢25.00
Filing for Change of Name Certificate	Limited Liability Company	Gh¢110.00
	Company Limited by Guarantee	Gh¢110.00
	Partnerships	Gh¢100.00
	External Company	\$250.00/Cedi Equivalent
	Business Names	Gh¢25.00
	Subsidiary	Gh¢25.00

4.6. Opportunities for Formalizing the Informal Sector

The informal sector plays a vital role in many developing countries (Ghana Statistical Service, 2019; Vanek et al., 2014) by providing opportunities for employment, decent living, maintaining a healthy country and contributing significantly to a country's GDP. The informal sector in Ghana employs a significant percentage of the Ghanaian population within the working class and contributes significantly to GDP. With the vast opportunities the informal sector provides for growing the economy, until it is formalized where businesses are registered, businesses pay appropriate taxes, the actual benefits of this huge sector can never be quantified and sustainably integrated into the national economy.

Plans have been underway since the mid-1990s to formalize this sector of the economy. Governments over the years, have enacted pieces of legislation and regulations to compel the informal sector to embrace formality for the purposes of widening the tax bracket and absorbing all workers to ensure that the economy derives the full benefits of the sector. In February 2022, the government of Ghana inaugurated a National Employment Coordination Committee to put in plans on how to formalize the informal economy (Ghanaian Times, 2022). This notwithstanding, the introduction of tax identification numbers, Ghana card, digital address system, mobile money interoperability, advocacy for individuals to own bank accounts are some of the Government of Ghana's (GoG) policies and programmes to, in the long run formalize the informal sector.

4.6.1. Ghana Card

The National Identification Authority (NIA) which was officially set up in 2003 under the Office of the President and given the mandate to issue national ID cards and manage the national identification system, was given a legal backing with the passing into law of the National Identification Authority Act, 2006 (Act 707) and subsequently the National Identity Register Act, 2008 (Act 750) which also gives the legal authorization to the NIA for the collection of personal and biometric data of individuals. The Ghana Card is an identity card issued by the NIA to Ghanaian citizens – both resident and non-resident, and legally and permanently resident foreign nationals. Basically, the card is a proof of identity, citizenship and residence of the holder. Also, in the long term the card is to assist holders to access government services such as health service, passport acquisition, acquisition of driver's license, shipping and clearing of goods from the ports, receipt of banking services, credit information, registration of business, education, job search and disaster management. Other services one can access using the card is access to social services, protecting the rights of children, electoral registration, travelling, e-commerce and payment industry, pension claims, sim card registration, hire purchases, insurance claims and remittances from abroad.

As stated above and in relation to this study, the purposes of the Ghana Card are to enable citizens register their businesses, for e-commerce activities, and for shipping and clearing of goods. This is geared towards formalizing the economy. When this becomes successful, it will enable the government to widen for instance the tax net, and also have records for all businesses and business owners as well

as employees and be able to track the payment of taxes and PAYEs to enable the government rake in more revenue to pursue its development programmes.

4.6.2. Tax Identification Numbers

The Tax Identification Number (TIN) is a unique identification number issued to tax payers and potential tax payers. The concept of TIN is backed by the Revenue Administration Act, 2016 (Act 915). The Ghana Revenue Authority (GRA) introduced TIN on April 1, 2018. With this law, individuals and businesses are mandated to get TINs. Three years after its introduction and the coming in of the Ghana Card, effective 1st April 2021, the 15-character Ghana Card Personal Identification Number issued by the NIA became the TIN for individuals. The TIN was

basically to enable Ghanaians to be able to apply for passports, register land, clear goods, register a vehicle, business and assist in opening bank accounts. The main objective of TIN is to introduce tighter controls to ensure that taxes are paid on all earnings.



H.E Nana Addo Dankwa Akufo-Addo(R) , President of the Republic of Ghana with H.E. Dr. Mahamudu Bawumia (L) in a pose with a dummy Ghana card

Source: <https://www.x-infotech.com/x-in-fotech-celebrates-success-ghana-eid-card-project/>



One of the Officers embossing a building with their digital address under the GhanaPost GPS national digital property addressing system.

Source: <https://www.graphic.com.gh/news/general-news/exercise-to-emboss-digital-addresses-on-public-buildings-ongoing.html>

Within the informal sector, employees and employers largely do not pay taxes on their earnings and on their operations. Informal businesses largely also do not charge VAT on the goods and services they offer to the market, thereby depriving government of the needed revenue. Once the concept of TIN is achieved and people have access to their numbers, individuals and businesses either in the formal and informal sectors will be tracked and mandated to pay the appropriate taxes. Taxes such as withholding tax, corporate income tax, gift tax, vehicle income tax, rent tax, pay as you earn (PAYE) and tax stamp are usually not paid by employees and employers of the informal sector. For instance, a domestic worker who has a Ghana Card and TIN can be tracked to pay PAYE on his/her earnings if the TIN system becomes effective and efficient. Also, a carpenter or a craftsman can also be mandated to introduce tax stamps on his/her crafts and with the TIN, he/she can be tracked to pay the tax due to government.

4.6.3. Digital Address Systems

The Ghana Post GPS is Ghana's official digital property addressing system which ensures that all locations in the country are addressed. With the Ghana Post GPS, every location in the country has a unique digital address. This address system basically is to enable the Ghana Police Service, Ghana National Fire Service, Ghana Ambulance Service and other service providers to be able to easily locate people and structures and deliver their services or rescue people with ease. Inherent in this is also a pathway aimed at formalizing the Ghanaian economy and ensuring that every business, wherever it is located can easily be identified uniquely

with this address system. Aside the Ghana Card and TIN numbers, digital addresses are also one of the basic requirements needed to register a business and conduct other businesses.

It is expected that the implementation of the Ghana Post GPS address system will also create a database of businesses as each business will be required to register with a digital address that will uniquely identify the location of that business for a more improved and systematic means of tax collection. On the official website of Ghana Post, it has been stated that the acquisition of a digital address system will ensure that small businesses (informal sector businesses) can also have an opportunity to open bank accounts for the purposes of securing loans. According to Technology Salon (2017), registered businesses on the GPS system will also mean addresses can be located easily, which will reduce risk for businesses to access loans, reduce cost of doing business and invariably create job opportunities for Ghanaians. It will also provide the added value of enabling citizens to easily locate service providers by searching on the app. In a nutshell, the GPS addressing system is one of the several programs put in place by government to ensure that the informal sector is formalized so as to be able to contribute to national development.

4.6.4. Advocacy for Mobile Money and Bank Account Ownership

In Ghana, mobile money services are provided by telecommunications companies like MTN Ghana, Vodafone and AirtelTigo. The Bank of Ghana (2021) report indicates that the year ending 2021 saw registered mobile money accounts

increased to 48,308,945 from 38,473,734 in 2020 and the number of registered agents also increased to 579,672 compared to 423,892 over the comparative period. Active mobile money accounts also increased marginally to 17,948,480 from 17,142,677 in 2020. The value of mobile money transactions according to the Bank of Ghana amounted to GH¢ 978.32 billion in 2021, a significant growth of 73.4% over the 2020 position.

Lopez (2020) in a report on the potentials of mobile money assert that, mobile money has the potential to help small and medium-term enterprises join the formal economy. According to Ramsden (2011), a report commissioned by the IFC in 2010 assert that more than 45% of informal businesses in emerging markets do not have an account with a financial institution. This situation is similar to the Ghanaian informal business market. However, with the proliferation of the technological advancement, businesses can take advantage of the advancement in telecommunication to own mobile money accounts for their businesses. Klapper, Miller and Hess (2019) in their study noted that nearly 80% of informal business owners in developing countries have a mobile phone, with nearly all informal businesses in China and Kenya owing mobile phones. Mobile phone and internet payments are higher in sub-Saharan African countries where there is strong mobile money penetration. Mobile money has and continues to play an important role in helping informal businesses overcome the financial exclusion that comes from operating in the informal economy. According to Pasti and Nautiyal (2019), a substantial proportion of person-to-person transfers are made by small businesses and microentrepreneurs.

By enabling access to financial services,

mobile money is positioned to offer solutions to aid informal businesses in their path to formalization. Mobile money can contribute to formalization of informal businesses through increasing their productivity and profitability, improving their access to credit and creating an enabling environment to grow informal businesses in order to expand, and employ more people. The recent introduction of electronic levy (e-levy) in Ghana is also one of the ways in which government is strategizing to formalize the informal sector.

As earlier stated by Ramsden (2011), majority of individuals do not have a bank account with a financial institution, likewise the situation in Ghana. With this as hindsight, Government of Ghana as reported by Ghanaweb (2017) is advocating for every Ghanaian to have a bank account by 2018. During a speech delivered by the Vice President, he asserts that more than 70% of the Ghanaians do not have bank accounts, which to him is a hindrance to achieving financial inclusion, a key ingredient for unlocking the potentials of an emerging economy. To be able to achieve financial inclusion and ensure that every Ghanaian has a bank account, technology is key, and in this case through the use of mobile money. Kojo (2020) at an official event also quoted the vice president as saying "15 million Ghanaians now have bank accounts".

In this day and age, even though most Ghanaians do not have bank accounts with financial institutions, having a mobile money wallet can be equated to one having a bank account. The mobile money wallet is therefore an electronic bank account that can be used to deposit, save and transact business activities. The introduction of the mobile money payment interoperability service, which allows direct

and seamless transfer of funds from one mobile money wallet to another mobile money wallet across networks have made it possible for people and businesses to transact business activities with clients and suppliers seamlessly. With this technology in place, informal businesses can own bank accounts, where they can transact their businesses which can be tracked for the purposes of formalizing the Ghanaian economy.

4.6.5. Introduction of Excise Tax Stamp

The Government of Ghana introduced the excise tax stamp Act 2013 (Act 873) in 2013 to provide for the affixing of excise stamps on specified excisable products to enhance accountability on those products. According to the Ghana Revenue Authority (GRA) (GRA, 2022), the excise tax stamp (ETS) is a specially designed stamp with digital and other security features which is affixed on excisable goods to show that taxes and duties have been paid or would be paid. The ETS is affixed on specified excisable goods in Ghana whether locally manufactured or imported. This law came into force from 1st March, 2018. The purpose of ETS is to control the importation and local production of excisable goods (products) for revenue purposes, check illicit trading, smuggling and counterfeiting of excisable products, check under-declaration of goods and protect and increase tax revenue. According to the GRA, products that attract ETS include cigarettes and other tobacco products, alcoholic beverages whether bottled, canned, contained in kegs for sale or packaged in any other form, non-alcoholic carbonated beverages whether bottled, canned or packaged in any other form, bottled water, textiles, and

any other excisable product prescribed by the Finance Minister.

The informal sector also does manufacture some goods. For instance, local beverages such as asana, sobolo, zonkom, pito, fula, lamougin which do fall under excise goods can be given excise tax stamps for the purposes of them paying taxes on their products. Also, bottled water and sachet water producers who also largely operate under the “informal umbrella” can be identified and made to register and make use of the ETS in their operations. With businesses now expected to use their Ghana Card numbers (TIN) and digital addresses to register their businesses, they can easily be identified, their businesses assessed and issued ETS based on their products, by this, the informal sector will gradually formalize and contribute to domestic revenue generation for the country’s development.

4.7. Summary

Clearly businesses operating in Ghana must necessarily be registered. Currently, however, that is not the case. As a result, the Government of Ghana has rolled out a number of important policy and legal initiatives to strengthen the regulatory regime for businesses and to help formalize the Ghanaian economy. Inherent in these policies are several opportunities for sustainably integrating the contributions of the informal sector into the larger economy. Remaining unresolved is how public sector corruption, bureaucratic inertia and interference in the market can be eliminated to allow actors in the informal sector to easily formalize their operations. In the final Chapter of this report, the various ways by which the full benefits of the informal sector can be sustainably integrated into the formal economy will be summarized.



Chapter Five

Pathways for Sustainable Integration of the Informal Sector

5.1 Introduction

Given the importance of the informal sector to the Ghanaian economy, in terms of employees, output, and contributions to GDP, every effort must be made to sustainably absorb the full benefits of the sector in support of National Development. The present study, undertaken by Good Governance Africa provides novel initiatives based on already existing national policies and pieces of legislation in a harmonized fashion that can be used to reap the benefits of the sector. These initiatives have been presented in this Chapter as policy recommendations. This Chapter therefore address three main issues, i.e., summary of findings from the review, conclusions and policy recommendations.

5.2. Summary of Findings

One of the main findings of this review work is that Ghana's informal sector exhibits the characteristics of a dualists informal sector. This means that the sector is premodern and serve as the formal space between the formal system and complete unemployment. Engagement in the sector is therefore purely survivalists and individuals employed in the sector do not possess the right skills required in the formal sector. The rate of population growth, coupled with the absence of formal jobs has resulted in a situation whereby the informal sector is growing at a rate faster than the formal sector. Its full potential must therefore be tapped through appropriate policy intervention.

There several laws coupled with cumbersome regulatory procedures governing the registrations, commencement and establishment of any kind of business in Ghana. Excessive regulations, it has been theoretically argued are the reason for the existence of the informal economy in some countries. As enumerated in Chapter 4 there are over 17 pieces of legislation governing the registration and commencement of businesses in Ghana. These requirements require of businesses to performs certain tasks at the central government level, others with specified governmental agencies, while other tasks are to be executed at the local government level. The plethora of legal requirements are a disincentive to businesses who would want to transition from informal to formal operations.

The informal sector is a major employer of the rapidly growing labour force of the country. While public sector employment is either stagnant or even on the decline, employment in the informal sector is on the ascendancy. Given the high levels of unemployment int the country, currently pegged at 13.44% and the potential of the informal sector to absorb more workers, formalizing the sector can help the country overcome its unemployment situation.

It is also found that the informal sector is composed of people involved in agriculture, fishing and fish processing and agro-based industrial activities. Farming is the predominant

agricultural activity and the sector is dominated by people with little to no formal education. Agro-processing activities include cassava processing into starch or gari, palm wine tapping, traditional soap making and other low skill activities. These activities when well tapped into by government through its Business Advisory Centres and the National Board for Small Scale Industries can serve as the foundation for the take-off of a formal manufacturing sector.

Working conditions in the informal sector are an affront to the labour laws of the country. Every worker should be entitled to leave, social security, decent wages, overtime, severance package and the freedom to join trade unions. These rights are currently not available to people employed in the informal sector.

Ghana has a robust regulatory and policy regime in support of efforts to formalize the domestic economy. The most recent and far reaching policy initiatives include the introduction of the national identification system and the Ghana Card, the Tax Identification Numbers, the digital address system, growing advocacy for mobile money and bank account ownership, and other efforts to make the country a cashless economy have far reaching implications for formalizing the informal sector. The main challenge is with policy implementation which is often beset with administrative bottlenecks and low budgetary support. Public sector corruption and interference in the market remains serious threat to the efforts to formalize.

5.3. Conclusions

The informal sector of Ghana is an important sector in terms of its overall contributions to employment, income generation, poverty alleviation and the GDP of the country. Despite the huge contributions of the sector and the potential to even do more, the country has not been able to sustainably formalize sector for purposes of fully tapping into the value the sector generates. All is not lost though, as various regulatory and policy initiatives implemented over the past few years and continually being rolled out can help the country formalize its informal sector. What remains to be done is for the state to ensure that policies and regulations do not remain on the shelves but are implemented and enforced. When these are done, Ghana can transition from a cash based to a cashless economy in the next few years. A cashless system operating in an environment where all actors can be identified through a national register, their physical location traced through a digital address system, their tax payment obligations or otherwise determinable would provide a smooth pathway for the formalization of the informal sector. What remains a major bottleneck which government may have to find innovative ways of dealing with concerns of high taxes, corrupt public system, and excessively high interference in the market. These will allow for an ease of formalization and integration into of its value created by the informal sector into the Ghanaian economy.

5.4. Policy Recommendations

Given the nature of and characteristics of Ghana's informal sector which places the sector under the dualists system government policy initiatives must focus on enabling the private sector to create more job opportunities, provide better credit and business development services to informal operators, provide enhanced infrastructure and provide social services to families of informal workers. When jobs grow in tandem with population growth, and services required by businesses to thrive are provided by the state, it would become easier to formalize the informal sector and thereby reap and integrate the benefits of the sector into the larger national economy.

Efforts must be made streamline and harmonise the pieces of legislation governing the establishment and operations of businesses in the country. The procedural requirements should also be streamlined and made less cumbersome. It should be made easy to register a business from any part of the country or even online and receive the necessary certification through online means. These will lessen the drudgery associated with business registration and serve to encourage many informal actors to attempt to formalize their operations.

The country has currently instituted a national youth employment programme, as part of which the nation builders' corps initiative emerged. The programme is targeted at providing descent jobs to young graduates who have completed their service to the nation and to gradually absorb them into the formal sector. The initiative can be extended to apprentices and master craftsmen who do not have the resources to initiate anything on their own. Once done, the state can take the initiative to register, and support them with the needed resources to establish themselves. That will provide a pathway to the state to fully capture the value emanating from apprenticeships and to integrate them into the formal sector.

By the nature of these activities within the informal sector, with the exception of fishing, they are mostly undertaken on some physical space. Ghana needs to therefore, through a combination of initiatives already rolled out, including the National Identification System, the Ghana Post Property Addressing System and the Tax Identifications system seek to identify, provide appropriate addresses and TINs to all the identified business units in the country. This exercise should lead to the provision of support in the form of capacity building, and registration and formalization without necessarily having to visit a government office. Once executed government must provide infrastructure and services that enhance the competitiveness of these business and that can result in increased output, enabling government to sustainably integrate the full benefits of the sector into the national economy.

Sustainably integrating informal sector contributions into the formal economy will require that government initiates deliberate policies to improve the working conditions in the informal sector. Again, achieving greater formalization and reduced informality should be the overarching goal of government. Through the TIN, social security for the informal sector actors and the promotion of ownership of bank accounts, the state can have a full understanding of the extent of informality and can easily identify the

actors, register their operations for purposes of absorption and full integration of the value created into the formal sector.

The Government of Ghana needs to ensure that recent initiatives that have the potential to make the country a cashless economy are well implemented. A cashless economy ensures that every transaction within the economy is traceable for purposes of taxation. It will also go a long way to help deal with public sector corruption, and bureaucratic inertia which are said to impede efforts at formalization.

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