

The E-levy and Merchant Payment Exemption in Ghana

Celeste Scarpini, Fabrizio Santoro, Mary Abounabhan and Awa Diouf

Summary of ICTD Working Paper 184

Introduction

Mobile money-enabled digital merchant payments have significant promise for enhancing tax compliance in low-income countries, and addressing persistent challenges. First, digital merchant payments offered by mobile money providers guarantee greater accessibility to safer and faster formal payment. Second, they help businesses to keep comprehensive records of their activities, expenses, and receipts – enhancing accuracy of tax filing, and perceptions of the tax administration’s monitoring and enforcement capabilities. Third, they improve businesses’ perceptions of the transparency and predictability of the tax system, by using more precise digital information for tax calculations. In addition, governments can use digital merchant payments to encourage business formalisation, by exempting them from new taxes on mobile money transactions. Many African governments use this strategy, while taxing other transaction types – such as mobile money withdrawals and person-to-person transfers.

The research

Our study looks at the exemption for digital merchant payments embedded into the design of the Ghanaian electronic transfer levy (e-levy) – a 1 per cent levy on person-to-person transfers conducted via mobile money and banking platforms. Combining survey data from 1,065 individual businesses in the Greater Accra region with 14 focus group discussions with Ghanaian citizens, we aim to answer the following research questions on the use of the main mobile money service for digital merchant payment, MoMoPay:

1. What are the barriers and drivers to merchants’ registration with MoMoPay, and how does the e-levy exemption for merchant payments fit into the picture?
2. How does the exemption impact the use of digital merchant payments and customers’ preferences?
3. What is the impact of using the exempted service on merchants’ perceptions around the e-levy policy and tax system?

We present the following results.

Drivers of MoMoPay adoption

Larger businesses, which are more digitally and financially included, are more likely to adopt MoMoPay. These businesses have greater knowledge about the e-levy exemption. We find a combination of resignation and ignorance among non-users, who either tried to take up MoMoPay but found the process too complex, or say they do not need it as they do not know about its benefits.

Impact on payment behaviour and clients’ preferences

The exemption seems to have curbed the use of mobile money personal accounts, which are not exempt from the e-levy, compared to self-reported usage levels before (2021) and after (2023) the e-levy. Use of cash by both MoMoPay users and non-users has not been affected by the exemption. MoMoPay users report that customers actively try to avoid the e-levy by strategically selecting exempted businesses – their profitability might have benefitted from the exemption.

Impact on tax perceptions

Using MoMoPay strongly correlates with an agreement index encompassing seven aspects of the e-levy. When it comes to broader tax perceptions, exempted merchants show more trust in the government, satisfaction with public service provision, and perceived fairness of the tax system. Crucially, the perceived probability of audit of exempted merchants – which was expected to increase given that business transactions through MoMoPay can be traced easily – remains unchanged.

Policy implications

Based on these findings, we draw the following lessons for policymakers:

- Strategies to promote the adoption of digital payments must recognise and address the barriers affecting their uptake. These include customers’ and merchants’ poor knowledge and understanding of the law and technology, as well as the difficult steps merchants have to take to meet eligibility requirements.

- Governments must acknowledge the persistent dominance of cash, and the challenges to replacing it. To address cash-centric habits, governments could consider consumer-oriented incentives, like free mobile money or bank accounts (including debit cards). These strategies can stimulate the adoption of electronic payments by merchants – fostering a virtuous cycle of digital financial inclusion.
- Governments should carefully analyse the factors driving agreement with this type of fiscal policy, and their impact on broader tax perceptions. In Ghana, exempted merchants (MoMoPay users) have more positive perceptions of the e-levy and tax system, compared to those who do not have direct exposure to the exemption and understand it less. Policymakers should engage more in education and sensitisation to

make specific taxes and the tax system more intelligible to the public, and help to improve perceptions. In turn, more positive perceptions of the tax system could improve compliance.

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Further reading

Scarpini, C.; Santoro, F.; Abounabhan, M. and Diouf, A. (2024) [*The E-Levy and Merchant Payment Exemption in Ghana*](#), ICTD Working Paper 184, Brighton: Institute of Development Studies, DOI: [10.19088/ICTD.2024.009](#)

Abounabhan, M.; Diouf, A.; Santoro, F.; Sakyi-Nyarko, C. and Scarpini, C. (2024) [*Mobile Money Taxes: Knowledge, Perceptions and Politics. The Case of Ghana*](#), ICTD Working Paper 183, Brighton: Institute of Development Studies, DOI: [10.19088/ICTD.2024.008](#)

Credits

Celeste Scarpini is a Research Officer at the ICTD, and a PhD student at the Department of Economics, University of Sussex.

Fabrizio Santoro is a Research Fellow at the Institute of Development Studies, and the Research Lead for the second component of the ICTD's DIGITAX Research Programme.

Mary Abounabhan is a Research Officer for the DIGITAX programme at the ICTD.

Awa Diouf is a Postdoctoral Researcher at the ICTD and an economist specialising in public finance in developing and transition countries.

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ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.



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