Remittances and Financial Inclusion in Ghana

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Introduction

- Access to financial services are limited in Ghana: only, 35.4% of households have savings accounts or are contributing to a savings scheme (GLSS, 2014)
- Also, only 11.4% of households applied for loan in Ghana.
- Remittances forms important part of household income: the share of remittances on household consumption ranges from 10.11% for the first quintile to 2.6% for the fourth and last quintiles.
- Thus, remittance is very important for the poor relative to the affluent families in terms of household consumption.

Key Question

- What role does remittances play in financial inclusion (access and use of various financial services)?
- We study the impact of remittances on financial inclusion (access and use of various financial services) in Ghana.
- Financial inclusion in this study is measured as the use of bank account and access to loans from formal financial institutions.

Data and Methodology

We use GLSS 6, the latest nationally representative household data by Ghana Statistical Service (GLSS).

![Figure 1: Distribution of households by presence of migrants and receipt of remittances](image1)

![Figure 2: Summary statistics](image2)

we estimate the following model:

$$Finc_i = \beta_0 + \beta_1 remit_i + X\alpha + \epsilon_i$$

where $i$ is an index of a particular household.

$Finc$ represents financial inclusion which is a dummy variable (bank account, loan application and loan application approval).
Vector $X$ includes determinants of households demand for financial services such as household size, gender of the head of household, education and age.

The variable $remit$ is a dummy for remittances recipient household.

RESULTS

- Households that receive remittances are more likely to open bank account, apply for loan from formal financial institution, and get loan application approved.
- Older headed households are less likely have bank account and apply for loan but when they apply, are more likely to get approval.
- Households with migrant members are more likely to have bank account and apply for loan. However, loan approval is not affected by having a migrant in the household.

Conclusions

- In this paper, we analyzed the effect of remittances on the households likelihood of using financial services including bank account, applying for loans and being offered loan by formal financial service provider.
- The results of the study suggest that remittances impact positively on financial inclusion in Ghana.