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Current State of Financial Inclusion in the Informal Sector of Ghana

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Abstract

Financial inclusion has emerged as a concept that is of global concern in the domains of financial expansion, policy and all-encompassing prosperity. As a result, many countries have embraced the concept as a key driver of development agenda. However, knowledge of the state of financial inclusion in the informal sector is limited especially in developing countries. The purpose of this study was to assess the state of financial inclusion in the informal sector of Ghana. The study was descriptive and cross-sectional which employed multistage sampling to select 365 participants in the informal sector from eight regions. Data was collected using a 5-point Likert scale which reliability was achieved by ensuring all items scored Cronbach Alpha value of above 0.7. Descriptive analysis of the data was conducted using Statistical Package for Social Science (SPSS) version 23 software. The results of the study showed that there is lack of accessibility, quality and usage of financial services and products in the informal sector of Ghana. In conclusion, the study findings highlight the need to improve the state of financial inclusion in the informal sector to enhance the participation of people in the sector in the national development agenda.

Keywords: *Financial Inclusion, Ghana, Informal Sector, State.*

Introduction

Background of the Study

According to the World Bank, financial inclusion refers to the state where individuals and business entities get access to financial products and services that are useful and affordable, and which meet their needs in relation to transactions, payments, savings, credit and insurance in a manner that is responsible and sustainable [1]. In recent years, financial inclusion has emerged as a concept that is of global concern in the domains of financial expansion, policy and all-encompassing prosperity. Many countries are now embracing the concept with the objective of promoting their development agenda. The World Bank sees financial inclusion as the effective means by which countries can achieve at least some of the Sustainable Development Goals (SDGs) [2]. These goals include SDG1 that specifically aims to end extreme poverty [3], in which financial inclusion would contribute to providing financial support in education and business which can impact on agricultural activities and consequently help to reduce hunger as stipulated in SDG2 [4]. With the reduction in hunger, this could positively impact on health and the well-being of people which the SDG3 is seeking to achieve [5]. Furthermore, increase in financial inclusion has the tendency to empower women to have financial control and this can promote gender equity as targeted in SDG5 [6]. Again, the World Bank believes that by improving financial access, it is possible to drive business

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innovation as expected by SDG9 [7]. It has also been suggested that financial inclusion would also help to reduce inequality within countries; the results that the SDG10 is expected to achieve [8] [9]. Nonetheless, until the recent past, the global statistics of people who had access to financial services and products were limited.

It is estimated that 69% of adults around the world had bank accounts in 2017; a situation that represented an increase from 51% in 2011. Similarly, access to Automated Teller Machines (ATM) per 100,000 adults worldwide increased from 41.6% to 53.5% in 2017. According to the Global Findex Database, the population in Sub-Saharan Africa (SSA) that possessed bank account increased from 43% in 2017 to 55% in 2021; a figure that is far below the global average of 76% [1]. With approximately 21% of the adult population in SSA who possess mobile money account, financial inclusion in era of technology needs to be examined especially within the informal sector [10]. Although, there are significant strides in promoting financial systems and inclusion among some African countries, there is still considerable need for efforts to achieve overall financial inclusion especially those in the informal sector.

Problem Statement

In developing countries, the informal sector has been recognized as a major source of employment and means of subsistence [11]. The Alliance for Financial Inclusion (AFI) estimates that 89.9% of workers in low-income countries are in the informal sector while 83.7% and 52.6% of workers in lower-middle income and upper-middle income countries are respectively in the informal sector [12]. Following its role in providing jobs, the sector is a key contributor to income generation and a channel for creating wealth as well as facilitating incubation of business innovations and creativity [13]. Emphasizing on the importance of the informal sector in national growth and development, Delechat and Medina [14], indicate that it accounts for about one-third of Gross Domestic Product (GDP) in developing economies. However, the informal sector in most developing countries continue to suffer financial exclusion; a phenomenon that negatively impacts its growth and contribution to national development.

Purpose of the Study

The main purpose of the study was to assess the current state of financial inclusion in the informal sector of Ghana.

Limitations

Our study did not sample participants from all the categories of people operating in the informal sector. As a result, the findings cannot be generalized as the study recruited participants from some part of the informal sector. The interpretation of the study findings should therefore be done in the above given context.

Schematic Diagram

The schematic diagram shows the research process as in figure 1 below.

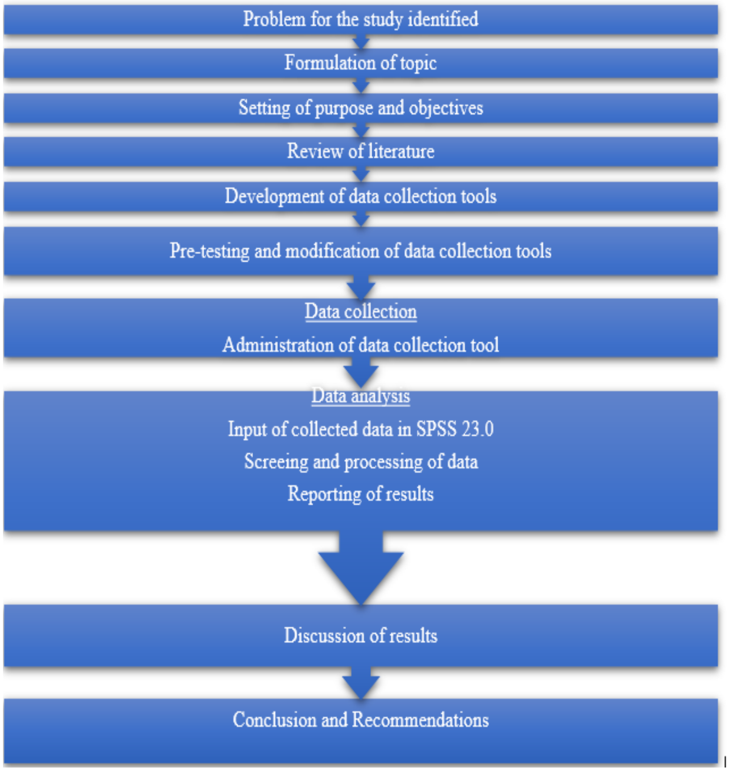

Figure 1. Schematic Diagram Showing the Research Process

Materials and Methods

Study Design and Setting

The study which used a descriptive cross-sectional design with quantitative approach was conducted in Ghana, a country in West Africa in the Sub-Saharan region. Ghana was originally known as the Gold Coast until it had independence from the British in 1957 [15]. With Accra as the capital town, Ghana is divided into 16 regions and has over 100 districts. It shares borders to the north with Burkina Faso and to the South with the Gulf of Guinea [16]. On the east, Ghana shares border with Togo and with Cote D'voire to the west [16].

Ghana has a total land area of 238,535 sq km and its population is estimated at 32.1 million according to the Ghana Statistical Service. With over 75 ethnic groups in the country the major languages spoken in Ghana include Dangme, Twi, Ewe, Ga, Dagbani, Dagaare among others.

Politically, Ghana is a democratic country that practices multiparty systems where elections are held every four years to elect a president and members of parliament. The president is the head of state and the executive arm of government. The other two arms of government are the Legislature and the Judiciary which are responsible for making and interpretation of laws respectively.

Economically, Ghana is a developing country with over 50% of its population engaged in the informal sector activities [17]. It is endowed with mineral resources including gold, diamond, bauxite, timber, oil among others. In addition, Ghana has cash crops such as cocoa which is the major source of foreign exchange for the country.

In recent years, Ghana has embarked on a digitization agenda where the country is aiming to achieve a cashless economy [18]. This digitization drive in the country makes it a suitable setting to investigate the impact of fintech and digital platforms on financial inclusion of informal activities. This study stands to provide insights into how the digitization agenda of the country is impacting majority of its population in the informal sector with regard to financial inclusion and consequently help to guide policy decisions in the country.

Study Population, Sampling and Sample Size

The population of this study consisted of all individuals in the informal sector of Ghana. The population is therefore an infinite population as the exact number of people in the sector is not known and cannot be counted due to the dynamics of the sector.

This study adopted a multistage sampling technique to select participants from the informal sector for data collection. With this method, the country (Ghana) was first clustered into 16 regions from which eight (8) regions were selected at random. Individuals working in the informal sector were recruited at random to participate in the study. In all, a sample of 365 participants took part in the study.

Data Collection Tool and Procedure

This study employed the use of a 5- point Likert scale to collect data for the study. The instrument consisted of six sections where the first part was designed to collect demographic information of participants. The remaining section of the instrument was focused on gathering the opinions of participants in relations to access, usage and quality of financial services or products in the informal sector.

Study Population, Sampling and Sample Size

The population of the study was made up of operators in the informal sector which included farmers, artisans, block producers, transport operators, traders and casual labourers. A multistage sampling technique was used to select eight regions and six informal sectors in those regions for the recruitment of participants. A sample of 365 participants was used for the study.

Data Analysis

The data for the study was analyzed using SPSS version 23 software. Prior to the analysis, each participant was given a unique code to avoid duplication of entries. The data was screened, and all errors were removed to ensure accurate results. A descriptive analysis was performed were statistics such as mean, mode, median and standard deviation were determined for each item. The results were presented in tables with interpretations.

Results

The table 1 and 2 below show the background information of participants and descriptive statistics respectively.

Table 1. Background Information for Participants

Variable	**Frequency**	**Percentage (%)**
Gender		
Female	189	51.8
Male	176	48.2
Total	**365**	**100.0**
Age		
18-25 years	39	10.7
26-33 years	45	12.3
34-41 years	111	30.4
42-49 years	140	38.4
50 or more years	30	8.2

Total	**365**	**100.0**
Highest education level		
Basic level	152	41.6
Secondary level	121	33.2
Tertiary level	92	25.2
Total	**365**	**100.0**
Religious background		
Christian	171	46.8
Muslim	142	38.9
Traditionalist	51	14.0
Total	**365**	**100.0**
Marital status		
Married	203	55.6
Single	162	44.4
Total	**366**	**100.00**
Occupation		
Artisan	21	5.8
Block producer	75	20.5
Casual laborer	11	3.0
Farmer	41	11.2
Trader	85	23.3
Transport operator	132	36.2
Total	**365**	**100.0**
Years of work		
Less than a year	21	5.8
1-3 years	50	13.7
4-7 years	140	38.4
8-11 years	121	33.2
12 or more years	33	9.0
Total	**365**	**100.0**
Region of residence		
Ashanti	83	22.7
Bono	72	19.7
Bono East	18	4.9
Central	14	3.8
Eastern	83	22.7
Greater Accra	63	17.3
Oti	15	4.1
Volta	17	4.7
Total	**365**	**100.0**

Table 2. Descriptive Statistics of Participants' Response on Access, Quality and Usage of Financial Services/ Products

Constructs	Median	Mode.	Mean	Std. Deviation	Interpretation of mean
Access to financial services/products					
ACC1: There are many financial service delivery channels available nearby.	2.00	1	1.98	0.98	Disagree
ACC2: There are many financial institution branches located nearby.	1.00	1	1.79	0.93	Strongly disagree
ACC3: The initial opening fees charged by the financial institutions are affordable.	1.00	1	1.68	0.92	Strongly disagree
ACC4: The maintenance fees charged by financial institutions are affordable.	2.00	1	1.88	0.91	Disagree
ACC5: The minimum balance required for savings accounts is affordable.	2.00	2	2.74	0.96	Neutral
ACC6: The loan fees charged by financial institutions are satisfactory.	2.00	1	1.91	0.95	Disagree
ACC7: The minimum loan amounts offered by financial institutions are satisfactory.	2.00	1	1.91	0.95	Disagree
ACC8: The number of documents required to open an account is minimal.	2.00	1	2.00	0.99	Disagree
ACC9: The time taken to process loan application is favourable.	3.00	2	2.97	1.00	Neutral
ACC10: I do not experience discrimination from financial institutions in their service provision.	2.00	1	1.96	1.10	Disagree
ACC11: The location for submitting loan applications is convenient.	1.00	1	1.71	0.95	Strongly disagree
ACC12: The fees charged for payment services by financial institutions are affordable.	2.00	1	1.97	0.99	Disagree
ACC13: All charges by financial institutions are affordable.	2.00	1	1.97	0.99	Disagree
ACC14: I can access the services by financial institutions.	2.00	1.00	1.96	0.97	Disagree
ACC15: I can access the products by financial institutions.	2.00	2.00	1.96	0.95	Disagree
Quality of financial services/products					
QTY1: The savings product provided by the financial institutions suits our needs	2.00	2	2.48	0.92	Disagree

QTY2: The loan products provided by the financial institutions suits our needs	2.00	2	2.63	0.95	Disagree
QTY3: The payment services provided by the financial institutions suits our needs	1.00	1	1.53	0.96	Strongly disagree
QTY4: The savings products provided by the financial institutions is safe for us	2.00	2	2.69	0.97	Neutral
QTY5: The loan product provided by the financial institution is safe for us	1.00	1	1.64	1.00	Strongly disagree
QTY6: The payment services provided by the financial institution is safe for us	2.00	2	2.66	1.00	Neutral
QTY7: The savings product provided by the financial institution satisfies us	1.00	1	1.56	0.97	Strongly disagree
QTY8: The loan product provided by the financial institutions satisfies us	1.00	1	1.74	0.98	Strongly disagree
QTY9: The payment services provided by the financial institutions satisfies us	1.00	1	1.60	0.97	Strongly disagree
QTY10: The savings product provided by the financial institutions is useful to us	2.00	2	2.44	0.87	Disagree
QTY11: The loan products provided by the financial institution is useful to us	2.00	2	2.56	0.96	Disagree
QTY12: The payment services provided by the financial institution is useful to us	2.00	2	2.51	0.96	Disagree
Usage of financial services/products					
USG1: The cost of making trip to financial institutions is low	1.00	1	1.90	1.02	Disagree
USG2: The paper work requirements by the financial institution is favourable	2.00	1	1.92	0.92	Disagree
USG3: The fees charged by the financial institution on use of its services are favourable	2.00	1	2.04	0.95	Disagree
USG4: The level of service provision by the financial institutions in very good	2.00	1	1.96	1.00	Disagree
USG5: The financial institution is always providing its services on regular basis	2.00	2	2.67	1.01	Neutral
USG6: The financial institution always provides it financial services at convenient hours	1.00	1	1.63	0.96	Strongly disagree
USG7: Workers in this sector trust financial products and services offered by the financial institutions	2.00	1	2.03	1.05	Disagree
USG8: The products and services provided by the financial institution are user friendly	2.00	2	2.67	0.92	Neutral

USG9: The process of getting financial services from the financial institutions is easy	3.00	2	3.00	1.05	Neutral
USG10: It takes us less time to reach the financial to get the services	2.00	2	2.65	0.95	Neutral
USG11: The interest on deposit services offered by the financial institution is attractive for us	2.00	1	2.51	1.47	Disagree
USG12: The terms set by the financial institutions on use of its products and services are favourable to us	1.00	1	1.66	0.96	Strongly disagree
USG13: The terms of repayment of loans provided by the financial institution is favourable to us	1.00	1	1.62	0.91	Strongly disagree
UGG14: I have used the services of financial institutions.	1.00	1	1.62	0.91	Strongly disagree

Discussion

The study sought to assess the current state of financial inclusion in the informal sector of Ghana. The study found that there is no significant access to financial services and products among people in the informal sector. The finding is not consistent with the results by previous studies where the advent of mobile money and other digital platforms were found to impact accessibility to financial services and products by people who hitherto were left out in the formal financial systems [10], [19], [20]. It however implies that people in the informal sector have not proven to be trusted by financial institutions to be given financial products. On the other hand, lack of credibility in the informal sectors can be attributed to their lack of access to financial services and products. The results can also be attributed to lack of financial literacy among people in the informal sector which serves as a barrier to access of financial products from financial institutions. As posited by Gunarsih, Sayekti and Dewanti [21], access to financial services and products by individuals or business entities is essential for economic growth. The outcome is therefore significant as it calls for financial institutions to improve access to the informal sector by education for people in the sector about their services and products as suggested by Myeni, Makate and Mahonye [22] that targeted education programs can contribute to improve financial inclusion.

The results of the study also showed that there is no quality or relevance of financial services and products for people in the informal sector of Ghana. This result was different from the findings of previous studies which largely established the quality of financial services and products to underserved population such as the informal sector [23]. This means that financial services and products are perceived not to serve purpose for the people operating in the informal sector and hence raises concern about how the sector can achieve expected growth. The situation can be attributed to lack of tailored services and products by financial institutions for those in the informal sector. In other words, unfavorable terms and conditions regarding financial products that do not give flexibility for the informal sector would defeat its usefulness to operators in the sector. The result is a call for stakeholders in the financial sector to design financial products in line with the needs of people in the informal sector.

The study also found that there was no significant usage of financial services and products in the informal sector. While the result is inconsistent with previous findings[19], it has implications for limited capital for businesses in the informal sector which affect growth and development in the sector. The finding also means that people in the informal sector risk the opportunities to build credit worthiness that would facilitate their access to bigger loans and other financial products. This would consequently limit growth and affect government revenue mobilization in the informal sector. The finding highlights the needs for financial institutions to encourage the informal sector to use financial services. The finding is also a call to further investigate the factors that influence utilization of financial services among people in the informal sector.

In short, the outcome of the study has revealed that there is lack of access, quality of financial products and services as well as usage of financial services and products in the informal sector. As a result, the study finding is a call for a paradigm shift on the operations of financial institutions that would contribute to accessibility, quality and usage of financial services and products in the informal sector.

Equations

The sample size for the study was calculated using the Cochran's formula as follows.

Sample size (n) $= = z^2 \frac{pq}{e^2}$ (1)

Where,

Z = Z-score value at 95% confidence interval = 1.96

P = proportion of the people in the informal sector (65.3% of labour force are in the informal sector as estimate by Ghana Statistical Service) = 65.3% = 0.653

q = 1-p = 1- 0.653 = 0.347

e = Margin of error = 5% = 0.05

Substituting the above values into equation 1.

Sample size (n) $== 1.96^2 \frac{(0.653)(0.347)}{0.5^2}$

= 0.8705/0.0025

= 348

The sample size was increased by 10% to cater for errors and omission that could arise in the data. This yielded an estimated sample size of 383.

Conclusions

The study has established the state of financial inclusion in the informal sector of Ghana. According to study, there is no significant access, quality and usage of financial services and products among operators in the informal sector. This outcome of the study has implications for the growth of the informal sector and its overall contribution to the development of Ghana. It is therefore relevant as it serves as a basis for stakeholders to improve the state of financial inclusion in the informal sector.

Acknowledgement

We would like to thank all the participants for their consent and voluntary participation in the study.

Conflict of Interest

We declare that there is no conflict of interest in the conduct of this study.

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