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Money, Finance, and the Political Economy of Development in Ghana

By

Isaac Abotebuno Akolgo

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Supervisor: Professor Dr. Kai Koddenbrock

Mentor:	Professor Dr. Stefan Ouma
Mentor:	Professor Franklin Obeng-Odoom

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DECLARATION

I hereby affirm that I have produced this dissertation without any inadmissible help from a third party or the use of resources other than those cited; ideas incorporated directly or indirectly from other sources are marked as such. In addition, I affirm that I have neither used the services of commercial consultants or intermediaries in the past nor will I use such services in the future. The dissertation in the same or similar form has not been presented to another examining authority in Germany or abroad, nor has it been published.

Bayreuth, May 22, 2024,

Isaac Abotebuno Akolgo

DEDICATION

To the memory of Richard Ugochukwu Anyah, my colleague cluster-funded PhD student who passed away in 2022

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ABSTRACT

This cumulative dissertation is both a study of development financing in post-independence Ghana and a response to recent International Political Economy(IPE) debates on the nature and operation of finance capitalism within countries and globally. My main argument is that since political independence in 1957, Ghana's attempts for economic transformation have been primarily frustrated by a finance constraint. A financial constraint is used here to capture not only an insufficiency or mismanagement of development finance, but also the constrictive, anti-developmental, and exploitative tendencies of global and domestic finance, the financial system, and financial policy. In the three articles that constitute this dissertation, I demonstrate the financial constraint to Ghana's development by responding to ongoing IPE debates that suggest that there has been a dysfunction of finance within the global capitalist system. This dysfunction, it has been argued, is that finance either has failed to support the real productive sector or has expanded disproportionately beyond the productive economy, domestically and globally. Particularly for countries in the global South, this dysfunction in finance has impeded their economic transformation. Methodologically, I employ a mix of quantitative and qualitative analyses across the three articles, drawing micro and macro level data from several sources including the Bank of Ghana, World Bank, IMF, the Ministry of Finance of Ghana, and primary data from interviews on the use of mobile money in Ghana. In the first article: *Ghana's debt crisis and the political economy of financial dependence: history repeating itself?* I show a macro level dysfunction in finance that resulted in Ghana's 2022-2023 sovereign debt crisis. I place the country's public debt statistics in historical and political context, arguing that its fall into a debt crisis is a consequence of a weak and dependent economic structure inherited from colonialism and perpetuated by liberal economic policies; the exploitative transnational lending system under which it procures external debt; and recent government policy errors. In the second article, *On the contradictions of Africa's fintech boom: evidence from Ghana*, I show a micro level dysfunction in finance under which the rollout of mobile money to promote financial inclusion faces the challenges of regressive taxation, exorbitant transaction costs, and customer indebtedness from digital microloans. In the third article, *Banking and monetary policy in Ghana: has finance served the real economy?* I show both a macro and micro level dysfunction in finance and financial policy under which commercial banks' lending to the agricultural and manufacturing sector has significantly declined between 1999 and 2023. Collectively, I demonstrate that these various dysfunctions in finance have impeded Ghana's development. On the basis of this, I make recommendations for reforms of Ghanaian financial and economic policy under each paper.

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A STATEMENT ON THE CUMULATIVE DISSERTATION:

Money, Finance, and the Political Economy of Development in Ghana

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Introduction

If for many years (in Africa) financial policy was aimed at addressing issues central to development and nation-building, in more recent years it has become much more tethered to the objectives of stabilization and debt repayment. Financial policy, together with other macroeconomic policy analysis, has succumbed to 'financierism' under which economic policy has given overwhelming priority to financial policy instruments and objectives (exchange rates, interest rates) relative to concerns for the 'real' side variables and goals that directly affect employment and growth (Thandika Mkandawire, 1999:321)

This dissertation is both an analysis of development financing in Ghana and a response to ongoing debates about the nature and operations of finance capitalism in contemporary and historical terms. While these renewed debates about finance capitalism serve as the entry point, the three papers in this dissertation collectively speak to the broader, long-running discourse on the opportunities for, and constraints to economic transformation in post-independence Africa. Debates about Africa's economic development in the year 2024 remain as active and relevant as they were more than six decades ago in the 1950s and 1960s when most countries gained political independence from European colonization. Although the context of the discussions were much different in the 1960s compared to the present moment, the substance has nevertheless remained unchanged – it has always been about economic transformation and the quality living standards that are associated with it. In the early period of independence, the academic and policy discourse was more positive, justifiably ambitious, and focused both on what economic ideologies to follow, and on the kind of political system under which the new nation states were to pursue their visions of creating prosperity for all citizens.

Regarding economic ideology, most African countries pursued a state-led developmentalist agenda in the first decade of independence. Early African leadership understood, rightly, that colonialism had shaped their economies to be heavily dependent on

European finished goods. The first order of business then was to establish a reasonable level of self-reliance in the production of commodities they were capable of, especially food production. Accordingly, import substitution industrialization (ISI) became the prominent policy choice across the continent. In Ghana, Kwame Nkrumah's government established state farms, built factories across Ghana, invested heavily in social infrastructure, and constructed the Akosombo Hydro-Electric Dam that continues to be the main source of electricity today. On February 24 1966, Nkrumah was overthrown in a military coup d'état, and by the early 1980s, the developmentalist agenda was aborted and the subsequent decades marked by a cyclical pattern of economic crises. Consequently, therefore, recent debates about economic development in Ghana, in contrast to those of the early 1960s, have become diagnostic, seeking to explain and hopefully, prescribe solutions to a systemic development problem. Two key questions have dominated the discourse: one, why has Ghana, much like several other African countries, failed to transform its economy, avoid the cycles of economic crises and provide quality, stable standards of living for its citizens? Two, what is/are the solutions to the systemic crisis of development?

There has been no shortage of answers to both questions on why post-colonial economies are yet to achieve the economic transformation that they envisioned would come with political independence as well the solutions to such a development constraint. The dominant explanation and solutions have come from international finance institutions (IFIs), notably the World Bank and International Monetary Fund (IMF), and the large clique of neoclassical economists, and technocrats that justify, implement, and maintain the liberal development doctrines that these IFIs advocate. The IMF and World Bank's prominent influence on economic and financial policy in Africa began in the midst of 1980s devastating economic and debt crisis in the continent.

In the late 70s to early 80s when several countries run into balance of payment problems and had accumulated debts they could not repay, the World Bank released a report now famously called the Berg Report (named after Elliot Berg who led the Bank's Africa Strategy Review Group into the 1981 study). In that report, *Accelerated Development in sub-Saharan Africa: An Agenda for Action*, the World Bank blamed the economic decline primarily on government failures – fiscal indiscipline, too much government intervention and market-destablising government regulation. The solution then was to pursue an economic reform programme that will remove the bottlenecks (namely macroeconomic and financial imprudence of government) to growth and transformation. Put differently, since government was the main problem, the only viable reform based on the World Bank recommendations, was to roll back

the state and allow the private sector and the operation of market forces direct resources to their productive use. In the years that followed, the IMF and World Bank, under the guise of providing financial and or technical support to help address the Ghanaian crisis, took control of economic and financial policy. Through the structural adjustment programme, these IFIs enforced deregulation of the economy, liberalization of the financial system and privatization of previously state-owned companies and corporations. This transformation of the Ghana into a predominantly capitalist economy was consolidated by the return to constitutional electoral democracy in 1992, paving way for, among others, the enforcement of private land rights, the institution of independent central banking, and the rise of private foreign banks. Advocates of the neoliberal ideologies argued that liberalized economies would promote competitiveness, accelerate growth, open opportunities to international trade, create jobs and consequently end poverty.

However, the prosperity that neoliberal capitalism promised has eluded African economies. Particularly in Ghana, economic liberalization did not only truncate the promise of the post-independence developmentalism; it also entrenched a systemic crisis of development. Towards the end of the 90s, it was evident that three decades of adjustment had not only failed to deliver significant transformation but had also weakened the state, generated poverty and inequality, desecrated cherished social values, and bred a kind of greed that is systemic to capitalism. The collapse of functional governance, the return of sovereign debt crisis, the immiseration of the mass of Ghanaians and its attendant moral decay under neoliberal capitalism was so vividly depicted in Benjamin Kwakye's novel: *The Clothes of Nakednes*.

Publicized in 1998 and set in Nima 441, an urban slum in Accra, Benjamin Kwakye's *Clothes of Nakedness* tells a gripping story of everyday struggles for survival in Ghana's capital city. It is a vivid expression of what post-independence neoliberal capitalism reduced Ghana to – a theater of capital's unregulated greed made sure by the exploitation of working class labour. Its main character, the sinister, yet elaborately endearing Mystique Mysterious, enriches himself by exploiting the labour of the poor and vulnerable of Nima. He simply acts as an intermediary, connecting his jobless victims like Gabriel Bukari to employment opportunities and extracting a commission on their earnings. To also extend his wealth and power, he corrupts the youth of Nima 441, first offering them free Marijuana, and then when they have become addicted, his trade in drugs booms. Those like Kojo Ansah who reject the co-optation into his exploitative schemes pay the ultimate price – their lives. It is troubling to learn that not only had the state become incapable of addressing the deplorable economic conditions in the country, it had been so weakened by years of defunding under IMF/World Bank interventionism that there was no

legal remedy for victims of Mystique's violence and exploitation. The timing of Kwakye's novel, 1998, was crucial. By portraying life in Ghana more than two and half decades after structural adjustment, Kwakye's work offers a non-technical and grounded account of the failure of both the political and economic governance that neoliberalism had produced.

What is the alternative to the neoliberal explanation and prescription?

In contrast to the patrimonial explanation of the crisis of development in Ghana, are there nuanced accounts? This dissertation demonstrates that there is more to Ghana's development challenges than an intrinsic incapacity or failure of government and the private sector as the better alternative. There is a large body of critical research showing the poverty of the mainstream neoliberal accounts of development in Ghana. However, most of these studies have paid little attention to the financial system. For instance, in his seminal work, *Property, Institutions and Social Stratification in Africa*, Franklin Obeng-Odoom offered arguably the most thorough critic of mainstream economic explanations of development in Ghana and Africa. For Obeng-Odoom, the neoclassical explanation of relative underdevelopment in Africa are excessively focused on an insufficiency of human capital. Such explanations, he contends sound "... enticing, especially when they appear to explain the meteoric rise of the 'Asian Tigers,' whose high levels of education, and commitment to a so-called culture of hard work tend to be the focus of much praise" (Obeng-Odoom, 2020:ix). The problematic nature of this diagnosis of the income differences between industrialised countries and those of Africa is well set out in Obeng-Odoom's work:

Explaining Africa's unequal position requires even deeper analysis....neither African culture, human capital, physical capital, nor the natural resource curse explains Africa's underdevelopment. None of these can sufficiently unravel the startling economic inequalities in Africa between various social groups, nor those disparities between Africa and the rest of the world. In this regard, the idea that new cultures of land would enhance 'Africa's catch up' process is mistaken also. Although the reverse case – the idea that African land cultures are pristine – might be used to counter this central thesis, I find that similarly unconvincing. The tendency to express the African condition according to trichotomy of either cultural pessimism, cultural triumphalism, or the scarcity of capital is not only limiting, it is also obfuscating and diversionary (Obeng-Odoom, 2020:ix-x).

In the rest of his book, Obeng-Odoom proceeds to deconstruct the development problem, re-centering land or more generally property as the foundation of stratification within and across Africa. Ultimately, he contends that the dismal state of affairs in most African countries is the result of the "contradictions and exploitation whether through trade, through debt, or through land reforms" (p. 236). Neither neoliberal capitalism, which has failed woefully, nor the appeal of socialism can address this systemic injustice. Instead, Obeng-

Odoom suggests a collection of strategies that are rooted in what he calls Africanisms or African socialism. This recourse to African socialism will allow countries to break the cartels and monopolies of transnational corporations that control and expropriate the continent's natural resources. Obeng-Odoom's work is grandiose, commendable and will be relied on and debated for the bold critical foundation it has laid. Yet, a major blind spot of *Property, Institutions and Social Stratification in Africa* is its neglect of the role of finance and the financial system. I think a sufficient analysis of the development problem today demands similar or even more attention on the financial system as Obeng-Odoom places on land or property generally. This dissertation therefore should serve as a complement to Obeng-Odoom and others' works as it organizes a comprehensive political-economic explanation of the financial constraints that impede Ghana's economic transformation.

Across the three papers in this dissertation, I demonstrate that within the global financialised capitalist order into which Ghana has been integrated, the development problem can fairly and squarely be reduced to an issue of 'a financial constraint'. A financial constraint is used here to capture not only an insufficiency or mismanagement of development finance, but also the constrictive, anti-developmental, and exploitative tendencies of global and domestic finance, the financial system, and financial policy. Take for instance the conditions under which external sovereign debt is procured such that it creates indebtedness or how the constitution of Ghana's domestic financial system facilitates the extraction of domestic resources including the exploitation of natural resources, which Obeng-Odoom deplores. In whatever facet of Ghanaian society for which capitalistic struggles have facilitated accumulation by a few foreign and domestic interests, and visited suffering on the masses, the operations of money and finance has always generated or facilitated such exploitation. It is therefore crucial to organize a comprehensive explanation of the nature and operations of money and finance that have limited Ghana's transformation. This will pave the way for us to proffer alternatives to navigating the development finance constraint. Thankfully, the renewed debates about finance capitalism and particularly its insidious tendencies in developing and emerging economies offer a unique opportunity to do a serious analysis of development financing in Ghana.

The Debate on Finance Capitalism: from financialisation to international financial subordination

Debates about capitalism and its discontents are not new, at least not since the 19th Century when Karl Marx wrote *Das Kapital*, a treatise on the capitalist mode of production and accumulation. The last decade and half has witnessed a resurgence of intense debates about globalized capitalism. In particular, there has been an explosive rise in the volume of research

on financialisation, a term coined by researchers to study what is often seen as ‘changing financial relations and practices of economic agents in contemporary capitalism’ (Bortz & Kaltenbrunner, 2018:377). Between 2010 and 2018 alone, research on financialisation more than quadrupled from less than 100 publications per year to 400 publications per year (Mader, Mertens & van der Zwan, 2020). Across various traditions of radical political economy, from Marxists and post-Keynesians to other heterodox perspectives, the evidence in the literature is that the definition or significance of the term varies (Lapavistas, 2011; Epstein, 2005). However, one feature uniting these studies is ‘a view of finance beyond its traditional role as a provider of capital for the productive economy’ (Van der Zwan, 2014:99). While it was used long ago by Magdoff and Sweezy (1987), the popular understanding of financialisation is built on the conceptualisations of Epstein (2005) and Krippner (2005). For Epstein, financialisation implies the increasing role of financial motives, markets, actors and institutions ‘in the operation of the domestic and international economies’ (Epstein, 2005:3). Before Epstein, Greta Krippner argued that financialisation is a ‘pattern of (capitalist) accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production’ (Krippner, 2005:174).

Since Epstein and Krippner, the fine-grained but inconclusive research on financialisation has been wide-ranging, covering as Van der Zwan (2014:99) categorises, ‘the emergence of a new regime of accumulation’ (Krippner, 2012; Crotty, 2005; Milberg, 2008; Stockhammer, 2012); ‘the ascendancy of the shareholder value orientation’ (Boyer, 2005); and ‘the financialisation of everyday life’ (Erturk, et al., 2007; Aitken, 2007). Koddenbrock, Kvangraven and Sylla (2022) suggest an alternative categorisation based on a dichotomy between two themes (divorce and expansion) in financialisation literature. One, that in the finance-production nexus, finance now takes precedence (divorce); and two, that contemporary capitalist economies have witnessed as Epstein posited, an unprecedented expansion in financial institutions, actors, motives and practices (expansion). The manifestation of this dual role of finance in capitalist accumulation and exploitation has received wide theoretical and empirical research attention (see for instance Palley, 2013; Lapavistas, 2013, 2011, 2009; Foster, 2007; Karwowski & Stockhammer, 2017). Within International Political Economy, there is now a large body of conceptual and empirical literature on what Jain and Gabor (2020) have described as digital financialization. In this strand of the focus has been to interrogate how, under the arguments of financial inclusion, an alliance of international development agencies, philanthropies, financial institutions, telecommunication companies and governments has

paved the way for global finance to extend its influence to, and extract profits in the global south.

In other fields such as Economic Geography, where the concept of financialisation has received critical scrutiny and application, the literature has equally been robust, offering insights on the financialisation of nature and agriculture (see Ouma, 2020, 2015, 2014; Ouma, Johnson & Bigger, 2018; Asiyanbi, 2018; Sippel, 2015; Fairbairn, 2015). There were always concerns that the literature overly focused on core capitalist economies (CCEs) to the neglect of ECEs in the global south (Bortz & Kaltenbrunner, 2018; Bonizzi, 2013), and also failing to take a historical approach to understanding the role of finance in capitalist exploitation (Koddenbrock et al., 2022; Arrighi, 2010).

Thankfully, recent research is focusing on the process and implication of financialisation for ECEs. This new strand of the literature variously referred to as ‘subordinate financialisation’ (Bonizzi, 2013; Powell, 2013; Kaltenbrunner & Painera, 2018) and recently as ‘international financial subordination’ (Alami et al., 2023), is providing a nuanced analysis of finance capitalism in the south. Subordinate financialisation holds that ECEs encounter financialized capitalism from a subordinate position in two ways: one, firms in ECEs are subordinated in the global production networks, ‘providing cheap labour and raw, or at best, intermediate inputs’ (Bonizzi et al., 2020:177/178). Two, structurally, ECEs are subordinated to advanced capitalist economies (ACEs) in the currency hierarchies that characterize the global capitalist financial system (Kaltenbrunner & Lysandrou, 2017). IFS takes this further and synthesizes dependency theory, post-keynesian economics and Marxist scholarship to make the case that developing and emerging economies in the global south have been persistently, structurally, and unevenly integrated into the world capitalist order (Alami et al., 2023). Crucial to IFS and of particular interest in this briefing is its reliance on Dependency theorisations to explain financialisation in the south. This is important to understanding the role of global finance in Africa’s development problems.

Samir Amin for instance provided significant theorization on financial dependency and his ideas appeal to many. Kvangraven, Styve and Kufakurinani (2021) are particularly impressed by the ability of Amin’s work to inspire a commitment to both rigorous research and radical change. Amin posited that in globalized capitalism, money is the dominant instrument for extracting capital from the underdeveloped periphery of the world system to developed countries (Amin, 1974). He then argues for a delinking of the economies of the global south from the capitalist order. For Amin, countries of the South could delink by refusing to submit their national-development strategies to the imperatives of globalization (Amin, 1987). But as

Amin points out, that should not be confused with autarky, which can portray self-sufficiency and an avoidance of engagement with the other markets. Far from this, delinking should focus on

...the organization of a system of criteria for the rationality of economic choices based on a law of value, which has a national foundation and popular content, independent of the criteria of economic rationality that emerges from the domination of the law of capitalist value that operates on a world scale (Amin, 1987:436).

African economies failed to delink as Amin admonished, and have increasingly submitted national policy priorities to the dictates of neoliberal capitalist finance. On the contrary, the success of the East Asian development model in South Korea, Taiwan and China has been credited to their delinking from the global order (Pérez, 2021). Prior to Amin, Kwame Nkrumah recognised the potentiality of financial dependency and warned of imperialist domination of Africa through the financial system (Nkrumah, 1965). On the methods of neocolonialism, Nkrumah observes that it may take military forms, but ‘more often, however, neocolonialist control is exercised through economic or monetary means...by monetary control over foreign exchange and through the imposition of a banking system controlled by the imperial power’ (Nkrumah, 1965:1). Recent conceptualisations of dependency include Kvangraven (2021), Sylla (2021), Pigeaud and Sylla (2021), and Koddenbrock, and Sylla (2019). Koddenbrock and Sylla posit that African countries face a chain of monetary and financial dependency induced by internal and external monetary repressions. Externally, they argue that African countries with their subordinate currencies face US Dollar and Euro hegemony. Additionally, international pressures on free capital flows enable capital flight from African economies and keeps them dependent on the global north for the money needed to finance national policies. Internally, this dependency is sustained by a foreign-dominated and oligopolistic banking system that repress credit. These banks do not sufficiently lend to small and medium scale enterprises (SMEs) to support employment creation. At the same time, internal political elites who benefit from the chain of dependency sustain it by supporting neoliberal policies of free capital flows rather than domestic-oriented development policies.

As the preceding summary of the debates show, the literature on finance capitalism is rich and expansive, with differing perspectives on the exact manifestation of the phenomenon. The standpoint in this dissertation, demonstrated across the three papers, is that the kind or the origins of financialised capitalism do not matter as much as the essence of it. Accordingly, I choose to focus on the substance of the debate, refraining from the disagreements over time frames within which financialisation has been occurring. Rather, I argue that there has been a

dysfunction of finance in historical and recent times at the national and global levels. It for this reason that I emphasize the financial constraints that post-independent African economies have faced. The three papers in this dissertation explore these constraints and offer alternative pathways to financing development in Ghana.

Connecting the three papers: from debt and financial technology to central banking

The three articles that constitute this dissertation tell a common story about the nature and operations of money, finance and or the monetary/financial system in Ghana. The dominant theme across these articles, much like the wider literature on the subject matter, is that there has been a dysfunction of finance within the predominantly capitalist economy that Ghana has become. More importantly, the papers collectively show that the prevailing policy prescriptions have failed to address the financial constraints to economic transformation, necessitating alternative developmental approaches to public finance, financial technologies, banking and monetary policy.

The first paper: *Ghana's Debt Crisis and the Political Economy of Financial Dependence in Africa: History Repeating Itself?* is an account of sovereign indebtedness in post-independence Ghana. When the COVID-19 pandemic was receding in late 2021, it became clear that Ghana's public finances were strained. Two years earlier in 2019, Ghana had just completed a medium term economic reform program it began with the IMF in 2015. Initially intended for three years (April 2015 – April 2018) with a loan of \$918million, the program was extended by an additional year to April 2019. The aim of the program as the IMF set out in its press release was to "...to restore debt sustainability and macroeconomic stability to foster a return to high growth and job creation, while protecting social spending" (IMF, 2015:1). Shortly after completing the IMF program, the government began to sharply accumulate further external debt. Between February 2020 and April 2019, seven new Eurobonds, totaling over \$6billion were issued. At the same time, numerous other domestic bonds were issued. By the mid to late 2021, debt-servicing costs had risen so significantly to unsustainable levels that Ghana was cut off from issuing further debt in the international capital market. Simultaneously, increased spending to address the pandemic and then later the rise in energy costs from the Russia-Ukraine War, were enough to impair debt repayments and push government to return to the IMF for financial support in July 2022.

The ensuing crisis, the rising costs of living it fueled, the socio-economic pain and suffering it visited on Ghanaians, and resulting national despair and tension provoked debates about how the country had so quickly descended into a crisis whose consequences had defied historical precedence. Most media, academic and political (especially from the government) discussions

blamed the Ghanaian crisis primarily on the increased spending induced by COVID and the Russia-Ukraine War as well as macro financial imprudence associated with African governments' usage of external debts to finance consumption or unproductive investments. More than that, there were many Ghanaians, including opposition politicians, who wondered why COVID the Russia-Ukraine War had so disproportionately affected them more than other neighboring West African countries who had managed to avoid a crisis. As such, they blamed the crisis on government's incompetence, fiscal indiscipline, and corruption. While it is hard to dismiss all of these claims, I was of the view that there was more to Ghana's fall into debt distress than the failure of governance and or the global shocks brought by COVID and the Russia-Ukraine War. Contrary to these simplistic narratives, I argue in this paper that Ghana's 2022-2023 debt crisis is the result of historical, structural, systemic, external and internal constraints. Specifically, I suggest a triple argument as to how Ghana got into its debt crisis and a 17th debt-restructuring programme with the IMF:

...this article situates Ghana's 2022–23 debt crisis in the context of its post-independence political economy and makes three arguments. First, the rise and fall of the developmental Ghanaian state in the 1960s and 1970s ushered in the Structural Adjustment Programmes (SAPs) which in turn disrupted early independence attempts at structural economic transformation. The disruptive role of the SAPs not only returned Ghana to reliance on raw commodity exports based on the notion of comparative advantage; it also promoted liberalization, de-industrialization and Ghana's continued reliance on external development finance. Second, in the post-structural adjustment financialized order, Ghana remained reliant on a narrow set of primary commodity exports, and resorted to market-based development finance. The recourse to financialized strategies for development exposed Ghana to an exploitative transnational lending system dominated by Western private commercial lenders (mostly banks and pension funds). A third contingent argument regarding Ghana's indebtedness is that the underlying structural and external factors that cause vulnerability and financial dependence leave government with a small margin for policy error. As such, every fiscal slippage or idiosyncratic policy decision exacerbates government's financial distress (Akolgo, 2023a:1266).

Expanding this argument, the paper goes ahead to show that pre-independence enslavement and colonialism did not only deprive Ghana of material and human resources, but it also created a structural disarticulation of the domestic economies. That is to say that enslavement and colonial rule shaped economies to 'consume what did not produce, and to produce what they did not consume' (Shivji, 2009). The structural dependence on primary commodity exports to finance imports meant that colonized and later independent countries were exposed to liquidity constraints in their attempts to develop. Consequently, when the developmentalist era began after Ghana's independence in 1957, it was no surprise that a decade later the country run out of the foreign currencies it needed to sustain its capital imports.

Moreover, without patient, long-term and affordable credit, the industrialization was halted and the country subsequently descended into crisis. World Bank and IMF interventionism during the structural adjustment collapsed the existing state and industrial capacities and returned Ghana to reliance on cocoa and gold exports, which then regenerated the liquidity crisis. At the same time, structural adjustment's deregulation and financial liberalization allowed transnational corporation to extract capital from the Ghanaian economy. The only option for government was to debt-finance its development. Sadly, transnational lending by the end of structural adjustment had shifted from multilateral and bilateral credit to predominantly private, market-based finance. Private sector finance from international capital markets is both short to medium term and expensive. The higher borrowing costs and short repayment terms drove Ghana into a vicious cycle of debt refinancing.

Therefore, Ghana's fall into debt crisis in 2022-2023 was not unexpected; it was one instance in the cycle of debt crisis and restructuring that had characterized post-independence Ghanaian political economy. Of course, COVID-19, fallout from the Russia-Ukraine War and to some extent government's fiscal policy errors quickened the country's fall into crisis but these factors were hardly the cause of the crisis. The crux of this first paper is therefore that postcolonial developmentalism is yet to break out of the historical fragilities Ghana inherited at independence. Foremost among these fragilities is the structural dysfunction of commodity dependence compounded by the institutionalization of liberal economic ideologies and policies. Even the attempts to solve the development problem within the neoliberal order is not only failing, but also continues to generate new forms of exploitation, and fragilities. This is exactly the point where the second paper in this dissertation enters the narrative. The incapacitation of the state due to IMF/World Bank intervention, and the poverty and precarity that neoliberalism has produced are simply treated as problems resulting from a lack of access to formal financial systems.

In the second paper: *On the contradictions of Africa's fintech boom: Evidence from Ghana*, I confront a novel, revolutionary and problematic attempt to address underdevelopment with financial technology (FinTech). When the World Bank/IMF reform policies had evidently failed to produce the shared prosperity they had postulated, the narrative began to shift from a denigration of government to complaints about systemic bottlenecks to development and poverty eradication. Since free market capitalism was said to be the best way to generate significant wealth, which would trickle down to the masses, the key thing for government and development partners was to simply get as many Africans to participate productively in the economy. If citizens had resources, primarily financial resources, they could be entrepreneurial

and therefore contribute to personal and macroeconomic growth. However, since state-led banking broke down in the 80s, most parts of the country did not have banks and as such a larger population had no bank accounts. IFIs, their development partners and African governments, including Ghana, began to encourage and fund the establishment of microfinance institutions. It was hoped that these institutions will provide access to the formal financial system and therefore access to financial resources for businesses. In short, the development intervention shifted to financial inclusion of unbanked population. By the early 2000s, microfinance had failed to both bring most people into the formal financial and or to mitigate the finance constraint to social entrepreneurship and poverty eradication.

However, the financial inclusion agenda was revived in 2007 starting with the premier of a novel technology in Kenya. An alliance of philanthropies, development agencies, investors and the Kenyan government showed that it was possible to provide financial services to unbanked citizens through telecommunication systems, particularly mobile phones. The birth of Mobile Money services in Kenya soon spread across the continent and more so in Ghana. Mirroring a global agenda for increased financial inclusion in developing and emerging economies, Ghana became a fintech hub, beginning in 2009 when MTN introduced mobile money services in the country. Unlike traditional banks, Mobile Money based Fintech was easy to access and use. Transactions costs were initially cheaper and since most Ghanaians had a mobile phone, and had subscribed to mobile money services, the fintech paved a pathway to financial inclusion (defined loosely to mean ownership of a transaction account). Initially subscribers could send and receive remittances, as well as make payments for basic purchases and services. The growth in the mobile money subscription was exponential. For instance registered mobile money users rose from about 3.7 million registered accounts in 2012 to about 48 million in 2021. Similarly, the value of transaction values grew from less than \$1 billion in 2012 to \$158 billion in 2021 (Akolgo, 2023b). In addition, mobile money services expanded to include digital micro lending.

Overall, the emergence of mobile money brought significant relief in terms of the ease of transactions, particularly for informal workers. However, as I show in this second paper, the postulated goals of financial inclusion, beyond access to an account for payments and receipts, have evaded most mobile money users in Ghana. The promise of low cost transactions for instance is no longer existent as operators hiked and introduced multiple transaction fees. Micro lending which was intended to offer microcredit for social entrepreneurship is generating private household indebtedness given the unbearable interest rates fintechs charge on such loans. The paper documents evidence of a pattern of predatory lending based on personal

interviews with mobile money users – both subscribers and agents who operate on behalf of the fintechs. Compounding users' troubles with mobile money is the government's introduction of an electronic transactions levy. The paper's arguments can be summed up as follows:

Collectively, the findings show...that there is significant evidence of customer exploitation accompanying Ghana's fintech boom, and that this negates the good news of fintech-led development. ...On the one hand, the fintechs continue to accumulate profits through (1) predatory micro lending which creates customer indebtedness and (2) high transaction fees. On the other hand, government, instead of taxing the profits of the fintechs, shifts its financing needs to citizens through (3) excessive taxation of MoMo. As the state supported fintech exploitation grows and the low-income MoMo users cannot afford transaction fees, loan interests, and digital finance taxes, (4) MoMo transaction accounts increasingly lie dormant. These results are discussed below (Akolgo, 2023b: 1649).

Ultimately, the paper shows that the vision and rollout of fintech for financial inclusion and development misconstrues, just as the first paper had shown in relation to public finance, the source of the development problem. The main problem for most poor Ghanaians is not simply access to formal banking services; it is access to decent jobs or resources (including finance) to run viable small and medium-scale enterprises. It is not enough to simply create transaction accounts and assume that people will naturally leverage them to fight their way out of poverty. The microloans offered by fintechs are not sufficient to start the smallest business, and borrowers only use them to mitigate daily financial constraints. Sadly, the excessive interest rate draw them into further debt. Therefore, just like external debt accumulation, digital finance has failed, in its current state, to address the development finance constraint.

In the third paper, *Banking and Monetary Policy in Ghana: Has Finance Served the Real Economy?* I extend my inquiry to the domestic banking system to see whether it has helped to address the development finance constraint which external debt accumulation and fintech were shown to have failed in the first and second papers. Like the other papers, I situate this paper within the debates on finance capitalism but quickly acknowledge that it is important to go beyond discourse on the Ghanaian crisis to focus on unpacking the structural weaknesses in the country's economy:

Nevertheless, the initial sense of national despair that attended Ghana's 2022–2023 debt crisis has retreated, and it is now time to refocus research attention on the structural and systemic constraints to development financing in Ghana. One place to start this kind of inquiry is the domestic financial system. (Akolgo, 2025:1).

Specifically, I ask: has the operations of commercial banks and the central bank's conduct of monetary policy supported the private sector productively? To answer this question, I draw financial data on overall domestic bank credit to the private sector as percentage of gross

domestic product (GDP). That data shows that in Ghana is performing below the average for African countries and that of lower middle-income countries. I then proceed to examine the sectoral distribution of bank credit to the private sector. Between 1999 and 2023, bank credit to productive sectors such as agriculture and manufacturing significantly declined. In contrast, banks concentrated in lending to import trade, mortgage financing and to other financial institutions. More than that, banks now invest predominantly and speculatively in government bonds and bills. This pattern of commercial banking, I contend, is dysfunctional and thus is not supportive of overall economic development. Nevertheless, why are commercial banks failing to lend to productive sectors like agriculture and manufacturing? I show that central bank monetary policy plays a big role. By operating an inflation-targeting monetary policy, the Bank of Ghana has had to regularly increase its monetary policy rate to reduce the money supply and suppress demand. However, high policy rates are factored into commercial bank lending rates. High commercial bank lending rates in turn discourage businesses from borrowing. Secondly, focusing only on monetary stability, the Bank of Ghana is failing to perform its role of directing credit to productive use, and instead hoping that the operation of market forces (interest rates) would shift financial resources to their most productive use. That liberal financial ideology is problematic because sectors like agriculture and manufacturing are risky and banks will rarely increase lending to these sectors if they are not mandated to do so by central bank policy. To buttress this point, I show that prior to the implementation of financial reforms, which the 1980s structural adjustment program required, central bank credit control policies ensured that Ghanaian banks lent more to agricultural and manufacturing activities.

The negative impact of financial liberalization shown in this third paper draws parallels with the arguments raised in the first and second. Across all three papers, my key concern has been that since the World Bank and IMF interventionism in Ghana started in the 1980s, the diagnosis and solution to the development problem has been misleading. The diagnosis has been the same all these decades – namely government failure and an inability to participate in markets, domestic and global. It is often assumed, erroneously, that if citizens or government can freely participate in markets, they will have access to resources and private sector ingenuity will naturally drive growth, which will trickle down to all Ghanaians. This logic underpinned the regular recourse to borrowing in international capital markets, liberalization and privatization of the domestic financial sector and the withdrawal of government support to agricultural and manufacturing. This roll back of the state and faith in private market forces as shown in the three papers, has failed to produce a transformative and inclusive growth that will improve the lives of all Ghanaians. Instead, the results have been persistent and growing

sovereign and private indebtedness, macroeconomic fragility, and a systemic economic and financial dependence on the global north.

What are the implications for government policy in Ghana?

The findings in this dissertation offer important insights for policymakers in Ghana. I will highlight three key areas for government intervention. First, given the empirical evidence and government's own admission that the external liquidity constraints that precipitated external debt default were the result of a large import bill (including imports of basic food items, luxury cars, among others), government needs to return to the basics – namely import substitution where possible, and foreign currency regulation. Supporting agriculture and the manufacture of basic commodities is not only necessary to halt the drain of government's reserves, but could potentially create jobs. Generally, there must be a reorientation of government policy towards the fundamental issues of the productive structure of the Ghanaian economy. As basic as it may sound, deliberate policies should be instituted to shift the current focus on raw commodity exports to their refinement into finished goods that can offer fairer prices and at the same time create jobs.

Second, regulation of the pricing regimes of financial technology services and withdrawal of regressive taxes on electronic transactions. In its current state, the fintech industry operates with multiple transaction costs on users. It is necessary to streamline, especially for mobile money services, the fee-charging system for all operators and to enforce reasonable and justifiable costs impositions on subscribers. Regarding the electronic transactions levy, I think it is unproductive to regressively tax low-income earners who use mobile money services. Instead, government should focus on taxing the abnormal profits that fintechs accumulate.

Third, a reform of financial policy. In particular, there is the need to institute policies that will encourage indigenous ownership of banks. Minimum capital requirement for instance can be lowered for infant indigenous banks that are incapable of competing with leading, mostly foreign banks. More importantly, central banking has to be reformed, away from inflation targeting to align with the current developmental needs. For instance, the Bank of Ghana could focus on credit targeting, ensuring that sectors like agriculture and manufacturing receive sufficient financial support from the banking system. Ultimately, it is important for government policy to place the developmental needs of the country ahead of a technocratic allegiance to liberal economic ideologies of international development institutions.

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List of the cumulative dissertation articles

Article 1

Akolgo, I.A. (2023) Ghana's Debt Crisis and the Political Economy of Financial Dependence in Africa: History Repeating Itself? *Development and Change* 54(5): 1264-1295.
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Article 2

Akolgo, I.A. (2023). On the Contradictions of Africa's Fintech Boom: Evidence from Ghana. *Review of International Political Economy*, 30(5): 1639-1659.
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Article 3

Akolgo, I.A. (2025) Banking and Monetary Policy in Ghana: Has Finance Served the Real Economy? *Forum for Social Economics*, 1-25
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Debate

Ghana's Debt Crisis and the Political Economy of Financial Dependence in Africa: History Repeating Itself?

Isaac Abotebuno Akolgo 

ABSTRACT

Recent accounts of the re-emergence of debt distress in Africa, while offering significant insights, fail to provide the historical political-economic context within which African indebtedness is set. On the surface, spending induced by the COVID-19 pandemic, economic fallout from the Russia–Ukraine war, and repeated examples of fiscal indiscipline by African governments appear to be the causes of the current wave of debt crises. Beyond these factors, however, this article argues that the present indebtedness, like previous episodes, is rooted in the economic and financial subordination of African economies. Specifically, the article places Ghana's extensive debt within the country's post-independence political-economic context, and thus traces the structural factors and external constraints that underlie its economic vulnerability and financial dependence. These include the collapse of developmentalism in the 1970s, the Structural Adjustment Programmes of the 1980s, and an exploitative transnational lending system dominated by Western commercial creditors. Internally, recent fiscal mistakes by the government, within its limited policy space, have exacerbated Ghana's indebtedness. The Ghanaian experience shows that unconditional debt cancellation, widely called for, is a necessary but insufficient measure to address the recurring cycles of indebtedness. Debt cancellation should be followed by broader economic and financial reforms, globally and domestically.

INTRODUCTION

The causes of Africa's debt are neither single nor simple

(Danso, 1990: 6)

On 1 July 2022, Ghana's president, Nana Akufo-Addo, directed his Finance Minister to engage the International Monetary Fund (IMF) for a

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debt-restructuring programme. Negotiations with the IMF concluded on 17 May 2023 with the approval of a US\$ 3 billion, three-year Extended Credit Facility (IMF, 2023a). This loan agreement marks the 17th time since independence that Ghana has gone to the IMF for a debt-induced economic recovery programme. Far from being an exception, Ghana is one of several African countries in debt distress. The African Development Bank (AfDB) reported that as of February 2022, seven African countries were in debt distress, with a further 16 at high risk of joining them (AfDB, 2022).

The empirical literature on this current wave of indebtedness in Africa (see, for instance, Azolibe, 2022; Ndulu and O'Connell, 2021; Olaoye and Olomola, 2022) has provided important macro-financial insights on the continent's economic situation. However, the historical political-economic origins of the financial distress remain largely unaddressed. For instance, Olaoye and Olomola's (2022) econometric study of 44 countries found, rightly, that Africa's debt-induced growth is not socially inclusive; nor is it sustainable, since the growth is directed at servicing external debt. Azolibe (2022) has analysed the link between external debt accumulation and foreign direct investment between 1990 and 2017, and concludes that external debt accumulation in Africa arises from the use of loans for 'unproductive projects'. The solution to the continent's 'debt overhang' (Krugman, 1988), Azolibe suggests, is that African economies should invest external debt into 'productive capital projects and infrastructures' (Azolibe, 2022: 346). By doing that, he adds, the critical infrastructure will generate enough revenue to service the debt, thereby avoiding the nuisance taxes that governments introduce in their attempt to repay debts. Outside of academic circles, broader discussions of the current wave of debt distress (such as IMF, 2022; UNDP, 2022; World Bank, 2022) highlight COVID-induced spending and the disruptions to global trade from the Russia–Ukraine war. Recounting its role in addressing rising debt burdens, the World Bank (2022: 50) emphasizes the need for countries to work towards debt sustainability — namely, by improved transparency and debt management, policy reforms, increased domestic tax compliance, prudent public expenditures and increased domestic resource mobilization.

The fixation on COVID-19 and the Russia–Ukraine war, as well as the economic prognosis and treatment of indebtedness offered by Azolibe and others, while macro-financially prudent, do not provide a holistic explanation of the current debt storm. In fact, they obscure the post-independence structural economic constraints that African economies have faced, and the political-economic context of transnational lending within which Africa's indebtedness is set. This article aims to mitigate this failing by historicizing and repoliticizing the African debt crisis, demonstrating that it must not be seen as isolated but rather as a consequence of Africa's long-standing economic subordination and dependence on external development finance. Ghana, much like other African countries, emerged from the eras of enslavement and colonialism with a dysfunctional economic structure,

shaped into dependence on a narrow set of commodity exports to finance its development. The failed attempts to break out of such structural dependence in the context of global economic and financial constraints has occasioned the frequent recourse to borrowing and, consequently, indebtedness.

Accordingly, this article situates Ghana's 2022–23 debt crisis in the context of its post-independence political economy and makes three arguments. First, the rise and fall of the developmental Ghanaian state in the 1960s and 1970s ushered in the Structural Adjustment Programmes (SAPs) which in turn disrupted early independence attempts at structural economic transformation. The disruptive role of the SAPs not only returned Ghana to reliance on raw commodity exports based on the notion of comparative advantage; it also promoted liberalization, de-industrialization and Ghana's continued reliance on external development finance. Second, in the post-structural adjustment financialized order, Ghana remained reliant on a narrow set of primary commodity exports, and resorted to market-based development finance. The recourse to financialized strategies for development exposed Ghana to an exploitative transnational lending system dominated by Western private commercial lenders (mostly banks and pension funds). A third contingent argument regarding Ghana's indebtedness is that the underlying structural and external factors that cause vulnerability and financial dependence leave government with a small margin for policy error. As such, every fiscal slippage or idiosyncratic policy decision exacerbates government's financial distress. This constraint to domestic policy and fiscal space has not always been taken seriously by politicians and policy makers in the period since the Heavily Indebted Poor Countries (HIPC) debt relief, with various governments borrowing heavily, particularly in the last seven years (2017–23). The loans may have been justifiably spent on infrastructure projects and social programmes, but huge borrowing, mostly under the expectation of commodity price booms or low interest rates, has turned out to be risky and unwise, and has quickened Ghana's descent into crisis. Together, these three points shed light on how Ghana's (and, more broadly, Africa's) post-independence attempts to develop recreate the conditions for dependence on external finance.

The arguments raised in this article are not intended to dismiss the role of COVID-19 and the Russia–Ukraine war in the current wave of indebtedness in Africa and beyond. On the surface, it is tempting, considering the timing of the debt distress of several African countries, to blame the continent's troubles on those two factors. Between May 2020 and December 2021, for instance, 32 African countries signed onto the G20's Debt Service Suspension Initiative (DSSI). Recognizing the DSSI's failure to halt the debt vulnerabilities of distressed countries after its expiration in December 2021, the G20 instituted a Common Framework for debt treatment. So far, three countries, Chad, Ethiopia and Zambia (which defaulted on its US\$ 42 million Eurobond debt payment; see Gort and Brooks, 2023), have been admitted for the debt treatment. These widespread cases of financial crisis

unfolded in a period which saw a devastating pandemic and an attritional war in Ukraine. However, it was clear before COVID that many African countries were headed for a new debt crisis. Between 2010 and 2018, Africa's debt-to-GDP ratio increased from about 35 per cent to over 60 per cent. Within the same period, external debt servicing rose by over 250 per cent from about US\$ 18.7 billion in 2010 to US\$ 66.7 billion in 2018.¹

Therefore, this article's point of departure is that, to fully understand the current debt crisis in Africa, it is important that we do not focus entirely on the immediate global shocks. Rather, we should emphasize the structural economic and financial constraints that post-colonial African economies have faced within the context of a hierarchical and exploitative global capitalist order. Unlike successful late industrializers in East Asia, such as South Korea or Taiwan, post-independence African developmentalist attempts have not only faltered under peculiar conditions (which are discussed in a later section), but have persistently created a pattern of dysfunctional economic growth that cripples the long-term potential for economic transformation. This 'perverse growth', as Arrighi and Saul (1968) and later Arrighi (2002) called it, is characterized by a combination of underdevelopment of the capital goods sector, and a dysfunctional pattern of domestic surplus capital absorption — for example, large income outflows on foreign direct investment. The shortage of development finance (particularly foreign exchange) that has accompanied this economic subordination has historically exposed African economies to a punitive global lending system under which a combination of loan conditionalities and high borrowing costs drive them into indebtedness. The internal and external factors that underlie the persistence of African indebtedness are explored further in the subsequent sections.

This article's emphasis on the historical structural constraints that occasion Africa's reliance on external finance and indebtedness is consistent with a variety of heterodox economics perspectives, especially those of early dependency theorists (notably Amin, 1974; Dos Santos, 1970; Furtado, 1956; Rodney, 1972; Sunkel, 1973) and recent accounts of the subordination of developing and emerging economies (Alami et al., 2023). An extensive review of dependency theory is not the focus of this article (see Kvangraven, 2020). However, the crux of dependency theory, which should guide our analysis of Africa's present crisis, is that underdevelopment in peripheral economies such as those of Africa and Latin America is explained by the mechanism of their integration into the world economic and political system. As such, Africa's persistent dependence on external finance and its ongoing debt crises are better understood by studying closely how the continent's economic and financial subordination limit its ability to sufficiently finance its development.

1. From the World Bank's International Debt Statistics Database (www.worldbank.org/en/programs/debt-statistics/ids).

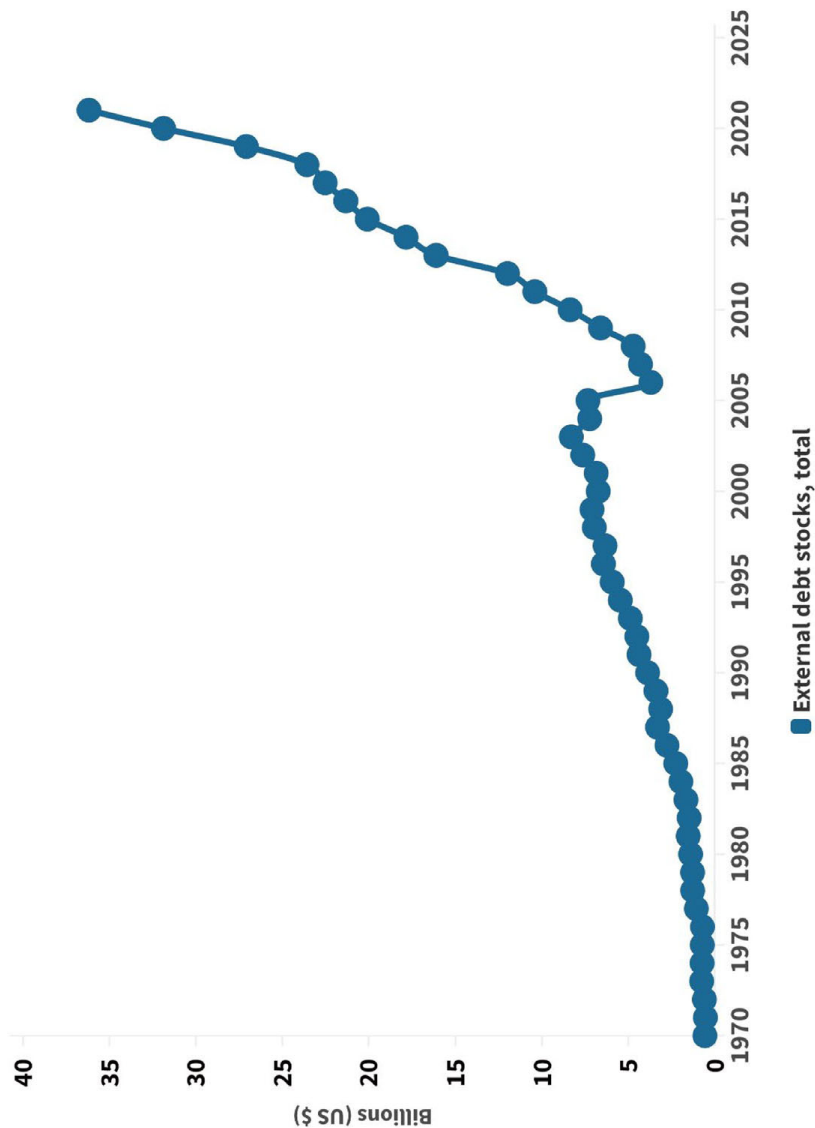
Ghana, the focus of this article, serves as a good case study, having gone through 16 debt restructurings since independence. During the crises of the 1980s, Ghana was the first African economy to be admitted to the structural adjustment programme; it signed onto the HIPC debt relief programme in the early 2000s; and since 2007, it has borrowed significantly from the Eurobond market. The commencement of commercial crude oil exploration in 2011 was expected to transform the Ghanaian economy, and yet by 2015 the country was going back to the IMF for its 16th bailout. And now, just a few years after completing the IMF programme in 2019, a new debt crisis has emerged. By unpacking Ghana's present crisis along with previous instances that necessitated an IMF restructuring, this article aims to extend the literature and policy discourse on the systemic, structural and historical factors that explain African economies' financial dependency.

The rest of the article proceeds as follows. The next section discusses the financial crisis in Ghana, the country's recourse to the IMF for a bailout and the fallout from that decision. The section concludes by restating a national and global concern: how did Ghana get into this financial chaos? A technical analysis of the (un)sustainability of Ghana's sovereign debt is then carried out in the subsequent section. This is followed by two sections that examine the rise and fall of developmentalism in the 1960s and 1970s, and discuss how structural adjustment, the solution to the 1980s crisis, compounded the problem by weakening the domestic capacity to diversify the Ghanaian economy, plunging it into another crisis in the late 1990s. The last substantive section concentrates on the post-HIPC period, demonstrating how commercial debt (Eurobonds) drove Ghana into its 2015 and current (2022–23) debt restructurings. The last section concludes with a discussion of the implications for debt management. In the analysis that follows, debt statistics are drawn from multiple sources: the World Bank's International Debt Statistics database, the Annual Public Debt Report 2021 of the Ministry of Finance (Ghana), and Eurobond data from Refinitiv Eikon Datastream.

GHANA'S DEBT CRISIS: MAKING SENSE OF THE UNFOLDING CHAOS

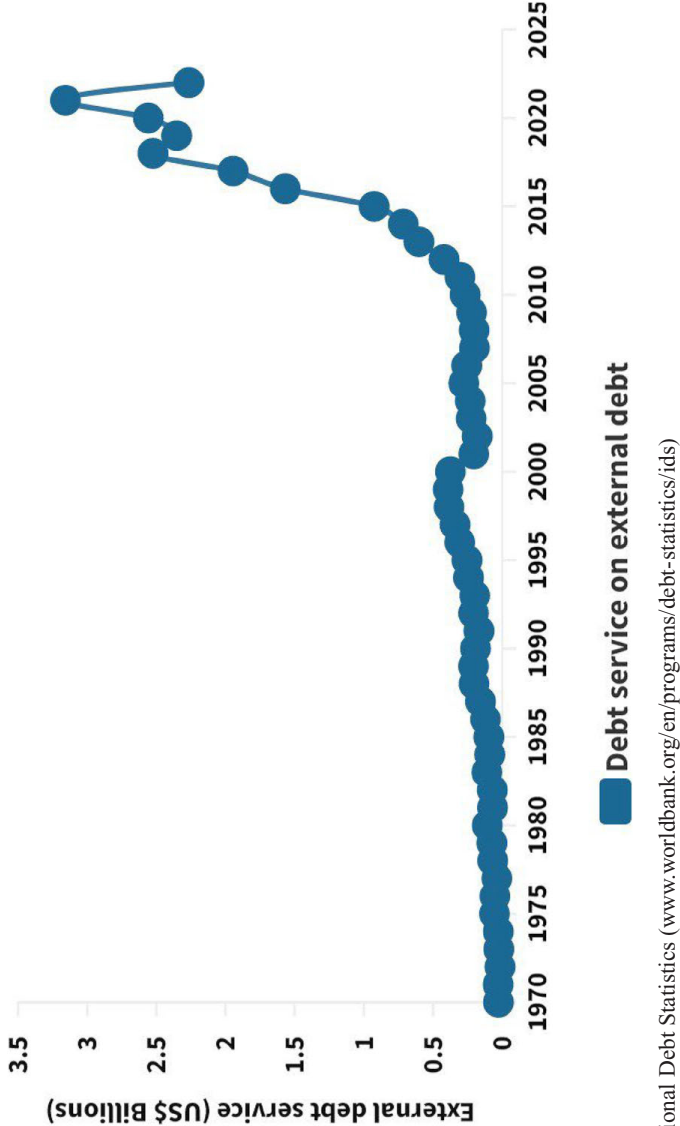
The formal declaration of a debt crisis in July 2022 was preceded by months of consistent downgrades of Ghana's long-term local and foreign currency issuer default rates by several agencies, notably Moody's Rating, Fitch Ratings and S&P Global Ratings. The systematic downgrades came on the back of rises in Ghana's debt stock and debt service levels, as well as heightened liquidity constraints. The volume of external debt in particular rose rapidly in the decade up to 2022. Between 2015 and 2021 alone, external debt increased by about 80 per cent, from US\$ 20.1 billion to US\$ 36.2 billion (Figure 1). In the same period, external debt service costs more than tripled from US\$ 1.05 billion to US\$ 3.23 billion (Figure 2). Excluding

Figure 1. External Debt Stock, Ghana 1970–2022



Source: World Bank International Debt Statistics (www.worldbank.org/en/programs/debt-statistics/ids)

Figure 2. Debt Service on External Debt, Ghana 1970–2022



Source: World Bank International Debt Statistics (www.worldbank.org/en/programs/debt-statistics/ids)

amortization costs, these amounts imply that, on average, interest rates paid on external debt rose from about 5.9 per cent in 2015 to 8.9 per cent in 2021.

It was therefore not surprising that rating agencies decided to downgrade Ghana's economy. However, these ratings were often contested by the government, which questioned the methodology and conduct of rating agencies especially in the context of a devastating pandemic. For instance, a deputy minister of finance described Moody's February 2022 downgrade of Ghana as a grand scheme aimed at forcing the country to go to the IMF (Peace FM, 2022). And indeed, Ghana did apply for a US\$ 3 billion facility from the IMF. The period between July 2022, when the debt crisis announcement was made, and May 2023, when the IMF approved the loan facility, has — to put it mildly — been a period of financial and economic troubles for both the Ghanaian government and the people. Three sets of fallouts from the July 2022 announcement are worth noting.

The first was the sharp depreciation of the Ghanaian cedi (GHC) against major trading currencies, along with general high inflation and rising interest rates. The cedi, which had already lost 19.2 per cent of its value against the US dollar in the first half of 2022, further depreciated by 54.2 per cent in November 2022 (Bank of Ghana, 2022a). Accompanying the cedi's depreciation was rising inflation. Standing at about 29 per cent in June, inflation rose to over 37 per cent in September 2022 (Bank of Ghana, 2023), marking the highest rate since 2001. This 20-year record did not last for long: inflation increased to around 54.1 per cent at the end of December 2022 (Ghana Statistical Service, 2023). Disaggregated data from the Ghana Statistical Service show higher rates for food inflation nationally, approximately 59.7 per cent, and food inflation in the Greater Accra region, approximately 66.7 per cent (*ibid.*). In an attempt to respond to inflation, the Bank of Ghana raised the policy rate by 250 basis points, driving interest rates from 24.5 per cent in October to 27 per cent in November 2022 (Bank of Ghana, 2022b). Consequently, as the cedi depreciated, inflation rose and interest rates spiked. The resulting increases in the costs of living and doing business provoked widespread frustrations and demonstrations (Myjoyonline, 2022a) and calls for the dismissal of the finance minister and resignation of the president. An equally frustrated President Akufo-Addo insisted that 'malevolent forces' — COVID and Russia–Ukraine — had plunged Ghana into the crisis (Ghana News Agency, 2022).

The second major fallout was the struggle for a domestic debt exchange programme. On 12 December 2022, Ghana reached a staff-level agreement with the IMF, subject to IMF Management and Executive Board approval, for a US\$ 3 billion extended credit facility. The Board's approval was conditional, among others factors, on Ghana achieving a comprehensive debt restructuring with its creditors. Accordingly, the government offered a domestic debt exchange programme, delaying payment of institutional bondholders' investments and interest payments until 2024 (Ministry of Finance, 2022a). However, pension funds, trade unions, insurance firms and some

financial institutions rejected the debt exchange as it would deprive them of returns on their investments (Myjoyonline, 2022b). The debt exchange was amended on 31 December 2022, excluding pension funds but bringing in individual bondholders including pensioners who invested privately in government bonds. Extending the debt exchange to individual bondholders gave rise to its own tensions and protests. Sophia Akuffo, a former Chief Justice of Ghana and one of several pensioners protesting their inclusion into the debt exchange programme, described the debt restructuring as ‘wicked, disrespectful, unlawful and totally wrong’ (Welsing, 2023). As the restructuring efforts with domestic creditors stalled, Ghana missed a 17 February 2023 deadline for a US\$ 40.625 million coupon payment on its US\$ 1 billion 2026 Eurobond. This effective default on the 2026 bond was preceded by a government announcement suspending all external debt payments with the exception of multilateral debt acquired after 19 December 2022.

The third major fallout from the decision to seek an IMF bailout has been intensified domestic debate on the cause of the debt crisis. On the one hand, the government has maintained that the pandemic and the war in Ukraine have derailed the Ghanaian economy. COVID-induced spending between March 2020 and June 2022, for instance, amounted to around GHC 21.8 billion (about US\$ 2 billion) (Ministry of Finance, 2023). Pandemic spending is particularly evident in the significant increase in the government budget deficit from 8 per cent in 2018 to nearly 15 per cent in 2020 (Ministry of Finance, 2022b). The government has also contended — justifiably — that distortions in global supply chains and the rise in energy prices arising from the Russia–Ukraine war have driven spikes in fuel, transport and food prices in 2022 and 2023. Civil society organizations, opposition political parties, and a mass of Ghanaians, by contrast, blame the government’s fiscal policy failures for the crisis. What are those fiscal policy decisions and to what extent do they amount to failure? A few examples from the last six years (2017–22) of Akufo-Addo’s government are illuminating.

In its first budget statement on 2 March 2017, The Akufo-Addo government laid out an ambitious development agenda, including free senior high school education and large industrialization projects, such as the ‘one district, one factory’ programme and the ‘infrastructure for poverty eradication’ programme. Whether these policies were developmental remains questionable, given the ideology that guided their formulation, the structure of the policies, and the government’s autonomy in their implementation, as pointed out by Mkandawire (2001). Certainly the results of the policies do not appear developmentalist, as they have hardly translated into export diversification or lower structural dependence on foreign finance. They were in fact more populist policies, or were at least implemented in a ‘populist’ manner, to placate the mass of the electorate whose votes the president courted in 2016 and 2020.

These questions notwithstanding, the social and economic investments were necessary and were rightly celebrated nationwide. However, the

government set itself up to face revenue constraints when it abolished 18 taxes in the same 2017 budget. The reason, the finance minister maintained, was to 'eliminate nuisance taxes and provide tax incentives for the private sector to spur growth' (Ministry of Finance, 2017: 34). Among others, the 17.5 per cent financial service tax, the 17.5 per cent tax on domestic airline tickets, the 5 per cent tax on real estate sales, the 1 per cent Special Import Levy, and import duties on spare parts/petroleum were all abolished. Other taxes were significantly reduced: special petroleum tax went from 17.5 per cent to 15 per cent, the national electrification scheme levy from 5 per cent to 3 per cent, and the public lighting levy from 5 per cent to 2 per cent. To make up for the lost revenues, the government issued multiple domestic and external debt instruments in 2017 and 2018. In 2017, 10 new loan agreements, totalling about US\$ 506.8 million, were signed (Ministry of Finance, 2018), with a further 23 new loan agreements worth US\$ 971.6 million signed in 2018 (Ministry of Finance, 2019a). By abolishing most of the energy sector recovery levies mentioned, the government was also compelled to issue energy sector bonds to refinance debts owed to utility companies and petroleum service providers. For instance, 7-year and 10-year energy sector bonds worth GHC 4.7 billion (about US\$ 1.04 billion) at an average coupon rate of 19 per cent were issued in 2017. Similarly, three energy sector bonds worth GHC 880.7 million (about US\$ 181.4 million) were issued in 2018 (Ministry of Finance, 2019a).

Besides the increased borrowing that accompanied the sweeping tax cuts of 2017, two new oil discoveries announced by Aker Energy and Springfield E & P had an impact on government borrowing. In January 2019, Aker Energy, a Norwegian oil and gas firm, announced it had discovered a new oil reservoir at the Pecan Field in the Western Region, which it estimated held about 450–500 million barrels of oil (Graphic Online, 2019). In December 2019, Springfield E & P, a Ghanaian oil and gas firm, announced it too had made a significant discovery, that more than doubled the volume of its total discovered oil to 1.5 billion barrels (Springfield Group, 2019). These discoveries triggered the government's expectation of increased oil production and revenues (Ministry of Finance, 2019b), an expectation which motivated the issuance of additional Eurobonds and domestic bonds.

Overall, then, an ambitious development agenda that included free education, industrialization, government sector recruitment and banking sector reforms, all within the context of sweeping tax cuts, translated into increased borrowing. Initially, the government's huge external borrowing was enabled by globally low interest rates. The flow of cheap credit to emerging markets meant American and European investors were eager to invest in Ghana's bonds and the Ghanaian government borrowed enthusiastically, in the belief that interest rates would remain low. Policy decisions and heightened borrowing thus contributed to a rapid increase in public debt from about 54 per

cent of GDP in 2017 to 98.7 per cent in 2023,² thereby increasing Ghana's vulnerability to interest rates rises and commodity price shocks, as well as the fallouts from COVID-19 and the Russia–Ukraine war.

The internal debate about the financial crisis, partly driven by competing political interests, has not always been clear-cut, with blame attributed to government policy failures, as well as the immediate global shocks of COVID and the war in Ukraine. While it is fair to point to policy mistakes, it is more important to highlight the structural factors that cause vulnerability and financial dependence, such as the persistent lack of export and industrial diversification, and large income outflows³ from foreign direct investments. These issues, discussed in later sections of this article, have largely been ignored in the discourse on Ghana's crisis. More regrettably, the economic hardships that have accompanied the financial crisis and the partisan debates about its causes have fuelled a general sense of despair. The situation is best captured in the nationwide sentiment: how did we get here?

There are two ways to address the question of how Ghana descended into its current financial chaos. The first is to take a technical approach by concentrating on the issue of the (un)sustainability of Ghana's sovereign debt accumulation. The second, a nuanced approach, demands us to confront the political economy of Ghana's post-independence development, thereby tracing the structural economic and financial constraints that underlie the frequent descent to financial distress. This latter approach requires certain steps, as set out earlier in the introduction: (1) a deconstruction of the post-independence struggle to reverse the structural economic dependence inherited from colonialism, particularly the rise and fall of developmentalism in the 1960s and 1970s; (2) a critical assessment of structural adjustment's role in constraining the diversification of Ghana's economic structure, effectively consolidating its subordination and dependence; and (3) an analysis of the post-HIPC factors that contributed to the present wave of indebtedness. Before proceeding with these three steps, the technical issue of debt (un)sustainability is addressed in the next section.

THE (UN)SUSTAINABILITY OF GHANA'S SOVEREIGN DEBT

At the core of the current discourse on Ghana's debt is its (un)sustainability. This is peculiar neither to Ghana nor to the current wave of indebtedness across many developing and emerging economies. The theoretical benchmarks and policy debate on what levels of debt are sustainable or desirable

2. Debt to GDP at the beginning of 2023 stood at about 89 per cent. The IMF's historical debt statistics indicate the debt to GDP ratio will be about 98.7 per cent at the close of 2023. See: www.imf.org/external/datamapper/profile/GHA

3. That is, income outflows in the form of profits, interests and dividends accruing from foreign direct investment.

Table 1. External Debt Sustainability Analysis and Baseline Scenario

Indicators	Threshold	2022	2023	2024	2025
PV of external debt to GDP	40.0	42.1	45.9	47.2	47.1
PV of external debt to exports	180.0	132.4	142.0	151.6	153.2
PV of external debt service to exports	15.0	18.2	18.8	18.0	19.7
PV of external debt service to revenue	18.0	28.9	30.7	27.4	29.8

Note: PV = present value

Source: Ministry of Finance (2021)

Table 2. World Bank–IMF Debt Sustainability Framework for Low-income Countries*

	PV of external debt in % of		External debt service in % of		PV of total public debt in % of GDP
	GDP	Exports	Export	Revenue	
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	50	240	21	23	70

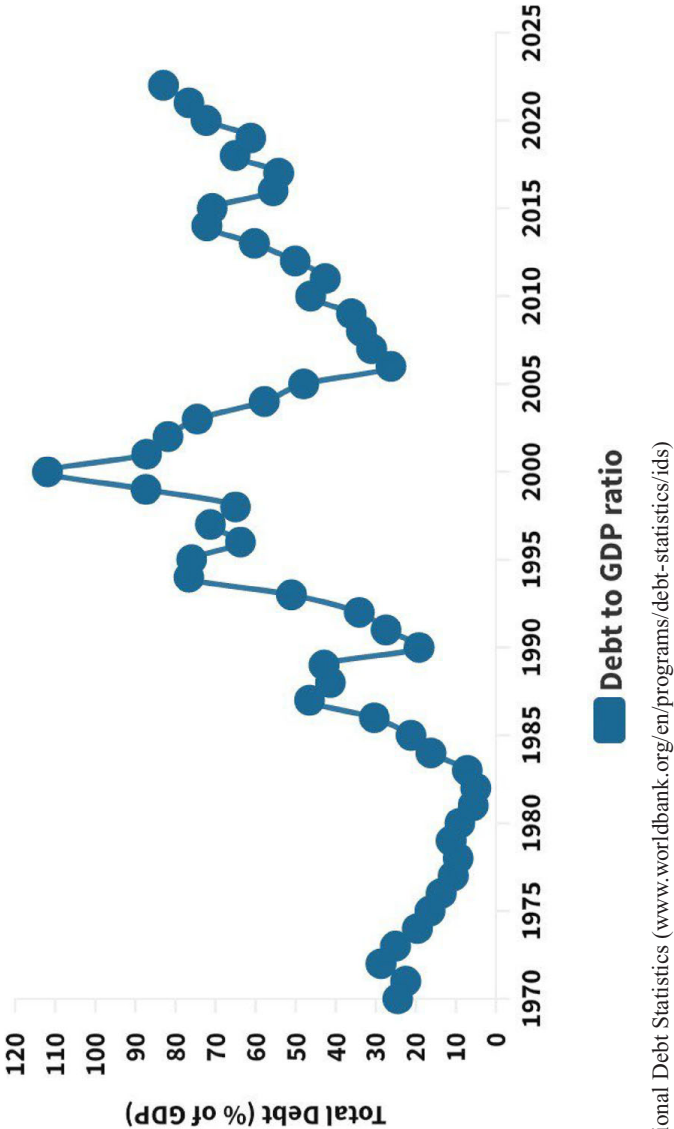
Source: IMF (2018b)

* Debt burden thresholds and benchmarks under the DSF

for an economy remain unsettled (see Lima, 2022). Notwithstanding the differing views, many economists concede that sovereign debt is sustainable if it can be ‘repaid without interruption and without requiring a restructuring of the contractual terms by lenders’ (Ndulu and O’Connell, 2021: i38). Debt sustainability is contingent on two things: (in)solvency and (il)liquidity, where insolvency is a borrowing country’s ‘inability or unwillingness to meet the present value of its contractual obligations’ and illiquidity is its ‘inability or unwillingness to service obligations that are coming due in the current period’ (ibid.). The distinction between solvency and liquidity is not clear-cut, but illiquidity ultimately, through rising interest rates, disrupts a country’s solvency (IMF, 2002).

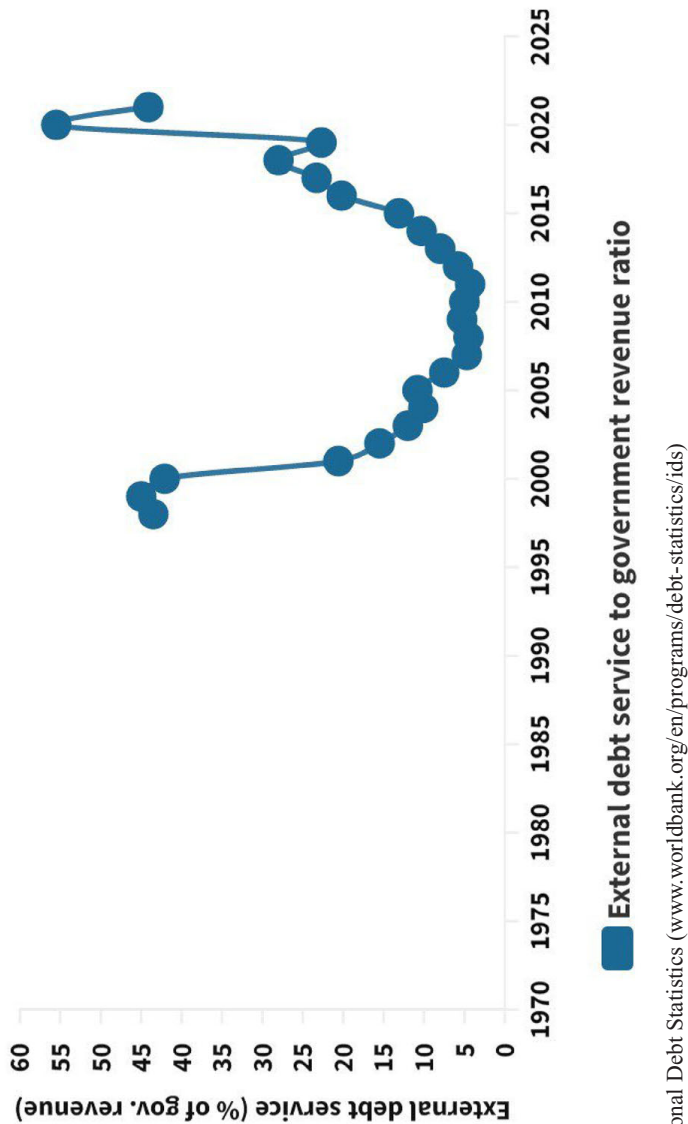
In assessing Ghana’s debt sustainability, the crucial considerations are those of external liquidity constraints, that is, its ability or inability to continue servicing external debt given the availability of foreign exchange. Focusing attention on the external constraint is necessary because the shortage of foreign exchange for servicing external debts might force a country to enter into default even if its domestic debt level is below a conventional threshold. As such, this section focuses on indicators such as debt to GDP ratio (Figure 3), external debt service as a percentage of government revenue (Figure 4) and external debt stock as a percentage of exports (Figure 5). The external debt sustainability analysis by the Ministry of Finance is shown in Table 1, and the joint IMF/World Bank thresholds for Debt Sustainability Analysis (DSA) are indicated in Table 2. The IMF assesses Ghana to have a medium debt capacity holding, corresponding to a debt to GDP threshold

Figure 3. Debt to GDP Ratio, Ghana 1970–2022



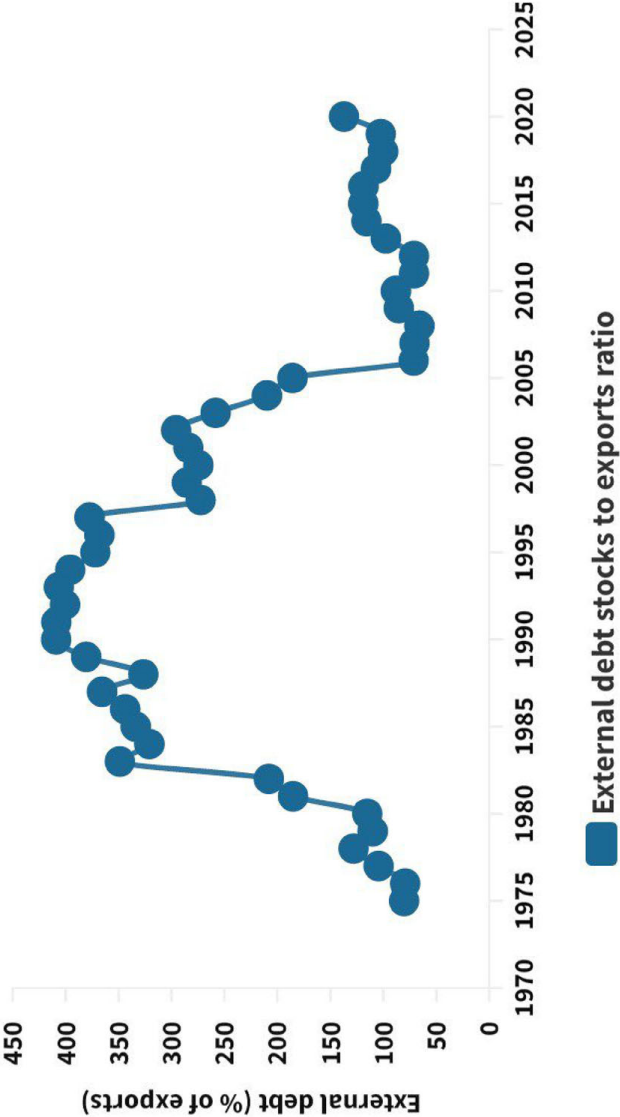
Source: World Bank International Debt Statistics (www.worldbank.org/en/programs/debt-statistics/ids)

Figure 4. External Debt Service to Government Revenue Ratio, Ghana 1970–2022



Source: World Bank International Debt Statistics (www.worldbank.org/en/programs/debt-statistics/ids)

Figure 5. External Debt to Exports Ratio, Ghana 1970–2022



Source: World Bank International Debt Statistics (www.worldbank.org/en/programs/debt-statistics/ids)

of 55 per cent. Other indicators discussed here are the composition of debt holders, and the currency in which debt is denominated.

It is clear from Figures 3–5 and Tables 1 and 2 that several debt thresholds have been breached. The debt to GDP ratio which stood at about 88 per cent at the end of 2022 was a breach of both the IMF/World Bank and the African Union Commission's benchmarks of 55 per cent and 70 per cent respectively. External debt service (as a percentage of government revenue) at the close of 2021 was about 44.1 per cent, over 26 percentage points above the threshold of 18 per cent for a medium capacity debt holding country. The Ministry of Finance's DSA projections of debt service to government revenue (Table 1) for 2022–25 also exceed the benchmark of 18 per cent. Projections for external debt to GDP and external debt service to exports similarly go beyond their respective thresholds of 40 per cent and 15 per cent. External debt stock to exports (Figure 5 and Table 1) is the only indicator that does not exceed the sustainable level of 180 per cent. The IMF and World Bank Debt Sustainability Framework (DSF) judges that if a country's debt rises beyond any of the thresholds for any of the indicators requiring restructuring, it is in debt crisis. It is clear that, under this framework, Ghana is debt distressed.

Beyond the sustainability ratios is the question of the currency in which the debt is accumulated and serviced. Unable to secure significant external loans in their own currencies, African economies are forced to accumulate debt in foreign currencies. Early structuralist analyses in development economics, and more recent work by Eichengreen et al. (2005, 2023), have emphasized the links between foreign currency debt accumulation and balance of payments disequilibrium. Ghana largely issues external debt in foreign currencies such as the US dollar, euro, pound sterling and Japanese yen. Accumulating external debt in US dollars implies increased debt burdens with US interest rate hikes. As shown in Figure 6, the majority of Ghana's external debt is denominated in US dollars. In 1970, about 20 per cent of government debt was dollar denominated. By the close of 2004, that share had more than quadrupled to about 82 per cent; it subsequently dropped to about 48 per cent in 2008 due to HIPC debt relief. Ghana's entry into the Eurobond market since 2007 has, however, resulted in the re-accumulation of debt in US dollars, which now stands at about 83 per cent of total external debt (Figure 6).

Besides the matter of foreign currency domination, it is also relevant to note that foreigners held a significant share of government debt at the end of 2021. At first sight, the Ministry of Finance's data on Ghana's public debt between 2017 and 2021 (see Table 3) imply that on average, sovereign debt is equally split between locals and foreigners. For instance, at the end of 2021, 48.3 per cent of debt was externally held and 51.7 per cent was domestically held. However, disaggregation of the data shows that of the 51 per cent of total debt which is listed as domestic, about 18.5 per cent and 16 per cent was held by foreigners in 2020 and 2021, respectively. Non-residents

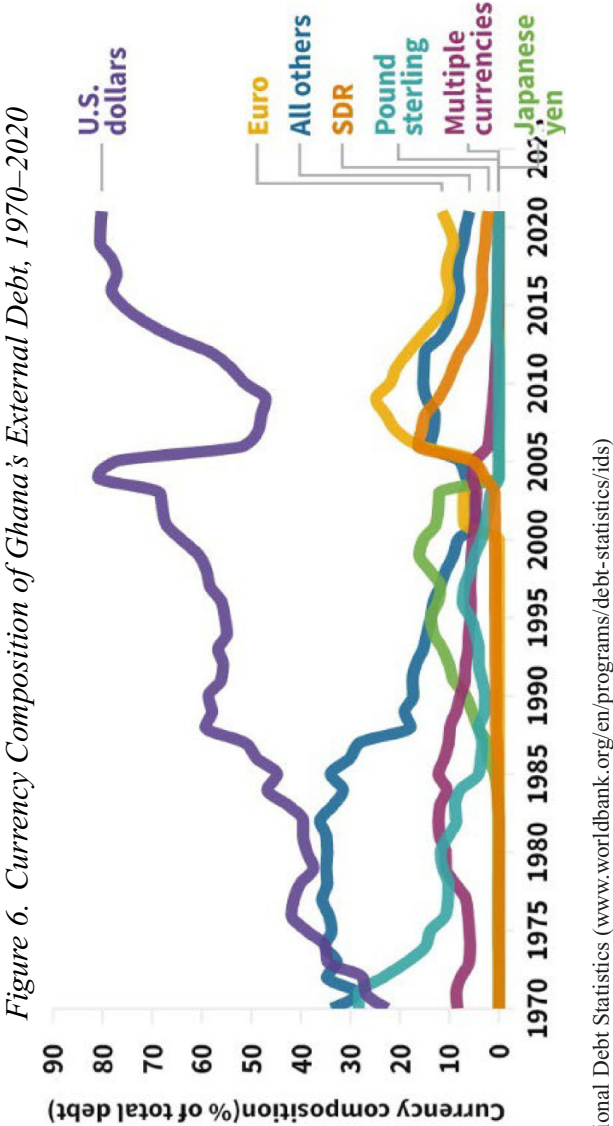


Table 3. Composition of Public Debt, Ghana 2017–21

	% of Total Debt				
	2017	2018	2019	2020	2021
External Debt	53.2	49.8	51.7	48.6	48.3
Domestic Debt	46.8	50.2	48.3	51.4	51.7
	100.0	100.0	100	100.0	100.0

Holders of Domestic Debt 2020 and 2021				
	2020		2021	
	Millions of Ghanaian Cedis (GHC m)	% of Total	Millions of Ghanaian Cedis (GHC m)	% of Total
Domestic Sector	121,925.1	81.5	152,401.9	84.0
Banking sector	76,716.7	51.3	91,032.2	50.2
Bank of Ghana	33,621.9	22.5	35,861.7	19.8
Banks	43,094.8	28.8	55,170.5	30.4
Non-Bank Sector	45,208.3	30.2	61,369.7	33.8
Individual Investors	12,136.2	8.1	16,717.6	9.2
Firms & Institutions	29,863.6	20.0	41,013.8	22.6
Rural Banks	1,689.0	1.1	2,006.7	1.1
Insurance Companies	858.2	0.6	1094.6	0.6
SSNIT	661.4	0.4	537.1	0.3
Foreign Sector	27,687.2	18.5	28,995.3	16.0
Foreign Investors	27,687.2	18.5	28,995.3	16.0
Total	149,612.2	100	181,397.2	100.0

Source: Ministry of Finance (2021)

thus held a large share of total government debt. While domestic creditors are often more lenient with government indebtedness, foreign creditors with less information on domestic economic and political conditions and little interest in the debtor country's development, pose difficulties for any potential debt restructuring. It has to be noted that the foreign share of domestic debt emerges as the result of non-resident bondholders' participation in the Local Currency Bond Markets (LCBM) in Ghana. LCBMs have opened up new financing opportunities in Africa, allowing countries to effectively borrow externally in their own currencies. However, as capital markets remain relatively less developed in most African countries, including Ghana, LCBMs have not played a significant role in the long-term private financing of African economies (Berensmann et al., 2015). Even as foreign investors' participation grows in African LCBMs, presenting new opportunities for development financing, Berensmann et al. caution against sweeping capital market liberalization to avoid volatile capital flows.

There has not always been agreement on what indicators matter in developing country debt sustainability. Analyses of debt sustainability have focused on two concerns: whether a country faces short-term liquidity constraints, or whether it is in severe crisis (effectively bankrupt). The

predominant, often simplistic assessment of African indebtedness reduces the problem to illiquidity, leading to the proposition that a positive balance in current accounts of debtor nations is the optimum solution. As Ghosh (1986) observed, this view is the justification for frequent recourse to debt rescheduling, with the expectation that delaying debt repayments will not only postpone the liquidity problem but also resolve it. In the short run, debt rescheduling typically allows indebted countries to ‘mobilize the bare minimum of new resources to enable orderly debt servicing’ (Shadlen, 2003: 10). However, such a short-term measure simply postpones the need for significant restructuring by focusing on short-term liquidity constraints. With the exception of the 2004–2007 HIPC programme, Ghana’s debt-restructuring programmes have mirrored this pattern.

POST-INDEPENDENCE GHANA: THE RISE AND FALL OF DEVELOPMENTALISM

Having addressed the issue of debt sustainability, we now turn our attention to the political-economic response to the question of why Ghana is in its current crisis. At the centre of this article’s argument is the contention that Ghana’s indebtedness arises from a historical pattern of structural economic subordination and financial dependence. This history of subordination dates back to the periods of enslavement and colonial plunder, under which African economies were shaped to be suppliers of labour and raw materials, and dependent on European finished commodities (Amin, 1974, 1976; Rodney, 1972). Specifically, this article’s focus is on the post-independence era, explaining the external and internal factors that have limited Ghana’s attempts to transform its economy and reduce its dependence on foreign finance. This demands due attention to Ghana’s post-independence developmental struggles.

After achieving independence in 1957, President Kwame Nkrumah’s seven-year development plan (1963–70) aimed to industrialize Ghana and break what Nkrumah referred to as a vicious cycle of poverty left behind by colonialism (Nkrumah, 1963). The big push agenda covered expansion of public services, the construction of the Volta River Project (a hydro-electric dam) and Import Substitution Industrialization (ISI) strategies that ranged from cocoa, timber and aluminium processing factories, to textiles/garment manufacturing and mechanized state farms. The outcome of this developmentalist agenda, which outlived Nkrumah’s rule, continuing into the late 1970s, has been extensively documented (see Ewusi, 1981; Killick, 2010; Steel, 1972). Huge government investments drove a brief period of structural change, before the stagnation and sharp declines in the mid to late 1970s which culminated in the crisis of the early 1980s. In reflecting on the fall of developmentalism, two interlinked questions emerge: what factors accounted for the failure of ISI; and why, despite the surge in growth and

structural change in the 1960 and 1970s, did Ghana (and Africa more generally) fail to break out of its inherited dependency?

The main problem with ISI was foreign exchange constraints. This was not peculiar to Ghana or Africa; early dependency and structuralist analyses of ISI, as Fischer (2018) observes, suggested that the liquidity constraints generated by late industrialization had the tendency to not only recreate, but even compound the initial dependence on primary commodities. The solution to such liquidity constraints — a favourable supply of external finance (debt) over an extended time — Fischer argues, was the point of difference between successful East Asian countries like South Korea or Taiwan and the less successful countries of Latin America and Africa. For instance, Ghana's deteriorating terms of trade from the intermittent collapses in commodity prices between 1964 and 1983 (Kraus, 1991) drove large balance of payments deficits. To address the foreign exchange crisis, Ghana resorted to measures such as suppliers' credits, raising tariffs on imports and imposing import licences, which aggravated rather than alleviated the crisis. For example, while suppliers' credits enabled Ghana to sustain its industrialization, their repayments were not spread out over long enough time periods to allow the investments to pay for themselves (Steel, 1972). Shorter repayment periods, mostly less than seven years, strained Ghana's finances and contributed to the balance of payments deficits.

The answer to the broader question of why developmentalism failed lies, among other factors, in a dysfunctional pattern of surplus absorption that accompanied Africa's developmentalist agenda (Arrighi, 2002; Arrighi and Saul, 1968). Arrighi and Saul argued that within the framework of their adverse integration into the world economy, the productive potential and structural transformation of independent African economies were constrained because the available surplus in such economies was ill-utilized. Specifically, they identified three problems: (1) a lack of development of the capital-goods sector; (2) conspicuous consumption by a domestic labour aristocracy comprised of urban workers and elites in bureaucratic employment; and (3) large income transfers abroad by multinational corporations.

On the first point, Arrighi and Saul argued that the international corporations that still dominated post-independence African economies tended to adopt capital-intensive production techniques. Capital-intensiveness promoted the use of imported specialized machinery which restrained the growth of demand for locally produced capital goods and thus translated to under-investment in the capital-goods sector. Consequently, the productive capacity of local economies and the expansion of the internal market were constrained, reasserting the dependence on the growth of world demand for domestic primary products. Secondly, the few, mostly urban workers in the capital-intensive corporations received relatively high wages: foreign oligopolies were willing to concede to wage increases since labour accounted for a low proportion of production costs and they could simply pass cost

increases on to consumers. Together with elites who inherited a colonial wage structure, this domestic labour aristocracy absorbed a significant share of the surplus into unproductive, discretionary consumption. At the same time, the export of corporate incomes (profits, dividends, fees) to their home countries drained the available surplus.

Arrighi and Saul's Marxist dependency analysis of the failure of developmentalism is particularly relevant for situating domestic structural dysfunction within historical and external constraints. While drawing significantly on their Tanzanian experiences, their work is nevertheless relevant for and applicable to several African countries. Of course, writing in the 1960s meant they could not address the developmentalist crises of the 1970s. Arrighi (2002), however, rectified this, reaffirming and extending their earlier analysis. The dysfunctional pattern of surplus absorption, Arrighi (2002) restated, meant the structural changes in the 1960s and 1970s only produced a perverse growth,⁴ defined as 'economic growth that undermines, rather than enhances the potentialities of the economy for long-term growth' (Arrighi and Saul, 1968: 150). Post-colonial Ghana, like many other African economies, faced this perverse growth, alongside intermittent global monetary and commodity price shocks.

Beyond the perversity of growth and global shocks, others have highlighted the domestic constraints to Ghana's developmentalist agenda, pointing at internal struggles for political settlement (Whitfield et al., 2015). Collectively, this confluence of external constraints and domestic factors limited Ghana's ability to break out of its structural subordination and dependence. By the late 1970s to early 1980s, the developmentalist dream, largely curtailed by foreign exchange shortages arising from declines in non-oil commodity terms of trade in the 1970s, descended into a crisis — inflation (of over 100 per cent in 1981), declining wages, collapsing public services and general shortage of consumer items (Graham, 1988). Therefore, when Jerry John Rawlings's military coup seized power in 1981, accepting the IMF and World Bank structural adjustment was really the only option.

STRUCTURAL ADJUSTMENT AND THE HIPC PROGRAMME

The popular explanation offered by the World Bank's Berg Report (World Bank, 1981), while acknowledging the stagflation and oil shocks of the 1970s, blamed the 1980s' crises on African governments' policy failures, excessive government expenditure and regulation. The IMF and World Bank solution was the SAPs, with the objectives of correcting balance of payments deficits, promoting economic growth and reducing poverty. However, the overwhelming verdict is that the SAPs were a failure, representing

4. The term 'perverse growth' was coined by Ignacy Sachs (1966).

flawed solutions to a misdiagnosed economic crisis (Konadu-Agyemang, 2000; Loxley, 1990; Mkandawire and Soludo, 1998). Ghana, initially held up as an example of adjustment success, is a good case to understand how the SAPs not only failed to deliver what they promised, but exacerbated dependency and led to subsequent debt crises including the present situation. This section focuses on two problems: the SAPs' failure to diversify the economy, to the detriment of economic growth; and the deregulation and liberalization that eroded financial control and Ghanaian policy space.

The first problem with Ghana's SAP was its failure to address structural economic problems. Mkandawire and Soludo (1998) pointed out (as did others, such as Elbadawi and Ndulu, 1996) that Africa's structural dependence on imports and uncertain revenues from exports meant its economic growth and domestic policy were more vulnerable to external shocks such as those of the oil prices in the 1970s and the 1980s drought. If the crises had been correctly diagnosed this way, any structural adjustment would have focused on diversification, to avert the consequences of the Prebisch-Singer hypothesis.⁵ As it was, as Mkandawire and Soludo observed, the Prebisch-Singer thesis was disregarded, and the SAP focused on increasing traditional raw commodity exports to earn foreign exchange and correct balance of payments problems. Since the SAP emphasized the restoration of equilibrium in the balance of trade and current accounts, the Ghanaian government had to create economic incentives for producers by undertaking sharp devaluations of its currency, the cedi (Kraus, 1991). For example, the devaluation of the cedi by 990 per cent in 1983 was necessary to halt the destruction of export capacity. In effect, Ghanaian exporters/producers were paid more cedis for exports. Gold production, as Kraus recounts, doubled between 1983 and 1990; timber production increased by 170 per cent within the same period. In contrast to these primary exports, the food production sector (non-cocoa agriculture), was treated by the SAP as a residual (Loxley, 1990). The government's inability to immediately diversify the export base recreated the structurally dysfunctional pre-independence economy.

The second problem with the SAP was its deregulation and financial liberalization policies. Far from focusing on long-term domestic-oriented economic growth, financial policies concentrated on stabilization and debt repayment. As Mkandawire (1999: 321) notes, since structural adjustment, economic policy 'has given overwhelming priority to financial policy instruments and objectives (exchange rates, interest rates) relative to the real side variables'. To be specific, financial liberalization in Ghana included a shift from fixed to free floating exchange rates of the cedi, restructuring of

5. The Prebisch-Singer hypothesis (Prebisch, 1950; Singer, 1950) is that the relative prices of primary commodities tend to follow a declining secular trend. This implies that the terms of trade of primary commodity exporting economies will deteriorate because the prices of primary products, relative to manufactured goods, tend to follow a declining trend in the long run.

banks (privatization and sale/liquidation of some banks), the establishment of foreign exchange bureaus and removal of capital controls. These financial reforms had multiple effects. Mkandawire (1999) notes two broad areas that were negatively affected by the SAPs' financial reforms.

The first was the effect on the level of savings and investment. The success or failure of an economy's financial policy can be assessed first and foremost by its ability to mobilize resources through savings and efficiently allocate those resources for investment. Financial liberalization, Mkandawire contends, failed by not raising the levels of savings and investments in the adjusted countries. In Ghana, Mkandawire (*ibid.*) demonstrated that Gross Domestic Savings and Investment were lower in the adjustment years (1982–99) than in the 1960s and early 1970s. The second major consequence was the dysfunctional patterns of investment. While financial liberalization failed to stimulate domestic investment, it attracted speculative portfolio investment and foreign direct investments into mining, instead of manufacturing. At the same time, agricultural credit as a share of total bank lending in Ghana declined from 23.8 per cent in 1987 to an average of 10 per cent in 1992/93 (Hutchful, 1996).

The overall effect of the reforms in Ghana was that they failed to address the structural weakness in the economy while at the same time intensifying its adverse integration into globalized capitalism. Beyond external factors, the neoliberal elites that emerged in the course of the 1980s' crises captured key economic positions in Ghanaian government (particularly the Ministry of Finance and the Bank of Ghana). These neoliberal technocratic elites have pursued an anti-developmental agenda — namely, the destruction of domestic state capabilities and a focus on market-based development financing. It was no surprise that the debt began to build and soon transformed into another crisis in the 1990s. Having lost its reputation as a structural adjustment success, Ghana signed up for the HIPC debt cancellation from 2004 to 2007. While the HIPC programme resulted in the reduction of external debt by more than 50 per cent (Akolgo, 2022), it came with conditionalities similar to the SAPs: freezes in government recruitment, cuts in social spending, and increased recourse to market-based development finance. HIPC was a just a piece in the 'lending game' as Soederberg (2005) calls it. By failing to address the systemic issues, it was just a matter of time before other debt cycles emerged in the post-HIPC era.

POST-HIPC: THE DOMINANCE OF COMMERCIAL DEBT (EUROBONDS)

Can we therefore say, based on the analysis so far, that the present crisis is history repeating itself? While the pattern of structural weakness and reliance on foreign development finance persists, the post-HIPC period points to a significant shift in the global lending game to reinforce Ghana's dependency. The composition of public debt has changed, new actors

Table 4. Ghana's Eurobond Issuances

Instruments	Issuance Date	Maturity	Coupon rate (%)	Amount Issued (US\$ m)	Outstanding Amount (US\$ m)
4-year	April 2021	2025	0.000	525	525
7-year	April 2021	2029	7.750	1,000	1,000
12-year	April 2021	2034	8.625	1,000	1,000
20-year	April 2021	2042	8.875	500	500
6-year	February 2020	2026	6.375	1,250	1,250
14-year	February 2020	2034	7.785	1,000	1,000
41-year	February 2020	2060	8.750	750	750
7-year	March 2019	2027	7.875	750	750
12-year	March 2019	2032	8.125	1,250	1,250
31-year	March 2019	2051	8.950	1,000	1,000
10-year	May 2018	2029	7.625	1,000	1,000
30-year	May 2018	2049	8.627	1,000	1,000
6-year	September 2016	2022	9.250	750	16
15-year	August 2015	2030	10.750	1,000	1,000
10-year	July 2014	2026	8.125	1,000	1,000
10-year	August 2013	2023	7.875	1,000	1,000
10-year	September 2007	2017	8.500	750	—
Total	—	—	—	15,525	13,119.9

Sources: Ministry of Finance (2021); Refinitiv Eikon Datastream

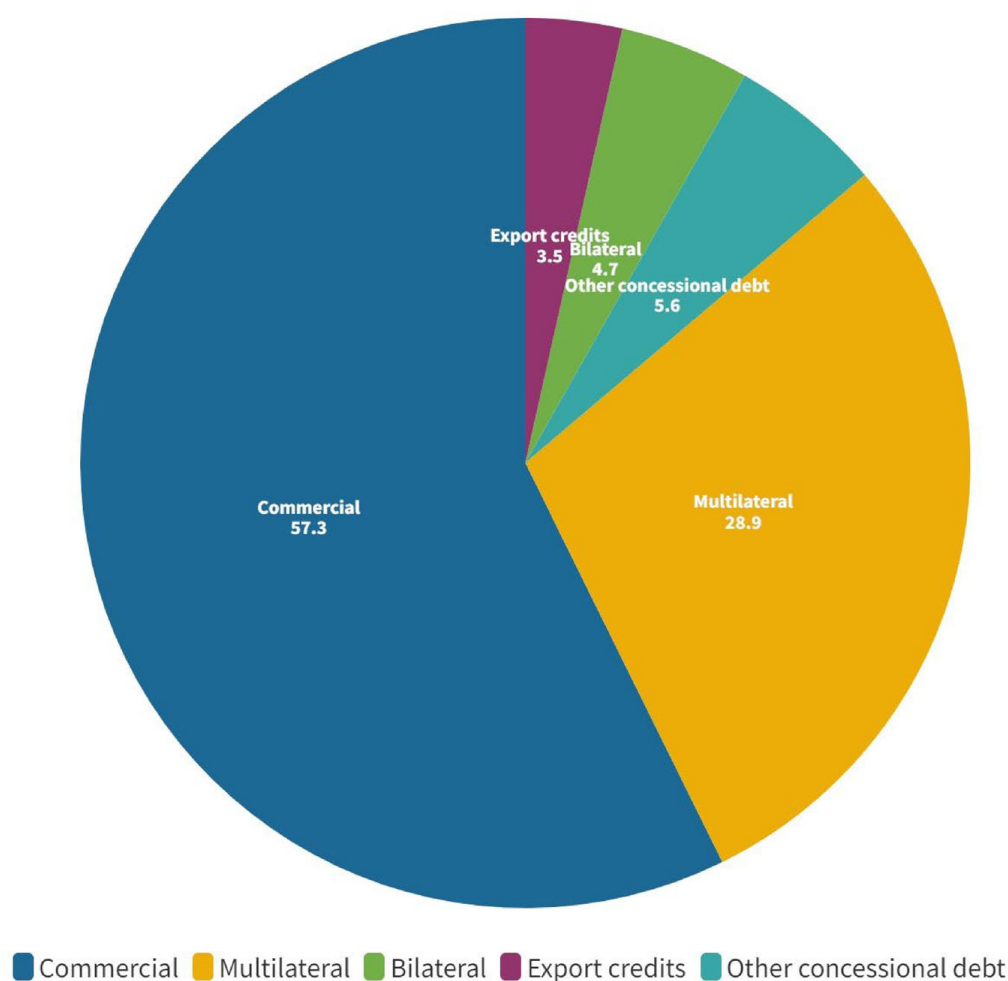
and instruments have emerged, but the export structure of the Ghanaian economy is still narrow, mainly gold and cocoa and, since 2011, crude oil. These three commodities alone account for more than 70 per cent of total exports. Gold and cocoa beans, the traditional exports dating back to the colonial period, constitute nearly 50 per cent.⁶ Underlying this lack of export diversification has been the burden of commercial debt.

A dominant feature of African debt after the HIPC debt relief has been the displacement of official bilateral and multilateral creditors. Commercial creditors, from banks to mutual and pension funds, now constitute the largest holders of government debt. About 57 per cent of Ghanaian sovereign debt is commercial, whereas bilateral and multilateral debt together make up about 34 per cent. Export credits and other concessional debts constitute less than 10 per cent of total public debt (see Figure 7). Commercial debt, owed mostly to Western banks and other investors, increased the cost of borrowing, particularly since Ghana entered the Eurobond market in 2007. In all, it has issued 17 Eurobonds worth US\$ 15.5 billion. At the end of 2021, about US\$ 13 billion of the US\$ 15.5 billion was outstanding (Table 4).

Ghana's bonds have been lucrative for investors, and are often oversubscribed when issued. On average, bonds carry a fixed coupon of about 8 per cent, with some 2015 and 2016 bonds going as high as 10.75 per cent and

6. Data from the Observatory of Economic Complexity's trade database. See: <https://oec.world/en/visualize/stacked/hs92/export/gha/all/show/2013.2021/>

Figure 7. Composition of Ghana's Debt, 2021



Source: Ministry of Finance (2021)

9.25 per cent respectively (Table 4). Two questions emerge from this. Firstly, why do African countries like Ghana pay more to borrow from the capital markets? After controlling for factors such as the period of issue, credit ratings of issuing countries and their macroeconomic fundamentals, Olabisi and Stein (2015) found investors charged higher interest rates (on average by 2.9 percentage points) for African bonds. They conclude: 'higher coupon payments not explained by observable risk measures may only be described as a penalty on African governments due to investor bias. This penalty or premium represents a crude net present value estimate of \$2.2billion' (ibid.: 99).

The second question is: why do African governments, despite the significant borrowing cost, have such a taste for Eurobonds? Unlike multilateral credit, Mutize (2021) explains, loans from Eurobonds do not come with conditionalities and governments are not required to give detailed explanations

Table 5. Decomposition of Ghana's Public Debt, End 2022

	Debt Stock (end of period) 2022		
	(US\$ m)	(% total debt)	(% GDP)
Total	63,332	100.0	88.1
External	28,869	45.6	40.2
Multilateral creditors	8,055	12.7	11.2
IMF	1,710	2.7	2.4
World Bank	4,750	7.5	6.6
African Development Bank	1,193	1.9	1.7
Other Multilaterals	401	0.6	0.6
Bilateral Creditors	5,438	8.6	7.6
Paris Club	2,867	4.5	4.0
o/w: Belgium	437	0.7	0.6
o/w: United Kingdom	430	0.7	0.6
Non-Paris Club	2,572	4.1	3.6
o/w: China	1,900	3.0	2.6
o/w: India	475	0.7	0.7
Bonds	13,104	20.7	18.2
Commercial creditors	2,272	3.6	3.2
Domestic	34,463	54.4	47.9
Held by residents, total	32,849	51.9	45.7
Held by non-residents, total	1,614	2.5	2.2
Short-term bills	5,009	7.9	7.0
Medium-to-long term bonds	19,934	31.5	27.7
Loans	76	0.1	0.1
Arrears	3,186	5.0	4.4
Other (Overdraft and SDRs on-lent)	6,258	9.9	8.7
Memorandum Items:			
Collateralized debt	619	1.0	0.9
Contingent liabilities	308	0.5	0.4
o/w: Public guarantees	284	0.4	0.4
o/w: Other explicit contingent liabilities	24	0.0	0.0

Source: IMF (2023b)

for the specific use of funds. The underlying focus of institutional investors is the bond issuer's willingness and/or ability to service the debt even if that means — as is mostly the case — engaging in debt refinancing. This has been the case in Ghana, with different governments ignoring the punitive premium on Eurobonds to quickly re-accumulate huge debts after the HIPC relief. It is those debts from Eurobond markets, rather than a Chinese debt trap as suggested by media accounts, that have driven Ghana's post-HIPC indebtedness. Based on the decomposition of Ghana's public debt in the IMF Staff report on the approval of the US\$ 3 billion Extended Credit Facility (IMF, 2023b), China holds just 3 per cent of Ghana's debt (Table 5). In contrast, 20.7 per cent and 12.7 per cent of public debt is owed to Eurobond holders and multilateral institutions, respectively. Therefore, in terms of external holders of Ghana's debts, China's influence is minimal.

By 2015, amidst an economically devastating electricity crisis in Ghana, it became clear that a decade of Ghana's borrowing from Eurobond markets had translated into another cycle of debt distress which required a three-year, US\$ 1 billion IMF bailout (IMF, 2015). The 2015 IMF programme came with its own conditionalities, notably cuts in government spending, increased taxation, freezes in government recruitment, and financial reforms (*ibid.*). Simultaneously, several Eurobonds and domestic bonds were issued between 2017 and March 2019, to refinance previous debts. By 2018, it was evident that Ghana was at high risk of debt distress, based on the debt sustainability analysis of the IMF (see IMF, 2018a). It was simply a matter of time before the risk of debt distress, occasioned by the pattern of economic and financial subordination discussed so far, turned into a full debt crisis. The outbreak of the COVID-19 pandemic and then the Russia–Ukraine war aggravated Ghana's existing debt and general economic vulnerability.

CONCLUSION

The current wave of indebtedness that has followed a globally devastating pandemic has sparked debates about not only the present situation but also about the cycles of debt crises that have plagued post-independence Africa. Most empirical analyses of the current crisis point to a lack of macro-financial prudence on the part of African governments. Others have blamed the crises on the COVID-19 pandemic and the fallout from the Russia–Ukraine war. Focusing on Ghana, this article has argued that we need to extend our analysis of the debt storm beyond a narrow focus on the technical concerns of macro-financial imprudence and recent global disruptions. Instead, a nuanced account of the debt storm demands an emphasis on how Africa's history of structural economic subordination: (a) constrained domestic attempts to develop out of its dependence; and (b) sustained and intensified its dependence on external finance within the context of an unjust transnational lending system.

Accordingly, the article first engaged the ongoing debate in Ghana on the immediate causes and consequences of the financial crisis. Within the limits of its structural and external constraints, Ghana's huge borrowing between 2017 and 2023 turned out to be risky, particularly when combined with the massive tax cuts implemented in 2017. Beyond an account of the chaos unfolding in Ghana, a technical analysis of its sovereign debt sustainability was conducted. On several parameters, it is clear that even before COVID, Ghana's debts were unsustainable. To offer a holistic account of how Ghana got to this present crisis, its historical pattern of structural subordination and dependence was traced. After independence, developmentalist attempts to break out of Ghana's entrenched dependence failed due to a confluence of global constraints and domestic factors. Structural adjustment,

which was advertised as the solution to the 1980s' crisis, returned Ghana to its pre-independence reliance on primary commodity exports. Additionally, the SAPs, with the support of domestic neoliberal technocratic elites, liberalized the economy, emphasizing the government's reliance on market-based finance for development. The recourse to financialized strategies exposed Ghana to an exploitative translational lending system dominated by Western investors. The resultant debt built-up, aggravated by domestic policy errors and COVID-induced spending, drove Ghana into its 2022–23 debt crisis.

Besides Ghana, several African countries (such as Chad, Ethiopia and Zambia) are facing debt distress, provoking widespread calls for debt forgiveness. The Ghanaian experience shows that debt cancellation, while necessary, is insufficient to address the cycles of indebtedness and restructurings. Debt cancellation can be the starting point for the transnational lending system to enforce responsibility by both lenders and borrowers. However, African governments have to go back to basics, which many are already doing. They need, first, to increase domestic production in place of imports for those basic commodities that can be produced locally. More importantly, they need to build the regional and continental alliances that can support diversification not in terms of the basket of raw materials exported, but in terms of building manufacturing capacities that support the export of refined commodities. In the context of halting the needless importation of basic items with high capacity for domestic production, the Ghanaian government has already taken steps by withdrawing foreign exchange support for the importation of rice, poultry and other commodities. This is commendable but not enough; such policy responses have been instituted before and abandoned once the short-term liquidity constraints receded. Broader structural reforms will be needed to follow the short-term measures.

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Isaac Abotebuno Akolgo (Isaac.Akolgo@uni-bayreuth.de) is a Research Associate at the Africa Multiple Cluster of Excellence, University of Bayreuth, Germany. His current research draws from a variety of heterodox economics perspectives to explain finance capitalism in Ghana. His recent publications on Africa's fintech boom and Ghana's banking sector crisis have appeared in the *Review of International Political Economy* and *Review of Africa Political Economy*, respectively.

On the contradictions of Africa's fintech boom: evidence from Ghana

Isaac Abotebuno Akolgo

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On the contradictions of Africa's fintech boom: evidence from Ghana

Isaac Abotebuno Akolgo

Africa Multiple Cluster of Excellence, University of Bayreuth, Bayreuth, Germany

ABSTRACT

Since the pioneering role of Kenya's mobile money service – M-PESA, a consortium of international development agencies, philanthropists, academics, tech corporations and governments – have led an optimistic account of a poverty-eradicating, prosperity-spreading power of financial technology (fintech) in the global South. In contrast, a growing critical IPE literature has demonstrated that the optimistic accounts are broad-brush and misleading. Drawing from recent theorization on digital financialisation and Marxian conceptualization of capital accumulation, this article shifts the focus of the Kenya-centered critical response to Ghana, the second largest mobile money market in Africa. Relying on quantitative data from the Bank of Ghana, and qualitative data from 42 semi-structured interviews, the article provides evidence to show that the mobile money boom in Ghana is underpinned by (1) customer indebtedness from digital microloans, (2) high transaction costs, (3) excessive taxation, and (4) a prevalence of dormant accounts. Collectively, the findings confirm the wider critical literature suggesting that, far from ending poverty and inspiring prosperity, the fintech-financial-inclusion agenda in Africa is opening new frontiers for a sustained and intensified capitalist exploitation of working-class labor in the continent.

KEYWORDS

Fintech; Ghana; financial inclusion; mobile money; capitalism; financialization; Africa

Introduction

A new optimism about African economies has emerged following the retreat of the 'Africa rising' narrative founded on Gross Domestic Product (GDP) figures. Unlike before, the good news about Africa is not based on the trickle-down power of GDP—it is premised on a postulated poverty-eradicating, prosperity-spreading power of financial technology (fintech). Mobile money (MoMo),¹ a notable fintech, has gained popularity in the continent. From M-PESA in Kenya to MTN MoMo in Ghana, telecommunication companies have expanded their primary focus on communication technologies to include banking services, marking a peculiar phase

CONTACT Isaac Abotebuno Akolgo  Isaac.akolgo@uni-bayreuth.de  Africa Multiple Cluster of Excellence, University of Bayreuth, Bayreuth, Germany.

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of finance capitalism described as digital financialisation (Jain & Gabor, 2020). To have access to a transaction account, subscribers need a mobile phone and a phone number from the operator. With an account, they can make payments, send money, receive payments, and for some, access microcredit. This service has become commonplace in the continent. Currently, half of the world's registered MoMo users are in sub-Saharan Africa, with transaction values totaling over \$700 billion at the end of 2021 (GSMA, 2022).

Two sets of opposing narratives have accompanied this explosive growth of MoMo in Africa and across the global South. On the one hand is an optimistic account given by a consortium of international development agencies, philanthropies and governments² who have for years promoted a financial inclusion agenda in the global South. Their case is that the MoMo boom in Africa has enabled the financial inclusion (FI) of large sections of the previously unbanked³ population, which has led to poverty reduction. This view has received validation within mainstream Economics circles (Suri & Jack, 2016). On the other hand, there is a critical perspective held by scholars in International Political Economy (IPE). Put in context, these IPE scholars argue that optimistic claims of a fintech-FI-development nexus in the continent and elsewhere in the global South are broad-brush and misleading. They cite the problematic of financial inclusion as a measure (Aitken, 2017; Dafe, 2020; Mader, 2015, 2018; Soederberg, 2013); gender and spatial inequalities in the digital finance boom (Bernards, 2022; Natile, 2020;); increasing fintech-engineered surveillance, commodification, monetization and exploitation of customer data (Bernards, 2019a; Jain & Gabor, 2020); customer indebtedness (Donovan & Park, 2019, 2022a, 2022b; Kusimba, 2021); and continued neoliberal capitalist exploitation through fintech (Boamah & Murshid, 2019; Bernards, 2019b). More troubling accounts of fintech point to its view of poverty as an opportunity for profit making and accumulation (Gabor & Brooks, 2017).

This paper follows in line with the critical IPE perspective and at the same time seeks to address two shortfalls in its critique of the fintech-led development narrative in Africa. One, the IPE literature has overly focused on Kenya's M-PESA, the premier MoMo service, to the neglect of fintechs in other African countries. Two, where attempts have been made to address this (such as Boamah & Murshid, 2019), the work has been largely conceptual and less empirical. Accordingly, this paper addresses these two issues by unpacking the political economy of digital financial inclusion in Ghana. Relying on payment systems data from the Bank of Ghana and 42 semi-structured interviews across seven regions in Ghana, the paper provides evidence in support of four criticisms of fintech-led development in Africa. In the case of Ghana, the contradictions to the fintech hype include: (1) customer indebtedness from digital microloans, (2) high transaction costs, and (3) excessive taxation of digital finance, resulting in (4) a prevalence of dormant MoMo accounts. The choice of Ghana is based on its significantly large MoMo market. Ghana has the third highest mobile money usage globally after Kenya and China (Creemers et al., 2020), and is the fastest-growing MoMo market in Africa (Geiger et al., 2019). It therefore provides a good case study, outside the Kenya-focused narrative, in explaining the contradictions associated with Africa's fintech boom.

Theoretically, I engage two perspectives on finance capitalism. One, I employ Jain and Gabor's recent theorization of digital financialisation (Jain & Gabor, 2020) to distinguish fintech from traditional forms of finance or banking in Africa. Two, I situate fintech's FI agenda in Africa within a Marxian theorization of capital accumulation.

Traditional notions of finance capitalism require updating to take account of the ‘reorganisation of finance around digital infrastructures’ (Jain & Gabor, 2020, p. 813). Jain and Gabor’s conceptualization should be situated in longstanding Marxist theorization of the capitalist mode of accumulation. Reflecting on Marx allows us to sift through the complexity of how digital financial markets ‘obscure yet remain reliant on particular configurations of productive activity’ (Bernards, 2019b, p. 1444). I explore this conceptual framework further in section three.

The rest of the paper proceeds as follows. Section 2 explains the fintech-led development agenda, provides the facts on MoMo, and reviews the criticisms raised in the IPE literature. Section 3 analyses digital financialisation and Marx’s circuits of capitals, which serve as the theoretical basis for this study. Section 4, the empirical part, outlines the methodology and discursively presents the findings of the study. Section 5 concludes with implications for IPE research on fintech and development.

Fintech-led development in Africa: the facts and criticisms

The crux of the good news of fintech-led development in Africa can be summarized in three claims that actors⁴ in the global FI agenda make. One, *a conceptual claim* that access to financial services (that is FI) offers poor people a way out of poverty. Two, *a policy claim* that where traditional banks and microfinance institutions have failed, fintech (notably MoMo) offers a rapid path to FI. Three, *an evidential claim* that after more than a decade of fintech boom, more people now have access to transaction accounts and financial services; and that this has reduced poverty levels. Impact analysis within mainstream Economics, such as those by Beck et al. (2015), and Suri and Jack (2016) have provided evidence to support these claims. For instance, in their study of Kenya’s M-PESA, Suri and Jack find that ‘access to mobile money has lifted as many as 194,000 households out of poverty’ (Suri & Jack, 2016, p. 1292). What has been the IPE response to these claims? But first of all, what are the facts regarding Africa’s MoMo boom?

The facts

One undisputed part of the claims stated earlier is the significant growth of the number of transaction accounts and the value of overall transactions. Globally, the MoMo industry has grown more than ten times its value in the last decade. Valued at \$68 billion in 2012, the annual transaction value reached \$1.2 trillion at the end of 2021 (Figure 1). More than half the decade-long MoMo boom is attributable to Africa (Table 1). The evolution of MoMo in Africa is traced to Vodafone Group and Safaricom’s introduction of M-PESA in Kenya on March 6, 2007. Conceived as a development intervention for the huge unbanked, mostly poor population, M-PESA’s subscriber base expanded quickly—a million subscribers in a year, 8.5 million two and half years later, and by 2018, 90% of Kenyans had used the service (Kusimba, 2021). Vodafone has since extended its MoMo services to other countries such as Ghana, the DRC, Egypt, Lesotho, Mozambique and Tanzania. At the same time, other telecom companies such as MTN, Airtel and Orange have introduced MoMo to their customers. Together, these services have led the digital finance revolution in the continent. There are now more MoMo services in West

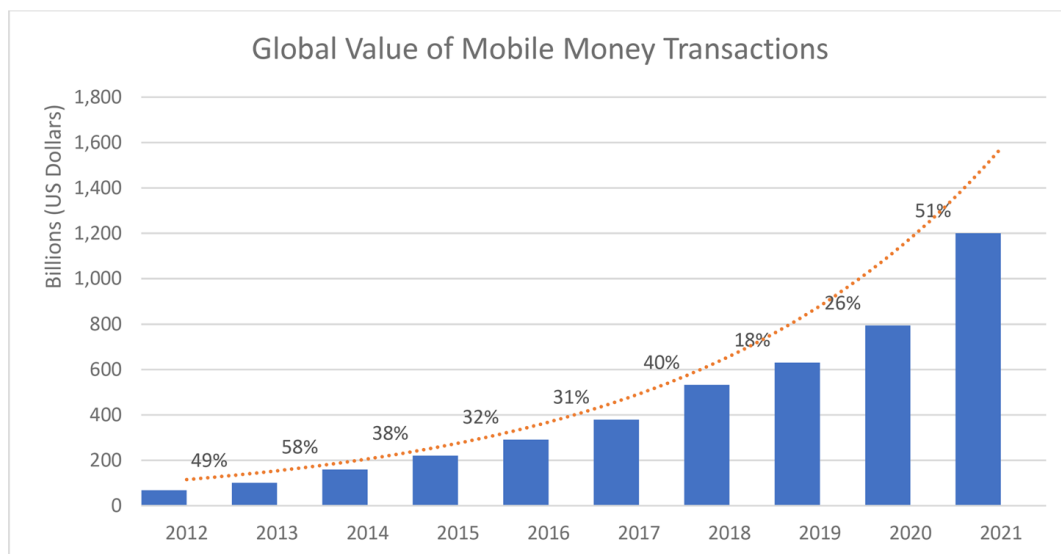


Figure 1. Growth in global value of mobile money transactions. Source: Author drawings from GSMA data (GSMA, 2021, 2022).

Africa (70 services) than in East Africa (57 services) where M-PESA's pioneering role began (Table 1). Notwithstanding that, 55% of the value of transactions in the entire continent comes from East Africa.

In Ghana, the story has been that of the Kenyan experience. Ghana's emergence as a MoMo hub is due largely to MTN who introduced the first MoMo service to Ghanaians in 2009. In the last ten years, MoMo has grown faster in Ghana than the global growth rate in transaction values from less than \$1 billion in 2012 to about \$158 billion at the end of 2021 (Figure 2). Between 2012 and 2014, transaction values grew more than 200% yearly. By mid-2019, the decade-long exponential growth slowed to about 23% and picked up again with the onset of the COVID-19 pandemic that provoked more remote financial transactions. This expansion of the market value of MoMo corresponds with the equally rising numbers of registered users from about 3.7 million registered accounts in 2012 to over 48 million in 2022 (Table 2). There is, however, a huge variance between registered accounts and active accounts, an issue which is discussed in Section 4.

The criticisms

Two main concerns dominate the critical response to the optimistic narratives about fintech-FI-development links in the global South, particularly Africa: One, a contestation of the developmental value and methods of FI, and two, a contestation of the reported empirical outcomes of the fintech revolution.

Contesting the value and methods of FI

The works of Dafe (2020) and Soederberg (2013) discounts the conception of FI as a way out of poverty. For Dafe, FI is ambiguous 'regarding its targets, its relationships to other economic goals, and the role of market' (Dafe, 2020, p. 506).

Table 1. Distribution of mobile money Statistics in Africa for 2020.

Area	Services	Registered accounts (millions)	Active accounts (millions)	Transaction volume (billions)	Transaction value (\$ (billions)
Africa	171	562 m	161	27.5 bn	495
West Africa	70	198	47	6.4	178
Southern Africa	14	11	3	0.28	3.0
North Africa	14	14	1	0.07	5.4
Central Africa	16	46	16	2.2	35.7
East Africa	57	293	94	18.6	273

Source: GSMA (2021).

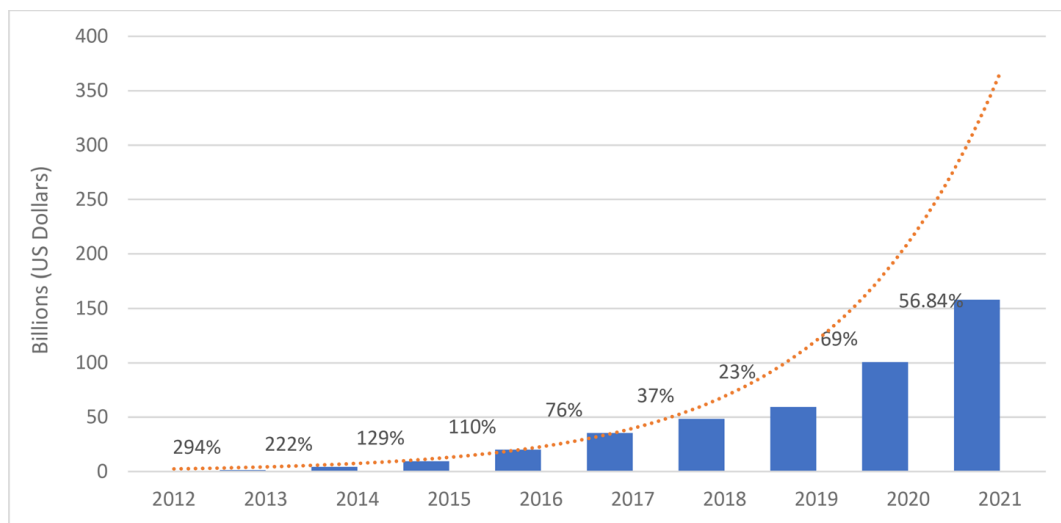


Figure 2. Growth in the value of mobile money transactions in Ghana (2012–2021). Source: Bank of Ghana (2020, 2021).

Table 2. Mobile money Statistics in Ghana (2012–2022).

Year	Registered accounts	Active accounts	Transaction volume	Transaction value (\$)*
2012	3,778,374	345,434	18,042,241	330,000,000
2013	4,393,721	991,780	40,853,559	1,300,000,000
2014	7,167,542	2,526,588	113,179,738	4,181,000,000
2015	13,120,367	4,868,569	266,246,537	9,580,000,000
2016	19,735,098	8,313,283	550,218,427	20,130,000,000
2017	23,947,437	11,119,376	981,564,563	35,420,000,000
2018	32,554,346	13,056,978	1,454,470,801	48,520,000,000
2019	32,470,793	14,459,352	2,009,989,300	59,490,000,000
2020	38,473,734	17,142,677	2,859,624,191	100,742,000,000
2021	48,300,000	17,900,000	3,578,000,000	157,999,363,200

*Transaction values are the dollar equivalent of their Ghana cedi figures reported by the Bank of Ghana. They are converted at the end of year exchange rates corresponding to each year.
Source: Bank of Ghana (2020, 2021).

There is also no clarity about the relationship between FI and other economic goals. The FI agenda is nothing more than an extension of neoliberalism. If there is anything unambiguous, it is that FI ‘serves to legitimate, normalize and consolidate the claims of powerful, transnational capital interests that benefit from finance-led capitalism’ (Soederberg, 2013, p. 593). Others (such as Aitken, 2017; Bernards, 2019a; Gabor & Brooks, 2017; Kaminska, 2015) go beyond the conceptual value of FI to analyze the methods by which the unbanked are included. One of the postulated benefits of FI is that the poor get access to financial credit since FI mediates the information asymmetry inhibiting lenders’ assessment of the creditworthiness of potential borrowers (see Demirgüç-Kunt et al., 2018; World Bank, 2022). However, critics such as Aitkens argue against fintech’s reliance on customers’ personal data and psychometric tests for establishing creditworthiness. By analyzing the methods of FI, these critics show that FI through fintech ultimately aims to render the unbanked as visible, legible and calculable subjects of the financial realm and, thus, re-engineer the markets for capitalist profiteering. Consequently, what is promised as FI does not only become financial intrusion

(Kaminska, 2015), it leads to exploitation by transforming the previously unbanked's 'precarious or informal incomes into calculable risks' (Bernards, 2019a, p. 819).

Contesting the outcomes of the fintech revolution

Growing evidence within IPE equally cast doubts on the outcomes reported by the World Bank and its partners in the FI agenda. In this regard, evidence increasingly points to customer/household indebtedness from digital microloans (Donovan & Park, 2022a, 2022b; Kusimba, 2021), and inequalities in the digital finance boom (Bernards, 2022; Natile, 2020). In their extensive studies of Kenya's M-PESA story, Kusimba (as well as Donovan and Park) document how subscribers are trapped in debt as they rely on digital microcredit. These studies show that small digital microloans have failed to be the solution to poverty. Borrowers use them for daily survival or just to mitigate their temporal lack of money. A far-reaching concern raised by Donovan and Park is that digitally mediated debt, apart from extracting from people's limited incomes, effectively makes a claim on their future work. It implies a burden of mortgaging one's future in order to navigate present financial turbulence.

In light of these criticisms by IPE scholars, this study sought to answer the following questions: (1) Is there any evidence of customer exploitation in the context of Ghana's fintech boom? (2) If yes, to what extent does such exploitation contradict the good news of fintech-led development? Before considering the evidence, the next section explores the theoretical framework that helps to explain finance-based capitalist exploitation through fintech.

Conceptualizing digital finance as capitalist accumulation in Africa

A key concern in the critical response to the digital FI in the global South has been the attempt to identify the theoretical framework within which to situate the 'fintech for FI agenda.' Earlier critiques (Aitken, 2017; Gabor & Brooks, 2017) analyzed FI as part of wider processes of financialisation. Others drew from science and technology studies, neoliberal logics of marketization (such as Bernards, 2019a, 2019b), or more strictly inserted fintech into Marxist logics of rentier capitalism (Boamah & Murshid, 2019; Donovan & Park, 2022b). There is as well a growing body of literature that views fintech as neo-colonial finance (Langley & Leyshon, 2022; Timcke, 2021). To mediate the theoretical challenge of explaining fintech within conventional notions of finance capitalism as organized around traditional banking systems, Jain and Gabor (2020) proposed a new theoretical framework—digital financialisation. A common theme around these writings is the view of FI as a new frontier for finance capitalist accumulation. Accordingly, I argue for a reconciliation of these conceptualisations. In so doing, we understand two things regarding the fintech for FI agenda. One, fintech is distinct from longstanding forms of finance capitalism in Africa. Two, while distinct from analogue forms of financialisation, fintech feeds into longer-running processes of capitalist exploitation.

How different is digital financialisation from analogue financialisation? For Jain and Gabor (2020), analogue financialisation 'focuses on the expansion of the financial realm and its increasing dominance over other realms' (p. 816). It is driven by financial deregulation, innovation and globalization; the main actors often include transnational and domestic financial institutions such as central banks, the

International Monetary Fund (IMF) and the World Bank. The state plays a dual role in analogue financialisation: First as a *promoter*, helping to expand the financial sector through monetary and fiscal policies while simultaneously allowing global private players (e.g. fintechs, IFIs, development agencies) significant control of the sector. Secondly, the state acts as a *stabilizer*, using its central bank monetary tools to manage any bottlenecks in the financial system. Digital financialisation on the other hand, Jain and Gabor continue, is driven by technological innovation built around digital infrastructures. The main actors here are both new and old fintech companies. In this hybrid realm of digital finance, the state employs coercive measures, including demonetization and the integration of citizens' digital identities to expand the digital-financial sphere. It permits and facilitates fintechs' collection and monetization of customers' data through services such as MoMo. The coercive role of the state is motivated by its mutually beneficial bargain with techno-capitalists. While the fintechs want more profits, the state aims to make its citizens more legible and governable through digital surveillance. As digital finance expands, tensions grow between traditional banks and fintechs. This requires the state to act additionally as a mediator in the struggle for control of the financial realm. Effectively, the hybrid process results in the expansion of financial subjects whose lives and data can be commodified in the name of FI, justified by 'arguments of economies of scale' (Jain & Gabor, 2020, p. 817).

Jain and Gabor's conception of digital financialisation is clearly manifested in the context of Ghana. Over the last decade and half, global tech firms such as MTN and Vodafone, with varied institutional investors including corporations like BlackRock, J.P Morgan, Norges Bank, Emirati investors and Chinese banks (see online Appendices 2 and 3 for a description of the shareholding of MTN and Vodafone), sought new markets to make profit. Their interests aligned with IFIs and Development Finance Institutions' (DFIs) shift to private sector-led development financing and that of the Ghanaian government's goal of expanding telecommunication and financial services to citizens. Consequently, a hybridized financial realm has emerged. MTN and Vodafone have consequently expanded their telecommunication services to include digital finance (MoMo to be precise). The government's coercive role, as Jain and Gabor posited, is evidenced in Ghana's aggressive digitization agenda, which requires citizens to integrate all digital identities through mobile sim re-registration. Simultaneously, the MoMo operators have built significant databases of customers. This data has not only been commodified by the fintechs, government is also increasing viewing citizens data both as a means of surveillance and revenue generation. The response of the communications minister (Ursula Owusu-Ekuful) to recent complaints against the government's coercive digitization captures this reality:

'If you look at the revenues that these tech giants are generating from managing, analysing and utilizing the data that we freely give them; the Facebook, Google, WhatsApp and all those mega-platforms, then it gives effect to the saying that data is the new oil because if we effectively analyse and utilize it properly, it can generate a lot of revenue for the state for our own development' (reported in Ghanaweb, 2022).

Jain and Gabor's sketch of this process of subjectification, commodification and monetization disguised as FI, once situated within Marxist conceptions of finance capital, provides a holistic understanding of fintech's trajectory in Africa. While the concept of digital financialisation offers a concrete manifestation of technology being harnessed for both profit-making and political control, reflections on Marx's

circuits of capital (Marx, 1990, 1991) clarifies the capitalist logic underpinning MoMo operators' transaction fees and micro lending. Of particular relevance to this paper is the tendency of interest-bearing capital, in this case fintechs' micro-loans, to obscure the labor that enables the repayment of exploitative interests on such loans. Capitalist accumulation, which is rooted in the transformation of concrete labor to abstract labor within Marxian thinking, concludes in the circulation of money capital that demands an interest from borrowers.

Once capitalist accumulation reaches this point of interest-bearing capital as the means of profiteering, 'all that we see is the giving out and repayment. Everything that happens in between is obliterated' (Marx, 1991, p. 471). In the case of customers accessing microloans through fintechs, everything that happens in between as interest-bearing capital circulates, referring to the 'concrete productive activities that enable the repayment of debts and interests' (Bernards, 2019b, p. 1448). By failing to account for this exploitative nature of digital micro lending, the FI agenda obfuscates the links between the real economy and the financial sector by presenting FI as sufficient in itself. While being silent about the real jobs that provide the money for transactions on digital platforms, the focus of FI has been on low-income earners' ability to send and receive payments or access financial resources from social networks and micro lending platforms.

In short, my case for reconciling the different conceptualisations of digital finance in Africa is that we capture the novelty of digital financialisation within the context of persisting finance capitalist exploitation in the continent. Consequently, fintech in Africa should be seen from these perspectives—as marking a shift toward digital infrastructures to organize citizens' engagement with finance (as Jain and Gabor posit) and yet a part and parcel of finance capital accumulation (as in Marx's conceptualization). In the next section, I focus on providing evidence of what digital financial inclusion has meant for Ghanaians.

The evidence from Ghana

Data and methods

A methodological concern for researchers attempting to explain finance capitalism in the global South is access to financial data. Stefan Ouma noted this when he called for unpacking the grounded operations of finance which is often shrouded in complex and technical jargons (Ouma, 2020). But as he wondered, 'how can we practically produce knowledge about the grounded operations of finance when many of its key players...that ought to be the objects of public scrutiny keep their profiles low and doors closed?' (Ouma, 2020, pp. 16–17). Particularly for fintech is 'the lack of comprehensive quantitative data on the balance sheets of fintech firms' (Loannou & Wojcik, 2022, p. 59). To provide a comprehensive view of the political economy of fintech in Ghana, in the context of these data constraints, I adopted a mixed methods approach (Jick, 1979, cited in Loannou & Wojcik, 2022), relying on both quantitative and qualitative data for the analysis.

The data sources relied on include: one, payment systems' data for the past ten years (2012–2021) gleaned from the Bank of Ghana's Payments Systems Report for 2020 and its Summary of Economic and Financial Data for 2021; and, two, responses from 42 semi-structured interviews (for reviews on semi-structured

interviews, see Dunn, 2005; Longhurst, 2010). Interviewees comprised 32 MoMo customers and 10 MoMo agents—carried out in Greater Accra, Ashanti, Central, Eastern, Northern, Volta, and Upper East regions.

Face-to-face interviews were conducted in Greater Accra, Ashanti, Central, Eastern and Volta Regions during field trips in February and March 2022. Interviews in Northern and Upper East regions were conducted online in April 2022. The interview questions were framed on five issues: (i) ownership of a MoMo account, (ii) usage—type of transaction and frequency of usage, (iii) customers' assessment of MoMo transaction fees (charges), (iv) access to microloans, purpose for borrowing, and repayment of loans, and (v) customers' views on the 1.5% electronic transactions' levy. For in-person interviews, respondents (owning a MoMo account or being an agent) were randomly selected. In the case of online interviews, I relied on my networks in Northern Ghana to suggest potential interviewees who matched the criteria above. Those suggested by my networks in turn suggested others. Interviews were conducted in two languages: English and Twi. Where consent was given, the interviews (mostly lasting 5–10 min) were recorded and transcribed. MoMo operations have recently become deeply politicized in the wake of the 1.5% tax that has met widespread resistance. As such, many declined to be recorded; in those instances, I took notes during our interactions. To protect the identity of interviewees, I used codes for each person interviewed, ranging from N1, N2, up to N42 (see online [Appendix 1](#)).

The regions were chosen to reflect the socio-economic dynamics of Southern and Northern Ghana. A notable political-economic concern in Ghana is the North-South development gap. To provide a complete analysis of any socio-economic issue, it is crucial to account for the mostly urbanized, relatively richer South (particularly Greater Accra, Ashanti and Eastern regions) and the mostly rural, relatively poorer Northern Ghana (Northern, Savannah, North-East, Upper East and Upper West regions). The Volta region lies between the rich-South-poor-North dichotomies. Collectively, this sample provides a broader view of MoMo operations across Ghana. While this geographical spread of interviewees is important, it must be noted, as Longhurst (2010) echoing Valentine (2005) observed, that the purpose of interviews is not to be representative as they are usually mistakenly criticized for. Rather, the aim of interviews is to 'understand how individual people experience and make sense of their own lives' (Valentine, 2005, p. 111). Ultimately, a crucial concern in my interaction with interviewees is a question of reflexivity and positionality (Roulston, 2010). As a Ghanaian who has used MoMo for nearly ten years, I recognize that such a financial technology is far more than an inclusion into a formal financial system and that subscribers' experiences of it can be diverse depending on not just their location but also their socio-economic conditions. Semi-structured interviews allowed for the expression of those varied experiences with MoMo.

Findings

Like most Kenyans who had access to M-PESA, the ease of financial transactions was what attracted many Ghanaians to MoMo services, beginning with MTN in 2009. The number of MoMo accounts expanded rapidly, and so did the services. Over the last ten years, MoMo has gone beyond sending and receiving money to several other services including accessing microcredit. Simultaneously, the

hybridization Jain and Gabor posited is actively in place in Ghana—the initial conflict between banks and tech firms has been resolved, ensuring that MoMo accounts are now seamlessly linked to bank accounts. Banks (such as Ecobank, AfB, CBG) even offer the microloans on MoMo platforms such as MTN's *Qwik Loan* and Vodafone's *Ready Loan*. However, as the euphoria recedes, MoMo subscribers in Ghana are realizing, like their counterparts in Kenya, perhaps too late, that FI comes at a huge cost. Collectively, the findings show, in answer to research questions 1 and 2 in Section 2, that there is significant evidence of customer exploitation accompanying Ghana's fintech boom, and that this negates the good news of fintech-led development. As Jain and Gabor's digital financialisation suggests, the confluence of private (global) fintechs' and Ghanaian government's interests account for the exploitation of MoMo customers. On the one hand, the fintechs continue to accumulate profits through (1) predatory micro lending which creates customer indebtedness and (2) high transaction fees. On the other hand, government, instead of taxing the profits of the fintechs, shifts its financing needs to citizens through (3) excessive taxation of MoMo. As the state supported fintech exploitation grows and the low-income MoMo users cannot afford transaction fees, loan interests, and digital finance taxes, (4) MoMo transaction accounts increasingly lie dormant. These results are discussed below.

Customer indebtedness from digital microloans

One of the popular financial products offered by MoMo operators is micro lending. To access a loan, subscribers have to be 18 years or older and hold an active MoMo account. MTN Ghana, the largest MoMo operator, runs the *Qwik Loan*, *Ahomka Loan* and *Xpress Loan*. Vodafone Ghana runs its own version called *Ready Loan*. Applicants can access between ₵50 (about \$6) and ₵1000 (about \$125) repayable in 30 days, at an average interest of 6.9%. In case of default, loan recipients face three penalties: (1) an instant additional charge of 12.5% on the total outstanding loan amount; (2) a downgrade of their credit score; and (3) disqualification from the loan service for a minimum of three months (see Loanspot, 2022; Vodafone Ghana, 2022). The ease and speed of access to such loans without collateral has resulted in a rapid growth in the numbers of borrowers. MTN alone disbursed over one million loans in less than a year after the launch of its *Qwik Loan* in November 2017 (Letshego, 2018). However, widespread accounts of loan defaults (see ModernGhana, 2019) raise concern over customer indebtedness from microloans. Several MoMo users interviewed admitted to having defaulted at some time (N9, N11, N15, N16, and N34) or were currently in default (N1, N23, N27, N17, N38).

To understand their indebtedness, it is important to consider two things: one, the principal, repayment period and interest rate; and two, what borrowers use the funds to do. It can take several months of regular, faithful borrowing and repayment to reach a credit score that allows borrowers to access any amount close to ₵1000 (\$125). Nevertheless, even if we assume that subscribers can borrow ₵1000 from the start, is that significant to start a small-scale business in Ghana (as advocates of FI suggest credit from MoMo are used for)? Retail shops, which are fast becoming rare in crowded urban areas, cost between ₵1000 and ₵20,000 to rent. That is just one part of the cost of doing business. One subscriber observed, 'they don't give large amounts when we request for MoMo loan, we only get some small

amount which can't even solve the problem we need the loan for or do business' (N9). For others, there is no intention from the outset to use the credit for business; it is simply an attempt to manage a precarious economic life marked by low, and/or irregular income streams: 'the salary cannot even take me to the middle of the month. So I take *Qwik Loan* to survive until salaries are paid' (N38).

It is at this point that digital microcredit becomes a temporary measure to 'buy time' as Donovan and Park (2022b) found in Kenya. At worse, some borrowers in Ghana hardly ever buy enough time: 'The time frame at which MoMo loan is to be paid is very limited. The deadline comes and I struggle to get money to pay back the loan' (N1). Even if N1 took that loan for entrepreneurial reasons, what business in Accra could yield enough profit in 30 days to pay back the loan with 6.9% interest? Even for borrowers (like N20) who choose debt juggling—borrowing from one lender to pay another, it is only a question of when, not if, such debt crisis management reaches its limits. And when it does, the default will cost more than the 12.5% penalty. They will be inundated with calls and texts reminding, perhaps threatening, them to repay. From this point, any cash flows into their MoMo account are instantly deducted by the MoMo operator to offset the loan. Their misery gets complicated: They not only owe, they also need money to survive but no one can send financial assistance through their MoMo account, unless the remittance is enough to mitigate both crises. That is why it has become a norm in Ghana that, '...before I (you) send money to anyone through MoMo, I (you) ask them if they owe *QwikLoan*. Otherwise, I (you) send it and MTN will just take the money' (N40).

Ultimately, a lot of productive labor, future labor as Donovan and Park suggest in Kenya, is geared toward the repayment of debts. At least, that is for borrowers who have jobs—formal or informal. For the majority of jobless youth, including those of the Unemployed Graduates Association,⁵ it could turn into unproductive activities, notably online sports betting. One *Qwik Loan* defaulter put it as follows:

'I owe them for so many months. My brother (referring to the interviewer), I am a graduate but as you know there are no opportunities. The only thing is for me to bet, maybe I will win big so I can pay them and stop taking it' (N17).

Maybe he will never win that bet, sometimes statistically unpredictable outcomes occur in sports. Either way, he is headed for a new kind of financial exclusion. He will mostly likely be 'blacklisted' even upon repayment—borrowers like him are 'risky' (see Aitken, 2017), and the algorithms underpinning digital financial inclusion were built to exclude them (see Gabor & Brooks, 2017; Kaminska, 2015), in service of larger techno-capitalist profit-making. Besides predatory loans, fintechs also exploit subscribers through multiple transaction fees for MoMo services as shown below.

High transaction costs

The optimism about MoMo as part of the FI agenda has been built on an inaccurate notion that it lowers the cost of financial transactions. It has become increasingly evident, contrary to this claim, that MoMo transactions are costly, especially for the poor (Anyanzwa, 2019). This is largely because MoMo is based on profit motives, requiring that 'most transactions incur a fee that many poor (people) find difficult to pay, even if they are willing to do so because of the convenience and speed of transfer' (Donovan 2012, p. 70). Because MoMo platforms allow subscribers to send smaller amounts of

money than they could or would have done in a traditional bank, it may appear at first that using MoMo is cheap. However, put together, and in the long run, those seemingly 'small' fees become unbearable. Ghanaians know this (see Dowuona, 2021) and try to avoid the charges in multiple ways. One way is to ask the sender to include withdrawal fees; another trend is to revert to the old ways—send the money through a bank transfer since most banks do not charge customers for transfers and withdrawals. It is not only MoMo users who recognize the exorbitant MoMo fees, some operators do and attempt to take competitive advantage in the market by lowering or waving certain tariffs. Vodafone is a notable example (Table 3). That presents subscribers a third option to avoid the fees—they can simply switch to cheaper platforms. However, it does not come that easy with issues of poor network connectivity:

'My problem with mobile money is the network connections and the charges. I was using MTN but due to the connection and charges, that is why I switched to Vodafone and still I am facing the same problem. They should learn to build a strong connection and reduce their charges...' (N24).

As customers attempt to navigate poor connectivity and cost by holding multiple accounts with different operators, it presents another cost constraint. MoMo interoperability (that is transfers across different MoMo operators) leads to higher tariffs. For instance, while the charge for an MTN MoMo user sending between ₵50 and ₵1000 is 1%, that increases by 50% (1% to 1.50%) if she transfers the same amount to a Vodafone or AirtelTigo account (Table 3). For unregistered customers who receive payments from MTN accounts, the cost triples (1% to 3%) or even more (1% to 5%) (Table 3). It should be noted that not everyone is concerned about the transactional cost of MoMo:

'Mobile money is good; it has come to help a lot. Many Ghanaians complain about the charges and other issues. But for me it has been really helpful. I do a lot of transactions, sometimes in a day I can send 1000, 2000, or even 5000 cedis. Can you imagine walking to the bank to do all that, when I have a lot of business going on? I can quickly do it on my phone. So I mostly transfer money from my bank accounts to the MoMo wallet and then use it to do the payments. Besides, dealing with some of these people in the bank can be annoying; with MoMo, I avoid all that' (N22).

Of course, N22 is right about the satisfaction of not dealing with banks who are noted to have a longstanding bad customer service record (B&FT, 2020). Nevertheless, as N22 also notes, people like him in Kumasi or anywhere in Ghana, are the minority. Average monthly incomes are low and stagnant. Most informal workers in urban areas earn as low as ₵150 (\$19) monthly (Kwakofi, 2018). Besides, the FI agenda is built around banking the large population of unbanked, mostly poor people, not middle-class Ghanaians like N22 who have multiple bank accounts and enough money to meet most of their financial needs. While micro lending and transaction fees serve profiteering by private global actors (MTN Group & Vodafone Group), government is also treating the new subjects of the hybrid financial realms as sources of revenue.

Increased taxation

As the government-private actors' alliance in digital financialisation unfolds, subscribers' burden of paying excessive microloan interests and transaction fees is

Table 3. Comparison of mobile money fees and tariffs by operators.

Mobile money operator	Transaction amount (¢)	Mobile money fees and tariffs					
		Send from a registered to registered customer	Send from a registered to customer to unregistered customer	Send from unregistered customer to unregistered customer	Withdrawal by registered customer	ATM cash-out	Interoperability
MTN	1.00–50.00	0.50	1.50	2.50	0.50	0.50	0.75
	50.01–1000.00	1%	3%	5%	1%	1%	1.50%
	Above 1000.00	10.00	n/a	n/a	10.00	n/a	15.00
Vodafone	1.00–50.00	Free	1.50	n/a	0.50	0.50	n/a
	50.01–75.00	Free	2.50	n/a	1%	1.50	n/a
	75.01–100.00	Free	2.50	n/a	1%	1.50	n/a
	100.01–250.00	Free	4.50	n/a	1%	2.50	n/a
	250.01–500.00	Free	6.00	n/a	1%	4.00	n/a
	500.01–1000.00	Free	n/a	n/a	1%	n/a	n/a
	1000.01–2000.00	Free	n/a	n/a	10.00	n/a	n/a
AirtelTigo	2000.01–3000.00	Free	n/a	n/a	10.00	n/a	n/a
	1.00–50.00	0	0.75	0.5	0.50	0.50	0.75
	50.01–1000.00	0.50%	1.50%	1%	1%	1%	1.50%
	Above 1000.00	10.00	1.50%	n/a	10.00	10.00	15.00

Figures not quoted in percentages represent flat rates charged in Ghana cedi (¢).

n/a (not applicable) means the service is either not rendered or not rendered at the corresponding amount.

Source: Bank of Ghana (2020).

compounded by the recent introduction of a 1.5% electronic transactions levy (e-levy) (see Citi Newsroom, 2022). Constrained by its current sovereign debt crisis (see Akolgo, 2022), the Ghanaian government sees the e-levy as an easy way to shift its financing needs onto citizens. However, the levy has been widely condemned as a 'lazy' and punitive tax (Karombo, 2022), particularly within the current context of economic hardships occasioned by COVID-19 and the Russia-Ukraine war. Prior to the parliamentary approval of the e-levy in March 2022, surveys indicated that a majority of Ghanaians, about 81% (Myjoyonline, 2022) disapproved of the levy. With a majority of MPs in parliament, government nonetheless passed the e-levy bill into law.

What is the effect of the tax on the cost of MoMo transactions? Take for example an MTN MoMo user sending amounts in the range of ₵200 and ₵2,000. The 1.5% tax is charged on any additional amount after the first ₵100. To understand the effect of the tax on the transaction cost, we calculate the total fees the customer will pay with and without the tax component. The calculations are done using two sets of tariffs: One, the prevailing MTN MoMo tariffs given by the Bank of Ghana (Table 3), and two, MTN's planned tariff reduction (see NewsGhana, 2022). With the addition of the 1.5% tax, the customer pays about twice or more, as transfer fees (Table 4). The cost quadruples if she transfers more than ₵2000. Even if we consider MTN's plan to reduce its own tariffs to 0.75% (instead of 1%) for transfers below ₵1000 and a fixed tariff of ₵7.5 (instead of ₵10) for transfers above ₵1000, the negative effect of the tax is still significant. Instead of paying a ₵7.5 fee for sending ₵1000, a customer now pays ₵22.5 due to the tax (Table 4). But the problem with e-levy goes beyond one-off deductions:

'...how can you tax the same money several times? I work, and at the end of the month receive salary, which I have already paid tax and when I send part of it to my mother in the village, you will tax it again. Imagine she wants to send part of it to another relative, and you tax it again...' (N6).

Effectively, if N6's chain of transfers continues electronically, the money could be exhausted in the multiple taxation and operator fees. The tax does not apply once they money falls below ₵100 but the operator fees do, until the last cedi.

Table 4. Impact of e-levy on transaction cost.

Transfer amount (₵)	Fees without e-levy (₵) (₵50– ₵1000 = 1% above ₵1000 = ₵10)	E-levy charge (₵) (1.5% on additional amount after ₵100)	Total fees (₵) (fees plus e-levy)
200	2	1.5	3.5
300	3	3	6
500	5	6	11
1,100	10	15	25
2,100	10	30	40
*(50–1000 = 0.75% Above 1000 = ₵7.5)			
200	1.5	1.5	3
300	2.25	3	5.25
500	3.75	6	9.75
1,100	7.5	15	22.5
2,100	7.5	30	37.5

*MTN's planned tariff reduction.

Source: Author's calculation based on tariff data from Bank of Ghana (2020).

MoMo agents and subscribers (N33 and N12 respectively) are adamant that government tax fintechs and enforce fiscal discipline:

‘If government thinks telcos are making huge money from MoMo, then it should tax their profit not adding to our woes. What have they done with all the money we borrowed from outside Ghana? Because of the tax, we are not getting customers like before; people are withdrawing their monies from MoMo...’ (N33).

‘Look at the huge number of ministers and other government appointees. The huge government expenditure is part of the reason we are in this financial crisis. The ministries and presidency should cut down the unnecessary expenditure before asking us to pay more taxes through MoMo’ (N12).

The prevalence of dormant accounts

The consequence of the ‘new possibilities for profit generation and governance’ (Jain & Gabor, 2020, p. 814) created by digital financialisation in Ghana is the prevalence of dormant transaction accounts. The good news about MoMo in the Global Findex Report is premised on the number of mobile money accounts which are taken to be indicative of FI of the ‘unbanked.’ Such logic presumes that once people create accounts, they automatically use them. However, the data informing such claims show large numbers of inactive accounts. Data from the Bank of Ghana for the last 10 years (Figure 3) show significant variances between registered and active accounts. On average, more than half of registered accounts remain inactive. For instance, only 5 million of the 13 million registered accounts in 2015 were used by account holders. By the end of 2021, registered accounts stood at 48 million but subscribers actively used only 38% (about 18 million). What explains the huge number of dormant accounts? I offer two explanations: one, multiple account registrations. With a population of about 30 million citizens (Ghana Statistical Service, 2021), 48 million MoMo accounts imply some people are holding more than one MoMo account. Why do subscribers acquire several accounts? As indicated on the issues of debt and transaction costs, subscribers keep multiple

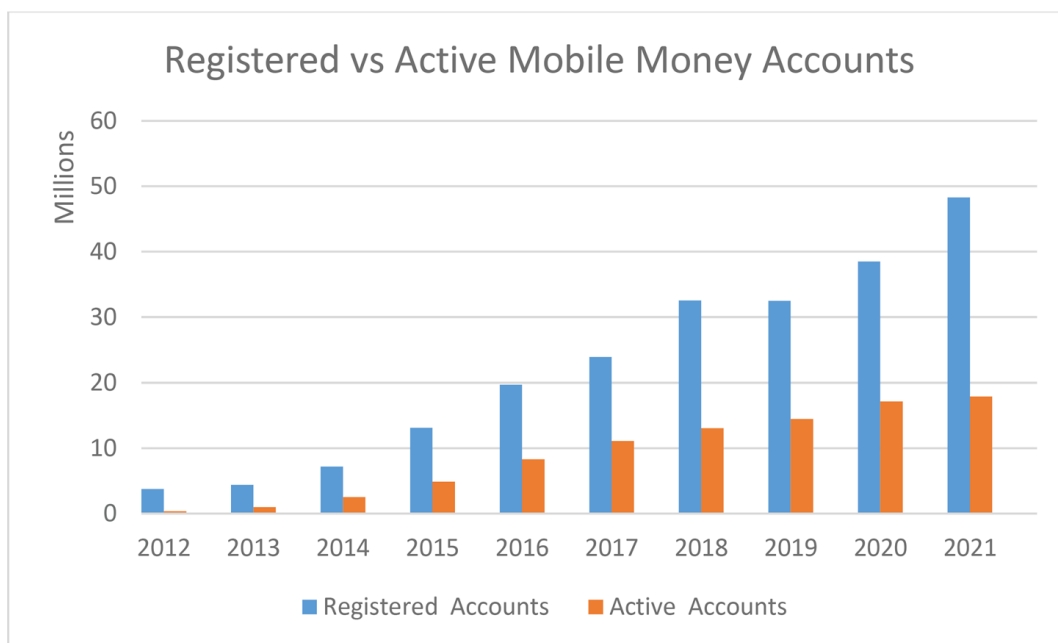


Figure 3. Registered vs active MM accounts in Ghana (2012–2022). Source: Bank of Ghana (2020, 2021, 2022).

accounts to navigate various challenges: some want to avoid interoperability fees; others want to forestall the potential of network breakdowns with one operator. Moreover, there are those whose aim is to juggle debt across MoMo operators or completely run away from a debt. The second plausible explanation for the dormant accounts is that subscribers have no money or do not regularly earn money:

'I will say I haven't used my account in the last three months. I am a mason and we don't get contracts that often. Sometimes you can get many jobs to build for people and they send you money through MoMo. But there are times you stay two, three or more months and no job comes' (N36).

The findings contradict fintech-led development

The evidence shown above regarding fintech players, financial institutions, and the Ghanaian government's ongoing coercive and exploitative creation of new financial subjects in the name of FI cast doubts on any optimism of a fintech-engineered development. The hype about the developmental value of FI obscures the real problems facing poor or low-income unbanked people. The pressing issue for people in Ghana or anywhere else is not so much how to send or receive money as it is about how, when, and where they will get the means (including money) necessary to afford a decent life. The claim of FI offering the unbanked better livelihoods through increased access to credit for social entrepreneurship is not consistent with the Ghanaian evidence. As demonstrated above, microloans are not sufficient to run any profitable business. Worse than that, the loans are given at exploitative interest rates. Suri and Jack (2016) also suggest that holding MoMo accounts means the poor can access financial support from their social networks. In the absence of decent jobs, those accounts in Ghana are predominantly not used. Besides, financial support is only possible, as Bateman et al. (2019) explain, if their networks are wealthy enough to be capable of offering handouts. With poor networks, a MoMo account cannot magically invite financial support. If even social networks send remittances, it has been shown that costly transaction fees and regressive taxes are eroding any finances sent through or received on digital platforms. The grand claims of FI success in the presence of widespread accounts of fintech exploitation shown in Ghana and earlier in Kenya should not come as any surprise. Reliance on modest economic gains to draw sweeping conclusions about development in Africa is not new. Not long ago, global development agencies and western mainstream media (in particular, *The Economist*, 2011) relied on 'superficial features' like GDP figures, widespread use of mobile phones, among others to propagate an optimistic narrative of 'Africa rising' (Taylor, 2016). It was later shown to be empty rhetoric (Obeng-Odoom, 2015) and rightly so because the euphoria was a sharp contrast to the realities on the ground (Akolgo, 2018). The present stage of optimism built around FI is no different.

Conclusion

In this article, I have analyzed the proliferation of mobile money services in Ghana within the broader development agenda of fintech-engineered financial inclusion. Like the wider critical literature on financial inclusion, the point is not to argue that providing technologies that facilitate convenient and speedy transactions is

inherently bad. Far from renouncing technology, the attempt has been to analyze the political-economic logic underpinning the turn to technology for financial inclusion. In Ghana, fintech has improved the ease and speed of financial transactions. However, the profit motive informing its creation has exposed subscribers to debt and exorbitant transaction costs. These are worsened by the Ghanaian government's introduction of a 1.5% electronic levy, a regressive tax as it disproportionately burdens the poor. These outcomes are not accidental—the rollout of mobile money in Ghana should be viewed as part of global processes of digital finance capitalism intended to sustain, open new frontiers for, and intensify capitalist accumulation in the global South. Capitalism's long history has been characterized by its 'unlimited flexibility' and 'capacity for change and adaptation' (Braudel, 1982, cited in Arrighi, 2010, p. 4). The turn to technology, pacified with claims of inclusion, is just one way capitalism is adapting to make 'informal labor visible, decode wealth, and accumulate for the sake of accumulation' (Boamah & Murshid, 2019, p. 254). Looking forward in Ghana and beyond, it is crucial for IPE scholarship on fintech to consider the macro-level implications of digital financial inclusion for the longstanding financial subordination of African economies. As foreign fintechs with shareholders located in the global North expand, the foreign control of the African financial system (as earlier posited by (Nkrumah, 1965) and recently affirmed in (Alami et al., 2022) gets entrenched. Therefore, macro-level analyses of how fintech contributes to foreign control of the domestic financial sector will provide a broader understanding of the financial inclusion agenda. In this regard, Jain and Gabor's conceptualization of digital financialisation lends itself as an important theoretical framework. It offers a comprehensive approach to explaining finance capitalism in the global South, accounting for the roles of digital technologies, global actors and domestic governments.

Notes

1. In Ghana, MoMo is a term used by MTN Ghana but which is now used loosely to refer to all mobile money services.
2. The World Bank, Bill and Melinda Gates Foundation, Alliance for Financial Inclusion, the G20.
3. Adults who have no access to formal banking services.
4. See footnote 1.
5. The Unemployed Graduates Association of Ghana was formed in 2011 as a response to the growing numbers of jobless university graduates.

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Notes on contributor

Isaac Abotebuno Akolgo is a Research Associate in the Monetary and Economic Sovereignty research group at the Africa Multiple Cluster of Excellence, University of Bayreuth. As a heterodox economist, he currently researches the Political Economy of Money and Finance in Ghana, with a focus on banks, financial technologies, and debt.

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Appendix 1 – Interviews

Code	Interviewee Description		Region	Date
	Sex (Male=M, Female=F)	Category (Subscriber ¹ /Agent ²)		
N1	M	Subscriber	Accra	15/02/2022
N2	F	Subscriber	Accra	15/02/2022
N3	F	Agent	Accra	16/02/2022
N4	M	Subscriber	Accra	16/02/2022
N5	M	Agent	Accra	17/02/2022
N6	F	Subscriber	Accra	17/02/2022
N7	M	Subscriber	Accra	18/02/2022
N8	F	Subscriber	Accra	19/02/2022
N9	F	Subscriber	Eastern	21/02/2022
N10	F	Subscriber	Eastern	21/02/2022
N11	M	Subscriber	Eastern	22/02/2022
N12	M	Subscriber	Eastern	22/02/2022
N13	M	Agent	Eastern	22/02/2022
N14	F	Agent	Central	24/02/2022
N15	F	Subscriber	Central	25/02/2022
N16	F	Subscriber	Central	25/02/2022
N17	M	Subscriber	Central	27/02/2022
N18	M	Subscriber	Central	28/02/2022
N19	F	Agent	Ashanti	03/03/2022
N20	M	Subscriber	Ashanti	04/03/2022
N21	M	Agent	Ashanti	04/03/2022
N22	M	Subscriber	Ashanti	07/03/2022
N23	F	Subscriber	Ashanti	07/03/2022
N24	F	Subscriber	Ashanti	10/03/2022
N25	M	Subscriber	Ashanti	10/03/2022
N26	M	Agent	Volta	13/03/2022
N27	M	Subscriber	Volta	13/03/2022
N28	F	Subscriber	Volta	15/03/2022
N29	F	Subscriber	Volta	16/03/2022
N30	M	Subscriber	Volta	16/03/2022
N31	M	Subscriber	Volta	18/03/2022
N32	M	Subscriber	Northern	08/04/2022
N33	M	Agent	Northern	08/04/2022
N34	F	Subscriber	Northern	13/04/2022
N35	F	Subscriber	Northern	14/04/2022
N36	M	Subscriber	Northern	17/04/2022
N37	F	Subscriber	Upper East	18/04/2022

¹ **Subscribers** refer to individual mobile money account holders.

² **Agents** are persons or businesses contracted by mobile money operators to facilitate transactions for mobile money subscribers. Their job often entail cash-in and cash-out transactions and they receive a commission on each transaction carried out for the mobile money operator.

N38	M	Subscriber	Upper East	20/04/2022
N39	F	Agent	Upper East	23/04/2022
N40	M	Subscriber	Upper East	25/04/2022
N41	M	Agent	Upper East	25/04/2022
N42	M	Subscriber	Upper East	28/04/2022

Appendix 2: Vodafone Ghana

Vodafone Ghana, a successor to Ghana Telecom, is a telecommunication, media and technologies company. In 2008, global tech giant, Vodafone Group, acquired 70% stake in Ghana Telecom leaving the government of Ghana with a minority stake of 30%. At the end of June 2022, Vodafone had about 7.3million mobile subscribers, representing about 18% of total subscriptions. In June 2011, Vodafone Ghana received \$115million financing from the World Bank Group's International Finance Corporation (IFC). The purpose of financing, as the IFC stated, was to help Vodafone Ghana improve its telecommunication network and spread the benefits of mobile phone and broadband services in Ghana, particularly rural communities. The IFC mobilised the \$115million loan from multiple source: the import-export Bank of China, the China Development Bank, DEG (from Germany), Barclays Bank, Ecobank, Rand Merchant Bank and Standard Bank. Earlier in 2010, the IFC lent \$100million, from its own account, to Vodafone Ghana. Vodafone Group, the majority shareholder of Vodafone Ghana, has investors as diverse and global as its operations. In its 2022 Annual Report, Vodafone Group reported, among others, major shareholders including: J.P Morgan, BlackRock Inc., Norges Bank, The Emirates Telecommunication Group Company (Etisalat), Morgan Stanley.

Sources: Vodafone Group (2022); IFC (2011); Marketscreener (2022); NCA (2022)

Appendix 3: MTN Ghana

MTN Ghana traces its history to 1994 with the establishment of Scancom Limited. It started operations as Spacefon in 1996, rebranded as Areeba in 2006 and MTN Ghana in 2007 by its owners – the MTN Group. MTN Ghana holds the largest share of the Ghanaian telecom market with almost 26million subscribers, about 63% of total market share at the end of June 2022. MTN Ghana is 85.4% owned by the MTN Group. Others such as Conrad N. Hilton Foundation, Vanderbilt University Foundation, The Rock Creek Group LP; Russell Investment Management LLC (all from the US) and Eastspring Investments (Singapore) hold minority shares in MTN Ghana. Who then are the investors behind MTN Group's 85.4% shareholding? MTN Group, headquartered in South Africa, has investors including: US-based Capital Research & Management Co. and Dimensional Fund Advisors LP; Norges Bank (Norway); M & G Investment Managers Ltd (UK & South Africa) and Old Mutual Investment Group Ltd. MTN Ghana was the first to introduce mobile money in Ghana in 2009.

Sources: MTN Ghana (2022); Marketscreener (2022); NCA (2022).

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Banking and Monetary Policy in Ghana: Has Finance Served the Real Economy?

Isaac Abotebuno Akolgo 

Africa Multiple Cluster of Excellence, University of Bayreuth, Bayreuth, Germany

ABSTRACT

The post-COVID debt crisis in Ghana and across several African countries has reignited debates about development financing. The literature on Ghana in particular has shown that its financial distress is not only rooted in external constraints, but also the structural dysfunction in its domestic economy. This paper focuses on one area of the structural dysfunction in Ghana's economy – namely the financial system. Relying predominantly on central bank data, the paper contends that operations of commercial banks and the conduct of monetary policy have failed to support the real productive sectors of the economy. Specifically, bank credit to the agricultural and manufacturing sectors has persistently declined in the 25 years from 1999 to 2023. This pattern of credit repression to the domestic productive sector is aggravated by the high interest rates from the central bank's inflation-targeting regime. The paper recommends a reform of financial policy – among others, the institution of credit policies and a reorganisation of development banking.

KEYWORDS: Ghana, central banking, development finance, credit policy, monetary policy

1. Introduction

The litmus test of financial policy for developing countries is its contribution to the mobilisation of resources and their efficient or optimal allocation...
(Thandika Mkandawire, 1999, p. 327)

The initial chaos and media attention that followed Ghana's 2022–2023 debt crisis appears to have receded. The severity of the economic hardships Ghanaians have faced since the crisis broke out, and the debates about what caused the new cycle of indebtedness are well documented (Akolgo, 2023). The election of President John Dramani Mahama in December 2024 and his subsequent assumption of office in January 2025 has so far restored a certain level of hope among the majority of Ghanaians who voted overwhelmingly for him to stabilise and transform the economy. There are already early signs of an economic recovery. For instance, from April to May 2025, the Ghanaian Cedi appreciated about 16% against United States Dollar

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(Bloomberg, 2025) and that translated into cost reductions, notably the nationwide reduction of transportation fares by 15% (Myjoyonline, 2025). The overall macro-financial distress itself is far from over as government's policy space remains constrained, and citizens struggle to cope with the austerity measures imposed by the IMF-supported economic recovery programme—at least until 2026¹. Nevertheless, the initial sense of national despair that attended Ghana's 2022–2023 debt crisis has retreated, and it is now time to refocus research attention on the structural and systemic constraints to development financing in Ghana. One place to start this kind of inquiry is the domestic financial system. Assessing the nature and operations of the Ghanaian financial system is not only crucial to explaining the persistent crisis of development finance but also necessary to identifying potential pathways to creating substantial, sustainable, and socially inclusive prosperity for Ghanaians.

There is a long tradition of economic theory and evidence rooted in the foundational Schumpeterian theorisation (Schumpeter, 1939, 1934) that links finance with economic development. Entrepreneurial innovation, Waters (1988, p. 123) suggests, “constitutes creative economic activity and brings forth substantial differences in society.” Waters was quick to add, following Schumpeter, that such economic transformation is only possible with a sufficient supply of finance flowing from a well-functioning financial system. Since the 1980s financial liberalisation reforms, the finance-development nexus is, however, no longer straightforward. There is evidence that financial development may not be necessarily associated with economic growth (Ibrahim & Alagidede, 2018) or poverty reduction (Bolarinwa, et al., 2022). The key to reasserting the Schumpeterian thesis is to distinguish between finance that supports productive economic activity in the real sector from finance that is unproductive and speculative (Bezemer, 2014; Bezemer et al., 2023).

Therefore, the purpose of this paper is to analyse the extent to which the Ghanaian financial system has served the real productive economy. I argue that in Ghana, money and finance have not aligned with the interest of the real productive sector, evidenced in two ways: first, the operations of commercial banks² and second, the conduct of monetary policy. In the first instance, commercial banks have not only failed to advance sufficient credit to the domestic private sector in general as has often been the case,³ but have misallocated the available credit to ‘non-productive’⁴ sectors of the economy. Specifically, as will be shown in the empirical section of this paper, financial credit to agricultural and manufacturing sectors has been in decline from 1999 to 2023. On the contrary, a greater share of private sector credit has gone into commerce and finance—that is, to other financial institutions, import trade, and mortgage financing. While this private sector credit repression⁵ and misallocation persists, banks are increasingly investing in government

¹Ghana's \$3billion dollar extended credit facility from the IMF since May 2023 is for the duration of 36months (3 years). Which means it runs until 2026.

²Commercial banks here refer to all Deposit Money Banks (DMBs) and does not include non-bank financial institutions.

³See, for instance, the accounts of Akolgo (2022) on Ghana and Quist (2022) on Cote d'Ivoire.

⁴The theoretical distinction between ‘productive’ and ‘non-productive’ activity or credit is set out in Section 2.1 below and is also explained in Supplementary Appendix 5 regarding the Bank of Ghana categorisation of the sectoral distribution of private sector credit.

⁵In this context, credit repression, a terminology also recently used by Koddenbrock and Sylla (2019), denotes the failure of the domestic financial system to allocate significant credit to domestic private sector businesses. Unlike the financial repression terminology which is used within neoclassical eco-

securities in pursuit of higher returns as shown by the distribution of banks' investments in section three of this article. In the second instance, the Bank of Ghana (BoG), since 2007, continues to pursue an inflation-targeting monetary policy regime. The aim, as the central bank sets out, is to maintain stable prices, and yet prices have hardly been stable. Between 2007 and 2023, the average inflation rate was about 15%, rising from about 12.7% in 2007 to 54.1% at the end of 2022⁶. Based on its inflation-targeting policy, the BoG's response to these high inflation levels has been regular increases in the Monetary Policy Rate (MPR). However, hiking the MPR has not only failed to control inflation; it has pushed up commercial banks' lending rates and thus, imposed higher borrowing costs on the private sector.

By focusing on the extent to which the financial system supports the real sector in Ghana, this article responds to longstanding and contemporary policy and academic debates about the financial constraints to economic transformation in Africa. Critical analysis of finance and development in Africa, while longstanding and extensive, nevertheless leave a gap—that of a seemingly absent comprehensive and empirical analysis of credit to productive and non-productive sectors of the economy. For instance, in his seminal work, Mkandawire (1999) offered the most thorough critique of financial liberalisation in Africa, which he blamed for having frustrated economic transformation in Africa. Mkandawire's analysis relied on aggregate figures on private sector credit, gross domestic savings, and gross domestic investment, which he argued, had failed to positively respond to the reliance on interest rates during the 1990s financial policy reforms. He, however, offered no evidence on the sectoral flow of bank credit. Nissanke (2001) on the other hand analysed the performance of formal and informal financial systems in sub-Saharan Africa, demonstrating that the financial sector had failed to support 'private investment, enterprise growth and transformation' (Nissanke, 2001, 343). Like Mkandawire, Nissanke relied on gross domestic savings, gross domestic investment and private investment (as shares of Gross Domestic Product). Even recent scholarship that highlight the value of productive lending (such as Koddenbrock et al., 2022), nevertheless fall short of an empirical analysis of the allocation of bank credit to productive and non-productive sectors in the African context. Similarly, Bolarinwa et al. (2022) showed empirically, that while overall financial development may not predict lower levels of poverty, the private credit component of financial development does. They, however, did not provide a sectoral analysis of this private sector credit. Within the context of this rich and yet non-exhaustive literature, this paper is a modest contribution that offers evidence on the sectoral misallocation of bank credit in Ghana.

Similar to the broader literature, accounts of the financial sector's failure to create or allocate sufficient and affordable credit for the real productive economy are not new in Ghana.

conomic theorisation to denote government financial policies that are considered as distortive to the financial system, crowd out private investment, and thus hinder economic growth, credit repression is used here to suggest that the low availability of credit to the private sector or some sectors could either be the result of banks' credit discrimination policies, the organisation of the banking system (especially if it is foreign-dominated and thus extroverted), and/or the poor conduct of central bank monetary policies.

⁶Headline inflation trend shown by the Bank of Ghana <https://www.bog.gov.gh/economic-data/time-series/>.

There is for instance, an extensive literature on small and medium-scale enterprises' (SMEs') inability to access credit from the Ghanaian banking system. In their empirical study of the challenges to financing SMEs in West Africa, Quartey et al. (2017) blamed Ghanaian SMEs' difficulties in accessing loans on their small sizes and the informal nature of their businesses. Consequently, the authors recommend that SMEs formalise their businesses and or '...join Business Associations and seek group credit schemes' (p. 26). Similarly, Abor and Biekpe (2007, p. 100) found that SMEs' ability to access bank credit is dependent on their possession of high value 'tangible fixed assets' collateral, as well as the size and age of the firm. For Abor and Biekpe, the information asymmetry that constraints banks' assessment of SMEs collateral can be mediated by the businesses 'keeping proper and accurate records of firm operations' and the banks developing 'alternatives to property as collateral to secure loans' (p. 100). Earlier, Aryeetey (1998) underscored the failure of the formal banking system in Ghana and across other parts of Africa to deliver sufficient credit for private sector development. Drawing largely on the experiences of Ghana, Aryeetey argued for the integration and deployment of informal and semi-formal financial institutions and practices to aid the formal banking sector in addressing the funding needs of the private sector.

A common theme that runs through these separate studies is an emphasis on the challenges private sector businesses face in securing loans from banks. These studies appear to make an implicit assumption that credit to the private sector is predominantly constrained by banks' inability to effectively assess creditworthiness. Institutional arrangements such as the ownership of the banks, their loan granting practices, the regulatory framework of the banking sector and the influence of monetary policy, have received less attention in these studies. Moreover, there is an apparent absence of a systematic analysis of the sectoral allocation of domestic credit to the private sector. While it is important to know the level of bank lending to the private sector, it is even more crucial to identify the sectoral distribution of such credit. As such, this paper's contention is that the existing literature on finance and development in Ghana can be strengthened by highlighting and providing evidence of the financial system's repression of credit to the productive sector in Ghana.

The rest of this paper is structured as follows. [Section 2](#) is a discussion of the theoretical and empirical literature on credit, monetary policy and economic development. Its purpose is to establish the causal link between finance (also financial policy) and economic development. It conceptualises credit as central to economic transformation and distinguishes between credit allocation to productive and non-productive sectors based on the foundational Schumpeterian theorisation. Additionally, this section shows the role of central bank monetary policy in the direction of bank credit and, thereby, highlights the essential mix of financial policies that can direct credit in support of transformative economic growth. In [Section 3](#), I analyse the sectoral distribution of credit, monetary policy rates, and inflation, demonstrating how these influence the credit necessary for the growth of the real productive economy. I show in particular that the agricultural and manufacturing sectors have received declining shares of bank credit in the last 25 years. [Section 4](#) is conclusion and policy implications. It summarises and concludes the paper's arguments and discusses the policy options necessary to redirect and increase credit to finance real productive private sector investments.

2. Credit, Monetary Policy, and Economic Development

As set out in the introduction, this paper is primarily concerned with the extent to which Ghana's financial system and policy has supported a substantial flow of credit to the real sector. It is therefore important to establish the theoretical case linking the key concepts employed here—namely credit, monetary policy and economic development. Two questions are particularly pertinent in this regard: first, what is the role of financial credit in economic development? Two, should governments in developing countries (through central bank policies), influence the volume and direction of credit to certain sectors of the economy?

2.1. Credit and Economic Development

The theoretical case linking credit and development dates back to Joseph Schumpeter's foundational works: *Theory of Economic Development* (Schumpeter, 1934) and *Business Cycle* (Schumpeter, 1939). Schumpeter posited that credit is essential to the entrepreneurial innovation that propels economic development in a capitalist economy. He observed, as Bezemer (2014, p. 937) recounts that: 'the new combination of means of production and credit are the fundamental phenomena of economic development' and that the credit system 'is the characteristic method of the capitalist type of society...for forcing the economic system into new channels, for putting its means at the service of new ends... it is as clear *a priori* as it is established historically that credit is primarily necessary to new combinations [i.e. innovation]...' (Schumpeter, 1934, pp. 69–70, 74). King and Levine (1993) affirmed this conceptualisation of the causal link between credit and development. In a cross-country study of 80 countries for the period 1960–1989, King and Levine found that financial development is '...strongly associated with real per capita GDP growth, the rate of physical capital accumulation, and improvements in the efficiency with which economies employ physical capital' and reluctantly affirmed that 'Schumpeter might have been right about the importance of finance for economic development' (King & Levine, 1993, p. 717, 735). The explosion of publications that followed King and Levine's seminal paper could be summarised into two sets of contributions: those who have asserted the positive correlation between finance and development (Levine 1997 for an extensive review), and those, especially since the 2008 financial crisis, who demonstrate that some levels of credit or financial deepening could have adverse effects on economic growth (Beck et al., 2012).

At the center of these mixed results is the analytic confusion generated by a failure to delineate between credit generated by the financial system to finance productive activity and other forms of credit. The conceptual distinction between 'productive' and 'unproductive' credit received an earlier intervention from Werner (1997), and was subsequently, thoroughly discussed by Bezemer (2014) who drew extensively from a holistic interpretation of the Schumpeterian theorisation. Schumpeter, Bezemer clarifies, distinguished between two kinds of credit in the economy: a primary wave of credit (productive credit) and a secondary wave of credit (unproductive credit). Productive credit refers to finance '...which plays a role in the entrepreneurial innovation process which he [Schumpeter] viewed as the motive force of capitalist development...precisely for this reason, distinguishing it from unproductive credit was

important' (Bezemer, 2014, p. 937). In contrast, unproductive credit generated in the secondary wave (usually larger than that generated in the primary wave), finances speculative activities, household consumption, and mortgages.

Most of the macroeconomic literature, Bezemer observed, has erroneously focused on the aggregate flow of credit from the financial system, usually measured by credit-to-GDP ratios, which are taken as indication of financial deepening. Since the credit/GDP ratio does not disaggregate productive credit from unproductive credit, it increases the probability of financial deepening exhibiting a negative relationship with economic growth and thereby suggesting a relationship contrary to the Schumpeterian theorisation of a positive relationship between credit and economic development. Once credit is disaggregated, it becomes clear that credit that finances productive businesses enhances growth while unproductive credit does not. The key lesson from the literature is to think not so much about the volume of credit but where the credit goes. In other words, the crucial concern should not be whether and how much banks lend to the private sector but instead a question of what purpose and to whom they lend. If bank lending fails to support innovation, product creation, or value addition (specifically agriculture and manufacturing) as I argue for the case of Ghana, then the credit generated by the financial system is unproductive and suggests a dysfunction of finance.

2.2. Financial Policy and Credit Allocation to the Real Sector

The statement that governments in developing countries such as Ghana can, through central banks, institute policies to direct credit is hardly in dispute. Rather, the debate is often that of whether they should, and how they should go about it. The vast theoretical and empirical literature on this issue can be summarised within two broad spectrums. On the one hand, there are those within neoclassical circles, specifically financial liberalisation advocates (notably, Barro & Gordon, 1983; Rogoff, 1985; Kydland & Prescott, 1977; McKinnon, 1973; Shaw, 1973) who suggests non-interference from government but rather a reliance on the market force of interest rates to mediate the allocation of credit to borrowers. However, more than four decades of financial liberalisation has not only failed to produce tangible development outcomes but has also been associated with cycles of financial crises (Botta, 2018). On the other hand are those (such as Amsden, 2001; Amsden & Euh, 1993; Arestis & Sawyer, 2006; Bezemer et al., 2023; Dow, 2017; Mkandawire, 2001, 1999; Wade, 1990; Werner, 1997) who suggest the institution of credit policies or a proper conduct of monetary policy by central banks, with the aim of directing bank credit into productive economic activity.

The analysis of the sectoral distribution of bank credit in this article follows the second, nuanced view that policy intervention is essential to organising finance in support of economic development. Werner (1997) for instance studied the lending patterns of Japanese banks, showing how speculative practices led to a decline in banks' loans for productive investment, and concluded:

The results imply for policy makers that it is imperative to monitor the allocation of credit and intervene, if credit creation for unproductive, especially speculative purposes takes place to a significant degree...Our findings suggest that central bank targeting of credit aggregates is likely to be more successful than traditional monetary or interest rate targeting (Werner, 1997, p. 305).

Similarly, Amsden (2001) as well as Amsden and Euh (1993) who extensively studied South Korea's financial system and the country's industrialisation success observed that South Korean policymakers (particularly the Ministry of Finance) did not follow the liberal financial reforms proposed by international finance institutions. The Korean financial system, Amsden and Euh noted, '...operates under the umbrella of an industrial policy, and economic goals have been attained by means of investments in institutions rather than by exclusive reliance on the price mechanism' (Amsden & Euh, 1993, p. 379). Korean authorities understood that the claim by financial liberalisation advocates that higher real interest rates will attract increased savings, which consequently drive investment and growth, was a fallacy. Instead, the Korean Ministry of Finance was guided by the fact that '... low interest rates are necessary to stimulate investment, while high interest rates are not as necessary to mobilise savings' (Amsden & Euh, 1993, p. 380). The implication of this realist view of the financial system is that the Korean government, as Amsden and Euh summarises, actively intervened to direct credit to productive ends:

The same point is illustrated by the method adopted by the Korean government to channel more credit to small- and medium-size firms. Instead of granting banks and other financial institutions *carte blanche* to decide to whom to lend (on the presumption that in the absence of heavy-handed government, small and medium size enterprises will get their fair share of credit), the government has taken the opposite tack. It has set minimum quotas on the amount of credit that financial institutions must allocate to such firms (Amsden & Euh, 1993, pp. 389–390).

More recently, Bezemer et al. (2023) have offered a comprehensive empirical account in support of the case for the institution of credit policies. In their study of 17 advanced economies covering the period 1973–2005, Bezemer et al. observed that prior to the 1980s Washington Consensus and the accompanying financial deregulation, governments and central bankers instituted both State Investment Banks and deliberate credit policies to '...support industrial policy, while repressing credit flows into less desirable areas, including household debt' (Bezemer et al. 2023, p. 462). However, these interventionist policies were abandoned following the deregulation, liberalisation and privatisation of the 1980s. As such, Bezemer et al. found that the rollback of credit controls, financial account controls and the privatisation of state banks that followed this neoliberal turn, led to a significant decline in the business share of total bank credit since the 1990s across the countries.

This developmental imperative of central banking was well understood in the first decade of Ghana's political independence. The BoG which was established days before the declaration of independence, was primarily charged with the issuance and redemption of notes and coins of the Ghana Pound, the maintenance of the country's reserves, maintenance of monetary stability and serving as banker and financial advisor to the government.⁷ However, shortly after independence in 1957, Kwame Nkrumah's government began to reconstruct the central bank so that its operations aligned with the national development agenda. Accordingly, the principal objectives of the BoG were expanded in the Bank of Ghana Act 1963 (Act 182). In addition to issuing and redeeming notes and coins, Section 3 required the bank to:

⁷Bank of Ghana Ordinance No. 34/1957 Section 5.

...to regulate and direct the credit and banking system in accordance with the economic policy of the Government...propose to the Government measures which are likely to have a favourable effect on the balance of payments, movement of prices, the state of public finances and the general development of the national economy...

This focus on what can be described as a developmentalist central banking was not sustained following the economic crisis of the 1980s. The financial liberalisation that began with 1980s/1990s structural adjustment program gradually eroded the central bank's responsibility of fostering the development of the national economy. Financial liberalisation during structural adjustment, Mkandawire (1999) recounted, excessively limited government involvement in the financial system, treating any intervention by policy makers as financially repressive following the McKinnon-Shaw thesis. Mkandawire observed that rather than 'addressing issues central to national development and nation-building' financial policy was directed at 'stabilisation and debt repayment' (Mkandawire, 1999, p. 321). Practically, the consequence of liberalisation is that 'economic policy has given overwhelming priority to financial policy instruments and objectives (exchange rates, interest rates) relative to concerns for the 'real' side variables and goals that directly affect employment and growth' (Mkandawire, 1999, p. 321). Particularly in Ghana, liberalisation resulted in the adoption of flexible exchange regimes, privatisation and sale or liquidation of state banks, and the eradication of capital controls (Akolgo, 2023; Hutchful, 2002, 1996) and the adoption of liberal international banking standards (Jones, 2020). Subsequently, independent central banking that prioritised monetary stability was formalised.⁸ Since 2007, this focus on monetary stability, achieved through an inflation-targeting monetary policy was entrenched as the non-negotiable objective of the BoG. What has been the consequence of this liberal approach to financial policy? The next section responds to this question and provides evidence on the implication for credit allocation and distribution.

3. Evidence of Dysfunction in Ghana's Financial System

As set out in the introduction, this paper's main argument has been that the operations of commercial banks and the conduct of monetary policy have not sufficiently aided investments in the real economy. This section provides empirical evidence in support of that claim. Specifically, it analyses the sectoral distribution of bank credit to the private sector, inflation rates, the BoG's policy rates, and average commercial bank lending rates. The analysis focuses mainly on the period 1999–2023, relying on the consistent data available in a series of reports from the BoG. Unlike indicators like the historical trends of inflation and BoG policy rates, there is no publicly available database on the sectoral distribution of bank credit. However, the data is reported in multiple Bank of Ghana reports. Specifically, data is drawn from the BoG annual financial statements and quarterly bulletins between 1999 and 2023. Detailed descriptions of the various reports from which data is compiled are indicated in [Supplementary Appendix 1](#). Percentages of the sectoral distribution of credit to the private sector are calculated using the absolute figures reported by the BoG. Where available, data on the years before 1999 are relied on to emphasise the shifts in credit allocations to

⁸Both the Bank of Ghana Act 2002 (Act 612) and the Bank of Ghana (Amendment) Act, 2016 (Act 918) set price stabilisation as the bank's primary objective.

various sectors of the economy. Data on the inflation and monetary policy rates are accessed from the BoG public database available on its official website.

[Supplementary Appendices 2–4](#) provide an overview of the macroeconomic context in Ghana. It is clear from the data provided by the Ghana Statistical Service that, Ghana has experienced a largely erratic growth trend since political independence in 1957. The substantial economic growth in the 60s and early 70s, driven by the import substitution industrialisation, was interrupted in the mid-1970s as growth declined to its worst of negative 12.4%. A brief recovery in 1978 soon descended into a crisis in the 1980s. Growth was relatively stable in the early 2000s. With the commencement of oil production in 2011, Ghana posted a record growth of 14%. The post-Covid crisis has however driven down growth to about 2.9% in 2023. There is also the issue of unemployment which rose to about 14.7% in 2023 from about 8.4% in 2017. This was indicative of the deteriorating economic conditions that accompanied the 2022–2023 debt crisis. Details of these macroeconomic conditions including inflation, are indicated in the various charts in [Supplementary Appendices 2–4](#). The analysis of credit allocation from the banking sector, which is the main of focus of this article proceeds in two subsections focusing on commercial banks' operations and central banking.

3.1. Bank Operations – Domestic Credit to the Private Sector/Sectoral Distribution of Credit

Before discussing its sectoral distribution, it is important to point out the general low levels of domestic credit to the private sector as a percentage of Gross Domestic Product (GDP). This was already highlighted in Akolgo (2022) where I showed the trend of credit allocation in Ghana relative to that of the sub-Saharan African

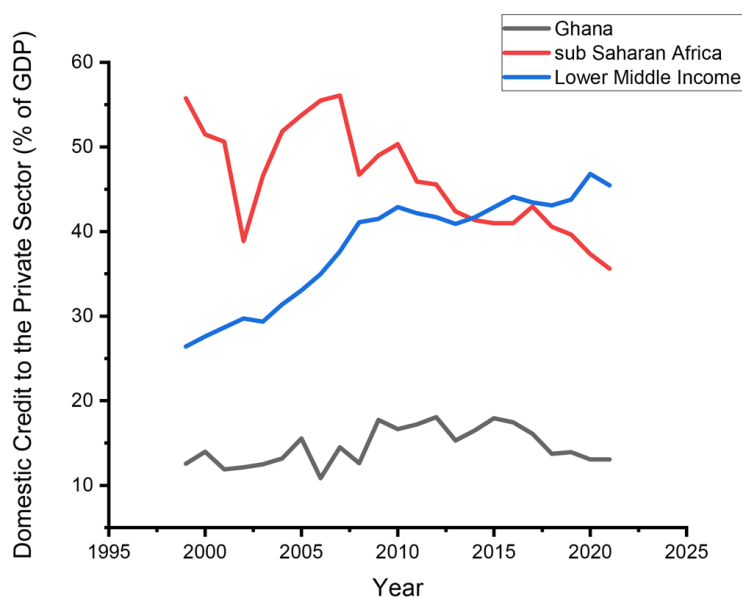


Figure 1. Domestic credit to the private sector (1999–2023). *Source:* Author drawings from World Bank Development Indicators <https://databank.worldbank.org/reports.aspx?source=2&series=FS.AST.PRVT.GD.ZS&country=GHA>

average which excludes high income countries. In this instance, an additional comparative trend for lower middle-income countries is included as shown in Figure 1. This trend is included to account for the fact that since 2010 Ghana has been classified as a lower middle-income country. The data from Figure 1 shows that Ghanaian banks allocated less credit to the domestic private sector as compared to both the continental average, and that of lower middle-income countries. At least, between 1999 and 2021, the domestic credit to the private sector averaged about 14.6% of GDP, more than two times less than that of the sub-Saharan African and lower middle-income averages of about 46 and 38.3% respectively. More than this general level of credit repression, the sectoral shares of bank credit to the private is a main concern in this paper. Three trends can be observed from the patterns of banks' credit to the private sector in Ghana.

3.1.1. Declines in Agriculture and Manufacturing Shares of Credit

Agricultural and manufacturing shares of domestic credit to the private sector have declined consistently over the period under consideration as shown in the negative slope of the trend lines of manufacturing (Figure 2) and agriculture (Figure 3) as well as the data in Table 1. Between 1999 and 2023 the manufacturing share of bank loans declined by about 54.2% from 24.9% of GDP to 11.4% of GDP. The agricultural sector saw an even sharper fall of about 65.2% in the same period from 11.8% of GDP to about 4.1% of GDP. What could have accounted for this credit repression to the manufacturing and agriculture sectors? Several factors played a role, but they all revolve around the evolution of financial and economic policy since the structural adjustment programs of the 80s and 90s. A few factors are worth noting.

First, the withdrawal of credit controls. Starting in Kwame Nkrumah's developmental agenda in the 1960s until 1982, Ghanaian financial policy mostly emphasised credit controls by the BoG so as to direct credit to agriculture and manufacturing.

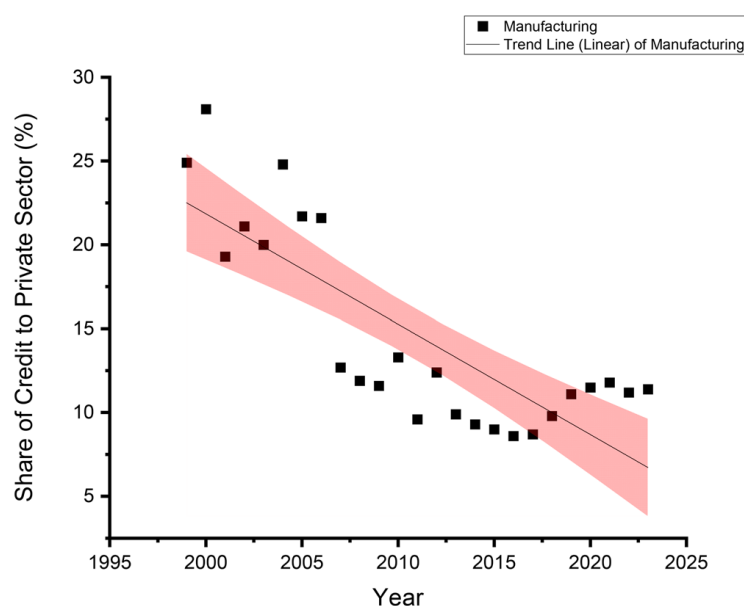


Figure 2. Manufacturing share of domestic credit to the private sector (1999–2023). *Source:* Author drawing from Bank of Ghana Data (Supplementary Appendix 1).

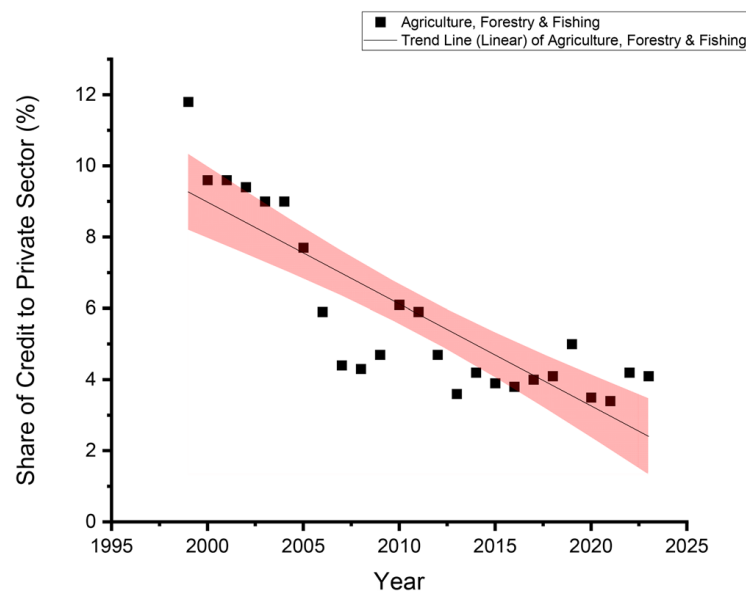


Figure 3. Agricultural share of domestic credit to the private sector (1999–2023). *Source:* Author Drawing from Bank of Ghana Data ([Supplementary Appendix 1](#)).

Credit controls first instituted by the BoG in 1964, Sowa (1991) recounted, were enforced through sectoral credit ceilings, interest rates, reserve requirements, and mandatory lending ratios for various sectors. For instance, banks were not allowed to lend outside agriculture and industry any amounts exceeding 5,000 Ghanaian Pounds without the approval of the BoG. By 1982, the BoG required that 20% of bank credit go to agriculture. As Sowa emphasises: ‘this system which has a developmental objective, is also intended as a credit rationing scheme to curb excessive expansion in the money supply’ (Sowa, 1991, p. 29). In the course of the economic recovery programme under structural adjustment, these policies of directed lending were gradually reduced and by the 1990s, were completely abolished. This is evident in the decline of agricultural credit during the adjustment period (Table 2). The 1982 BoG directive on agricultural lending raised credit to the sector from 16.2% in 1981 to about 21.6% in 1982 and further to 31.9% in 1984. However, as financial deregulation and liberalisation took root, the sector’s share of bank credit began to decrease consistently. By 1993 when Ghana returned to multiparty democracy, agriculture’s share of bank credit was in single digits.

Second, the structural shift from import substitution back to intensive primary commodity exports. Import substitution industrialisation in the 60s and 70s emphasised an elimination of imports that could be produced locally. The focus was on expansion of agriculture and manufacturing. Combined with the financial directives from the BoG, this industrialisation agenda directed finance to the productive sector. With the collapse of import substitution, and the growth of imports of commodities previously produced locally, bank lending shifted in favour of commerce and trade (mainly the wholesale and retail of imported commodities). Third, the deregulation and privatisation of the banking industry. Private, mostly foreign banks had little motivation to lend to agriculture and manufacturing. Agriculture in particular requires long-term loans, and its high risks mean chances of timely repayment are usually very low. Therefore, banks preferred to lend to retail trade. Besides, the empirical

Table 1. Sectoral distribution of domestic credit to the private sector (1999–2023).

Year	Agriculture, forestry & fishing	Export trade	Manufacturing	Transport, storage & communication	Mining & quarrying	Import trade	Construction	Commerce & finance	Electricity, gas & water	Services	Cocoa marketing	Miscellaneous
1999	11.8	3.1	24.9	2.7	5.8	4.5	8.9	15.7	4.2	9.3	1.2	8
2000	9.6	2.3	28.1	3.1	5.5	5.5	6.8	16.8	4.6	9.1	0.8	7.9
2001	9.6	2.4	19.3	3.5	4	3.6	6.8	28.4	4	9.4	0.8	8.2
2002	9.4	2.8	21.1	4	3.7	6.7	7.8	12.8	4.9	11.3	2.3	13.2
2003	9	3	20	5	3	7	5	18	4	11	3	12
2004	9	2.4	24.8	3.5	2.9	9.6	7.9	13.2	0.6	12.2		14
2005	7.7	2.1	21.7	2.6	4	8.6	6.7	14.7	1.7	16.6		13.7
2006	5.9	1.6	21.6	3.1	4.3	8.4	9.2	15.3	2.2	19.3		9.1
2007	4.4	1.7	12.7	3.9	3.2	4.9	7.6	25.2	3.3	22	1.1	10
2008	4.3	1.4	11.9	2.9	2.9	5.2	6.8	26.2	4	23.9	1	9.6
2009	4.7	1.7	11.6	4	2.7	5.3	7.8	24.1	6.3	21	0.7	10
2010	6.1	1.9	13.3	4	2.7	5.8	7.5	23.3	6.5	20.6	0.5	7.7
2011	5.9	1.3	9.6	4.4	4.6	10.1	8.6	15.6	5	26.2		8.8
2012	4.7	1.2	12.4	5.4	2.4	8.8	9.2	15.9	6	25.2		9
2013	3.6	0.9	9.9	4.6	3	10.3	10	16.4	8.1	25.3		7.8
2014	4.2	1.1	9.3	6	3.1	8.7	10.5	14.6	9.7	22.4		10.4
2015	3.9	0.6	9	4.5	2.2	8.2	10.5	16.4	12.6	22.4		9.7
2016	3.8	0.5	8.6	4.2	2.3	6.8	10.5	22.7	11.5	18.6		10.5
2017	4	0.9	8.7	6.5	3.2	5.5	11	21.2	8.6	18.4		12
2018	4.1	0.7	9.8	9.9	3.3	4.7	9.9	17	8.2	20.9	2	9.5
2019	5	0.8	11.1	7.6	3.1	3	10.2	18.9	5	24.5		10.8
2020	3.5	0.4	11.5	7.1	2.7	2.8	10.1	22.7	5.8	26.6		6.8
2021	3.4	0.4	11.8	6.9	1.7	3.6	10.5	15.5	4.1	34.9		7.3
2022	4.2	0.6	11.2	5.6	2.5	3.2	10.1	18.1	5.5	32.7		6.3
2023	4.1	0.4	11.4	5.5	3.7	7.3	9.4	14.8	3.7	33		6.6

Source: Author calculations based on data from Bank of Ghana reports (Supplementary Appendix 1).

Table 2. Agriculture, forestry and fishing share of commercial bank credit (1981–1993).

Year	Agriculture, forestry and fishing share of commercial bank credit (%)
1981	16.2
1982	21.6
1983	30.5
1984	31.9
1985	22.9
1986	17.9
1987	22.1
1988	16.6
1989	15.5
1990	15.8
1991	13.6
1992	11.1
1993	9.6

Source: Author calculations from Ghana statistical service's quarterly digest of statistics – 1989, 1990, 1995.

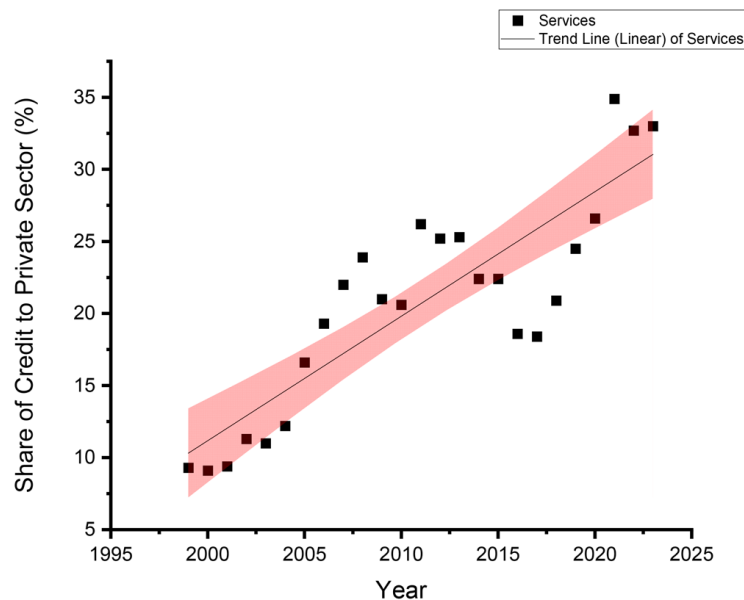


Figure 4. Services share of domestic credit to the private sector (1999–2023). Source: Author drawing from Bank of Ghana Data ([Supplementary Appendix 1](#)).

evidence on foreign banks in low-income countries is clear that they tend to lend less to domestic private sector businesses, especially small-scale and medium enterprises (SMEs). There are several reasons for this, including the mainstream account of information asymmetry between banks and predominantly informal SMEs (Quartey et al., 2017) or the critical accounts which suggest that these banks are more interested in increasing shareholder value through trading in government securities and repatriating profits, rather than encouraging local business development (Akolgo, 2022).

3.1.2. Larger share of Credit goes to Services, Commerce and Finance

Unlike agriculture and manufacturing, the service sector's share of total private sector credit has increased significantly since 1999 (see [Figure 4](#) and [Table 1](#)). Between

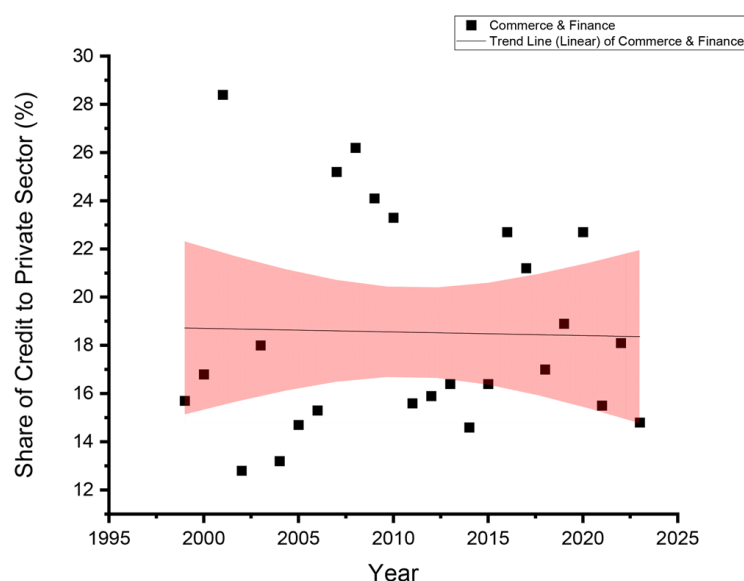


Figure 5. Commerce and finance share of domestic credit to the private sector (1999–2023). *Source:* Author drawing from Bank of Ghana Data ([Supplementary Appendix 1](#)).

1999 and 2023, its share of bank credit increased by more than 250% from 9.3 to 33% of total credit to the private sector. It is instructive to note that in 1999, agricultural share of credit was 2.5% higher than that of services. However, by the end of 2023, the service sector's share of total private sector credit was about eight times that of agriculture ([Table 1](#)). Commerce and finance's share of total credit ([Figure 5](#)) has not shown any clear trend in the 25 years from 1999 to 2023. It has, however, received a relatively large share of bank loan advances to private sector, far above all sectors except the service sector. In the 25-year period, the service sector received on average 20.7% of bank credit; 17.3%, went to commerce and finance; 14.6% was allocated to manufacturing; and agriculture received on average 5.8% of bank credit.

The question that emerges from this evidence of sectoral distribution of bank credit to the private sector is: why does it matter where credit goes? The answer to such a question ultimately revolves around the developmental imperative to expand the economy and provide high, inclusive and sustainable living standards for citizens in a low-income country such as Ghana. In all economies, but especially low-income countries, agricultural productivity is essential to meet food demand, create jobs, and produce raw materials that can support any industrialisation agenda. The manufacturing sector is similarly important to diversifying production and exports from the primary extractive or agricultural commodities, to finished goods that offer higher value domestically and when exported. Financing is central to productive agriculture and industrialisation. It is with this understanding that governments in the developmentalist period focused on channeling finance into these key sectors of the economy.

However, the effect of repressed credit to agriculture and manufacturing since the structural adjustment programs in the 1980s can have implications for the nature of economic growth. While this paper does not test the empirical link between sectoral distribution of credit and sector contributions to GDP, it is important to note that consistent with the agricultural sector's declining share of credit, its contribution to GDP has similarly been in decline ([Figure 6](#)). Other factors may be contributing to

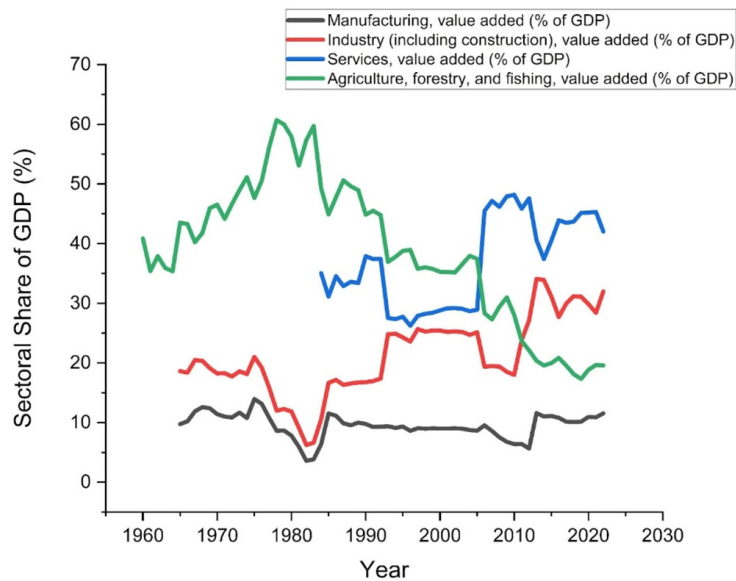


Figure 6. Sectoral distribution of GDP (1960–2023). *Source:* Author drawing World Bank Development Indicators Data <https://databank.worldbank.org/reports.aspx?source=2&series=NV.AGR.TOTL.ZS&country=GHA>.

the sector's diminishing share of GDP. However, financing for agricultural investment can hardly be dismissed. If one considers the classic view of the path to structural transformation, namely a transition from agricultural dominance to manufacturing and services, *Figure 6* would, mistakenly, be evidence of significant structural change in Ghana's economy. However, the declining agricultural share of GDP as well as the disproportionately large service sector in most African countries is more of a structural dysfunction and less an indicator of structural change. For instance, a large part of the growth of financial, communication, and transportation services are rather the result of industrial expansion from industrialised, high-income countries rather than an expansive knowledge economy in Ghana. Good examples include telecom companies like Vodafone, MTN, Airtel; transportation services from Uber and Bolt; and the numerous foreign financial institutions that dominate the Ghanaian banking sector. That most African countries have a disproportionate service sector which is not necessarily a result of a knowledge intensive economy is not a new phenomenon. In the early 2000s for instance, Ajakaiye et al. (2007) observed this structural weakness occasioned by declines in agriculture and manufacturing while service industries expanded across the continent. Behuria and Goodfellow (2019) have offered more comprehensive analysis of services-led development. Drawing on evidence from Rwanda, Behuria and Goodfellow sought to explain the extent which a reliance on services to achieve the developmental successes that are credited to the East Asian developmental states which relied on manufacturing for their socio-economic transformation. Central to the East Asian experience yet ignored in the literature, Behuria and Goodfellow noted, is that they successfully integrated labour into their development strategies. Accordingly, they contend that it is difficult to rely on services to attain similar patterns of growth and job creation because of the high levels of human capital that will be required. Practically, Behuria and Goodfellow acknowledge, affirming Rodrik (2016) that:

Although services such as IT and finance can in theory play the ‘escalator role that manufacturing has traditionally played,’ such services sectors are highly skill-intensive and cannot absorb the type of labour that exists in low- and middle-income countries (Behuria & Goodfellow, 2019, 586).

In the case of Ghana, it follows that the defunding of agriculture and manufacturing since 1980s and the consequent fall in their contribution to national output in relation to services is a worrying trend that has to be addressed. In the period under consideration, it has been shown that commerce and finance and what is grouped as services, receive a large share of bank credit. What is credit financing in those industries? According to the Bank of Ghana banking sector reports, the import trade sub-sector receives the larger share of credit categorised as commerce and finance (Bank of Ghana, 2006). Other categories include mortgage financing, cocoa marketing, and credit to other financial institutions. For instance, as at end of December 2006, import trade sub-sector received about 22.3% of credit in the Commerce and Finance sector. This was followed by the mortgaging financing subsector with 5.5% and the cocoa marketing subsector with 4.9% (Bank of Ghana, 2006, p. 24). Credit to other financial institutions is particularly speculative, with financial institutions ultimately reinvesting such credit into trading government securities. That constrains any serious attempt to break out of the historical commodity dependence. It also means decent jobs cannot be created in agriculture or industry as most Ghanaians are reduced to informal petty trading of foreign goods. This dysfunction of the financial system has implication for macro-finance. With declines in agricultural productivity, more foreign exchange is drained to import food commodities like rice which could have been produced locally. It is not surprising therefore that amid the 2022–2023 crisis, the Ghanaian government restricted access to foreign exchange for the importation of rice (Myjoyonline, 2022). However, as long as the financial system fails to provide substantial, affordable and patient financial credit to farmers, local production cannot suddenly increase to replace the rice imports.

3.1.3. Banks Invest More in Government Securities

Another noticeable trend in the banking sector is the shifting pattern of banks’ investments. While domestic credit to the private sector has remained low, and lending to agriculture and manufacturing has declined, banks have increased their investment in government securities. As shown in Figure 7, banks have significantly acquired government securities since 2010 and particularly in the four years prior to the 2022–2023 debt crisis. Between July 2010 and June 2021, banks’ investment in government securities rose by nearly 80% from about 40.2% of their total investment in 2010 to about 72.6% in 2021. Banks’ equity financing has been negligible (about 0.3% of total bank investment in 2021) as banks focused mainly on purchasing securities and treasury bills (which both accounted for about 99.7% of their investments in 2021). Banks and their customers on whose behalf they invest, find government securities as both safer and lucrative investments with interest on treasury bills in particular averaging above 30% in 2023. In the absence of a well-developed capital market, government has had to continuously rely on borrowing from the banking sector. Local Currency Bond Markets (LCBMs) could have been an alternative to borrowing from the banking sector. However, in most developing countries, domestic financial markets remain underdeveloped as Cingolani and Toporowski (2024) asserts. In particular, as Berensmann et al. (2015) noted, the

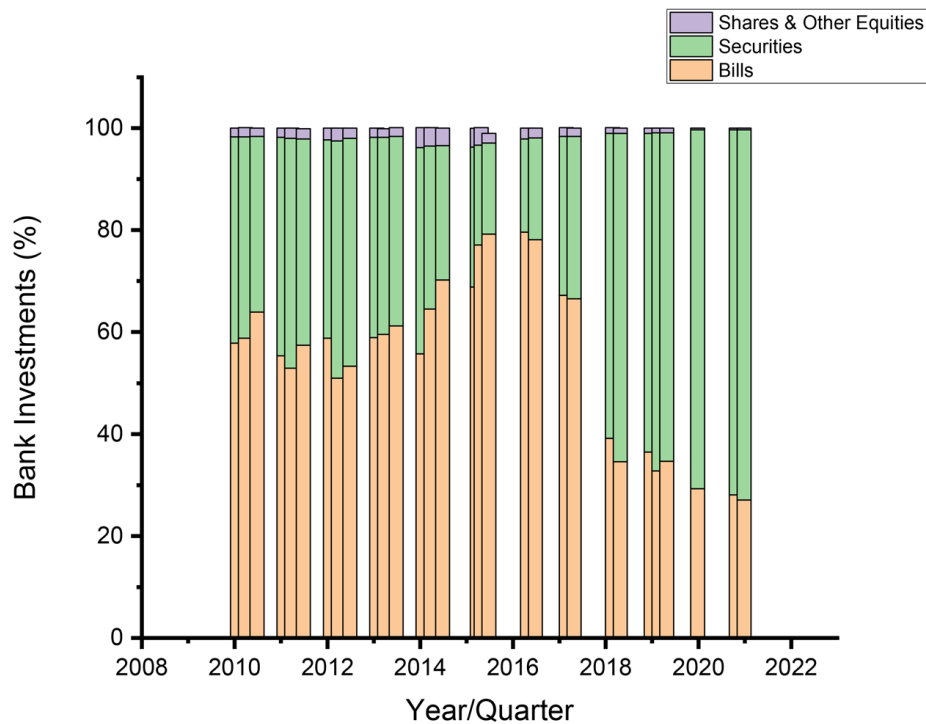


Figure 7. Composition of Banks' Investments (2010–2021). *Source:* Author drawing from Bank of Ghana data from annual banking sector reports.

underdeveloped capital markets across the continent mean LCBMs cannot function as significant source of private funding for governments. Even if LCBMs are to be relied on, it is important to note that because such bond markets are still dominated by domestic banks, the issuance of local currency bonds could negatively affect the volume of domestic private credit (Dafe et al., 2023). Nevertheless, the consequence of an excessive reliance on borrowing from banks is that banks have shown little interest in lending to SMEs given the investment profitability and safety that the Ghanaian government offers for its securities.

This pattern of shifting away from lending to the private sector to a predominant focus on government securities has not only repressed credit to the productive sector but has also exposed the banking sector to crisis associated with the government's sovereign distress. The fallout from the 2022–2023 debt crisis is a clear example. At the end of 2021, just before Ghana fell into its 2022–2023 crisis, more than 30% of domestic debt was held by banks (Akolgo, 2023). When the government entered default and asked for a \$3billion extended credit facility from IMF, it was asked to restructure its debt, starting with the domestic component. Consequently, as Akolgo (2023) recounted, government instituted a domestic debt exchange programme, delayed bond repayments, and since government securities occupied a large component of banks' balance sheets, they suffered significant impairment losses which Atuahene and Frimpong (2023) estimated to be about GHC37.7 billion. Ultimately, the initial dysfunctional system under which bank resources are diverted from supporting the real economy will be reinforced, as the government will devote more resources into what it called the Ghana Financial Stability Fund, which aims at preventing distressed banks from collapsing.

3.2. Central Banking

A second aspect of dysfunction in the Ghanaian financial system relates to central banking, particularly the conduct of monetary policy. Beginning in 2007, the BoG, an independent central bank, operates an inflation-targeting monetary policy. Its current inflation target is 8.0 ± 2 per cent. After each of its bi-monthly meetings, the Monetary Policy Committee (MPC) of the BoG decides whether to maintain, increase or decrease the MPR in response to inflation. Because the bank's inflation targeting draws on the theoretical assumption that higher inflation is demand driven and thus a monetary problem, it more often than not raises the policy rate in the hope of discouraging demand, attracting savings, and ultimately tackling inflation. However, even on its own terms, this monetary policy stance has failed to yield results, at least in the last two decades. For instance, the BoG responded to the inflation surge in 2020–2021 with hikes in the policy rate. First, from 13.5% in September 2021 to 14.5% in November 2021 and then a further increase by 250 basis points to 17%. The hikes continued with subsequent MPC meetings until November 2022 when there was another 250 basis points increment from 24.5% to 27% (Table 3 and Figure 8). However, raising interest rates did little to stop the growing inflation. On the contrary, inflation has been rising with policy rate hikes. For instance, from less than 13% in December 2021, inflation rose persistently, reaching as high as 54.1% at the end of 2022 (Figure 9).

It is understandable that monetary policy failed to halt inflation, and policy makers should have considered the reasons monetary policy failed. As a heavy import dependent economy, Ghana imports a lot of food. The fallout from the COVID crisis and later in 2022 when the Russia-Ukraine war disrupted supply chains and triggered higher energy prices, meant most of the inflation was imported. Domestically, a combination of higher production costs, weak transportation networks, and multiple indirect taxes compounded the high imported prices. Interest rates were

Table 3. Monetary policy decisions (2021–2023).

Meeting No.	MPC meeting dates	Effective date	BoG policy rate
98	January 26 – 29, 2021	01 Feb 2021	14.5
99	March 17 – 19, 2021	22 Mar 2021	14.5
100	May 26 – 28, 2021	31 May 2021	13.5
101	July 21 – 23, 2021	26 Jul 2021	13.5
102	September 22 – 24, 2021	27 Sep 2021	13.5
103	November 16 – 19, 2021	22 Nov 2021	14.5
104	January 25 – 28, 2022	31 Jan 2022	14.5
105	March 16 – 18, 2022	21 Mar 2022	17
106	May 18 – 20, 2022	23 May 2022	19
107	July 20 – 22, 2022	25 Jul 2022	19
107	August 17, 2022 (Emergency)	17 Aug 2022	22
108	September 20 – 23, 2022	06 Oct 2022	24.5
109	November 22 – 25, 2022	28 Nov 2022	27
110	January 22 – 25, 2023	30 Jan 2023	28
111	March 22 – 24, 2023	27 Mar 2023	29.5
112	May 17 – 19, 2023	22 May 2023	29.5
113	July 19 – 21, 2023	24 Jul 2023	30
114	September 19 – 22, 2023	25 Sep 2023	30
115	November 22 – 24, 2023	27 Nov 2023	30

Source: Bank of Ghana <https://www.bog.gov.gh/monetary-policy/>.

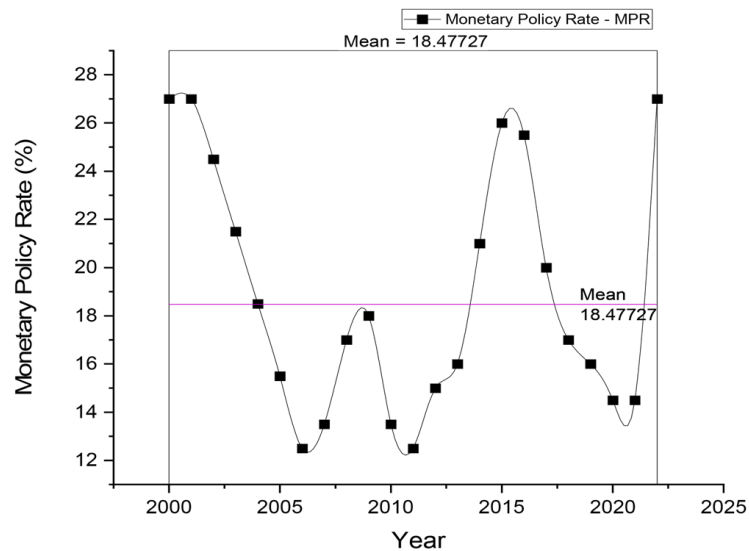


Figure 8. Monetary policy rates in Ghana (2000–2022). *Policy rates are those reported for the end of year in December.

Source: Author drawing from Bank of Ghana data <https://www.bog.gov.gh/economic-data/interest-rates/>.

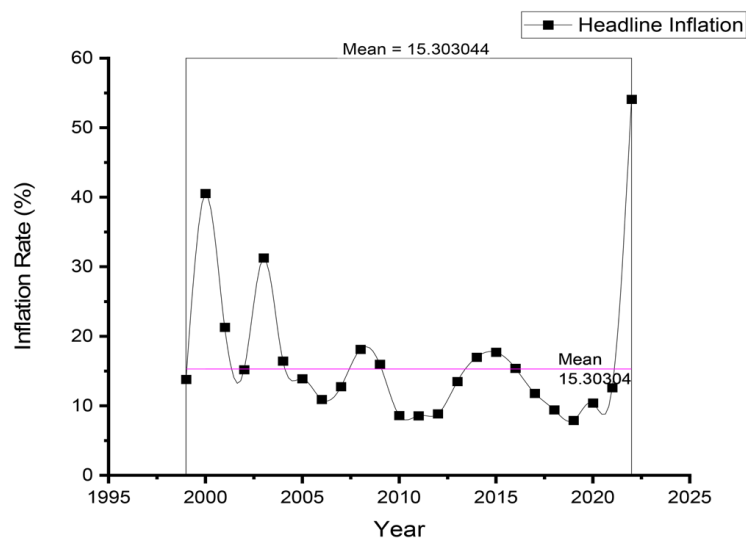


Figure 9. Headline inflation rate in Ghana (1999–2023). Source: Author drawing from Bank of Ghana data <https://www.bog.gov.gh/economic-data/time-series/>.

therefore an inappropriate tool for dealing with an inflation rate whose sources were largely structural and hardly a money supply problem.

Apart from failing to keep inflation within the target (which does not in any way, even if achieved, means consumers are paying less for products or services), policy rate increases contribute to the high average commercial bank lending rates as discussed in section two above. From Figure 10, it is evident that average commercial bank lending rates mirror those of the monetary policy rates in Figure 8. The decline in the MPR between 2000 and 2006 was accompanied by consistently decreasing commercial bank lending rates. Similarly, the policy rate hikes between 2021 and 2023 were followed by a more than 70% jump in lending between the same period

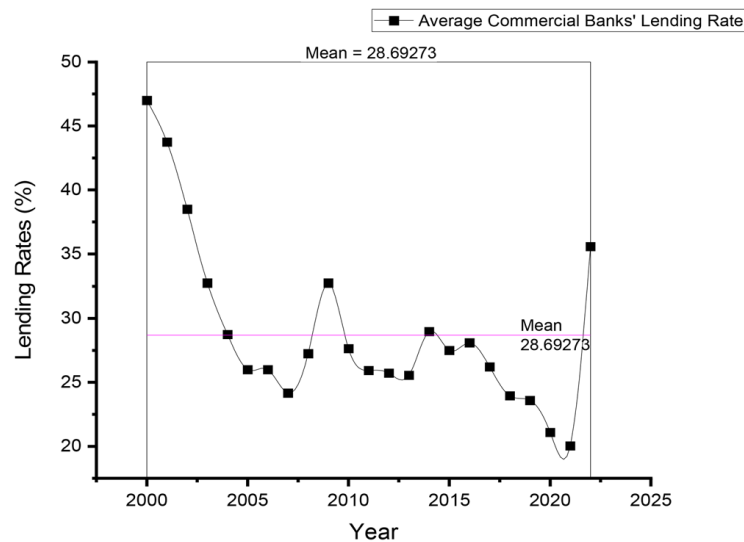


Figure 10. Commercial bank lending rates in Ghana (2000–2022). *Lending rates are those reported for the end of year in December.

Source: Author drawing from Bank of Ghana data <https://www.bog.gov.gh/economic-data/interest-rates/>.

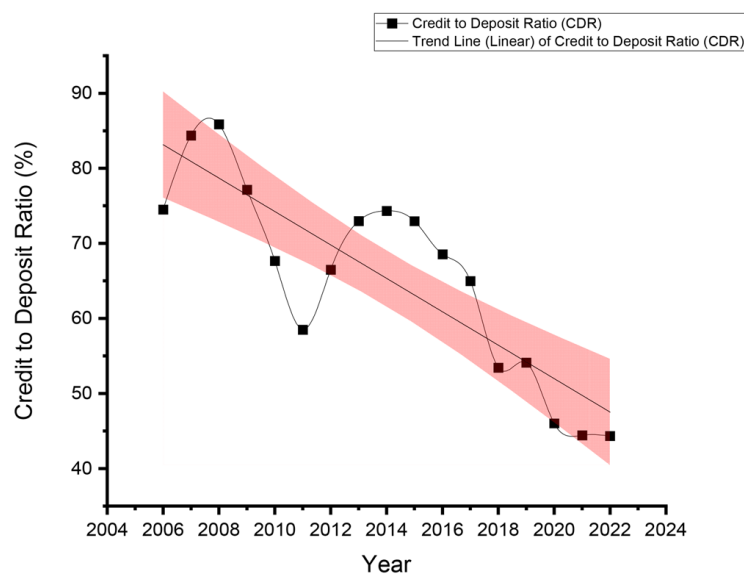


Figure 11. Credit to deposit ratio (2006–2023). Source: Author drawing from Bank of Ghana data <https://www.bog.gov.gh/economic-data/time-series/>.

(Figure 10). The MPR signals the cost of the central bank's overnight lending to commercial banks. Commercial banks, in turn, factor this cost into the interest rates charged on loans to businesses and households. Therefore, raising central bank interest rates potentially pushes up borrowing costs (Kwakye, 2010) and would ultimately impair business productivity and or increase the cost of products.

Even though it is also assumed within the liberal financial policy that higher interest rates will attract more savings and induce investment as banks lend these savings out, there is little evidence of this interest rates-savings-investment nexus in Ghana. Credit to Deposit Ratios which show the proportions of banks' deposits that

are lent out, have shown a negative trend since 2008 (Figure 11). From nearly 86% in 2008, the Credit to Deposit Ratio was less than 40% in April 2023. This implies banks lent less than half of the deposits they accumulated to private sector businesses. The fact that a reliance on interest rates to induce savings and raise investments has failed to produce substantial results is not a new phenomenon. Critics of financial liberalisation in the 1980s and 1990s in Africa warned that financial policies under structural adjustment did not support national development (see Mkandawire, 1999; Mkandawire & Soludo, 1998). Mkandawire (1999) in particular showed that interest rates failed to generate sufficient savings in countries like Ghana and Uganda. It is not surprising then that higher interest rates in Ghana in recent times have not correlated to increased savings from the public, especially given that real incomes continue to be eroded by inflation from structural, not monetary, factors.

4. Conclusion

The post-COVID debt crisis in Ghana and across several African countries has reignited debates about development financing. The literature on Ghana in particular has shown that its financial distress is not only rooted in external constraints, but also a structural dysfunction in the domestic economy. This paper has focused on extending that discourse, analysing the role of the financial system in financing domestic development. Its main aim has been to explain the extent to which the banking system has supported productive investments in the private sector.

Relying predominantly on central bank data on the sectoral distribution of bank credit and the conduct of monetary policy, I have argued that the operation of finance has not supported the real productive economy in Ghana. First, the data showed that commercial banks' lending to sectors such as agricultural and manufacturing has been in decline in the last 25 years. On the contrary, banks have shifted to more speculative and lucrative investments into government securities. Second, it is also evident that this pattern of dysfunction in bank lending has been aggravated by central bank monetary policy. In the pursuit of its inflation targeting monetary policy, the Bank of Ghana has more often than not raised its monetary policy rate to influence the money supply, suppress demand and as theorised, halt inflation. This focus on monetary stability has not only yielded few results, but it has also increased average commercial banks' lending rates and thus further suppressed credit to small and medium scale businesses. These findings raise concerns for a reform of financial policy in the immediate case of Ghana and across Africa where countries face similar dysfunctions in their financial systems. Three areas of financial reforms are discussed here.

Credit policy. Financial policy should be more focused on directing credit to private business development and especially supporting productive sectors of the economy. One specific way to do this would be a return to credit policies and the revitalisation of development banks. This could involve the deployment of policy instruments that affect both the demand and supply of credit as categorised by Bezemer et al. (2023). Government credit subsidies for agriculture and manufacturing, and the extension of loan maturities will attract SMEs to borrow from the banking sector. Similar to the credit policies of the Bank of Ghana in the 1960s to early 1980s, it may be necessary to return to the use of credit quotas. The Bank of Ghana could mandate commercial banks to lend a certain share of credit to agriculture and

manufacturing or alternatively limit the share of credit that goes into mortgage financing and other non-productive activities. Additionally, the reorganisation and resourcing of development banks such as the Agricultural Development Bank, the National Investment Bank, and Development Bank Ghana will facilitate long term financing for agricultural and industrial investments. It must however be cautioned that directed credit policies and development banks have suffered setbacks in the past. Particularly in the developmentalist agendas of the 1960s and 1970s, the operation of credit policy in Africa was criticised for fostering 'favouritism, cronyism and rent seeking' (Mkandawire, 1999, (p. 339). Politicians were often accused of supporting cronies to take state-subsidised credit for purposes other than the prioritised agricultural and industrial projects. In other instances, there was also the issue of high loan delinquency rates, and as governments allocated more funds into development financing, the increased state spending created budget deficits. In addition, unlike the South Korean and Japanese cases cited earlier in this paper, credit policies have not always been pursued under a stated development plan or industrial policy. Therefore, it is important that these lessons of early post-independence developmentalist attempts are taken into account so that directed credit policies are guided by clearly defined criteria, proper monitoring, and a strong focus on SMEs in agriculture and industry.

Reform of Central Banking. The current practice of independent central banking and a strict focus on monetary stability has not promoted coordination between government economic policy agenda and the organisation and operation of the financial system in Ghana. Inflation-targeting in particular has shown itself to be counter-productive given that inflationary pressure is more often driven by structural and not monetary issues in Ghana. A review of the Bank of Ghana Act is necessary, to redirect the central bank to more developmentalist policy pursuits. Inflation-targeting has often led to raising interest rates and thus the cost of credit. Under a reformed central bank that focuses more on propelling transformative growth, such frequent interest rate hikes can be avoided. Additionally, a reformed Bank of Ghana would effectively monitor the credit granting practices of commercial banks in line with any directed credit policy that government institutes. Again, it is important that the regulatory regime clearly defines the limits of coordination between the central bank and government to avoid abuse of monetary authority by politicians. While it is important that the central bank should support government's development agenda, including where necessary central bank financing of the government, it is crucial that parliament legislates the conditions, mode and limit to which the Bank of Ghana can finance government's budget. If this is not done, excessive central bank financing has the potential to promote financial indiscipline, hyperinflation, and corruption.

Indigenous bank ownership. Policy reforms should equally encourage indigenous participation in the banking sector. The new minimum capital requirement of 400million Ghana Cedis applied to all banks does not promote local participation in the banking sector. Lower minimum capital requirements for indigenous and relatively new banks would support Ghanaian investors who wish to establish banks. Given that indigenous banks tend to lend more to SMEs, this should, in the long run, contribute to addressing the credit repression that currently persists in the Ghanaian banking system. Indigenous banks should, however, be subjected to rigorous regulatory standards so they can ultimately become competitive and not perpetually rely on government support to stay viable.

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Data Availability Statement

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ORCID

Isaac Abotebuno Akolgo  <http://orcid.org/0000-0002-1446-6800>

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APPENDIX 1

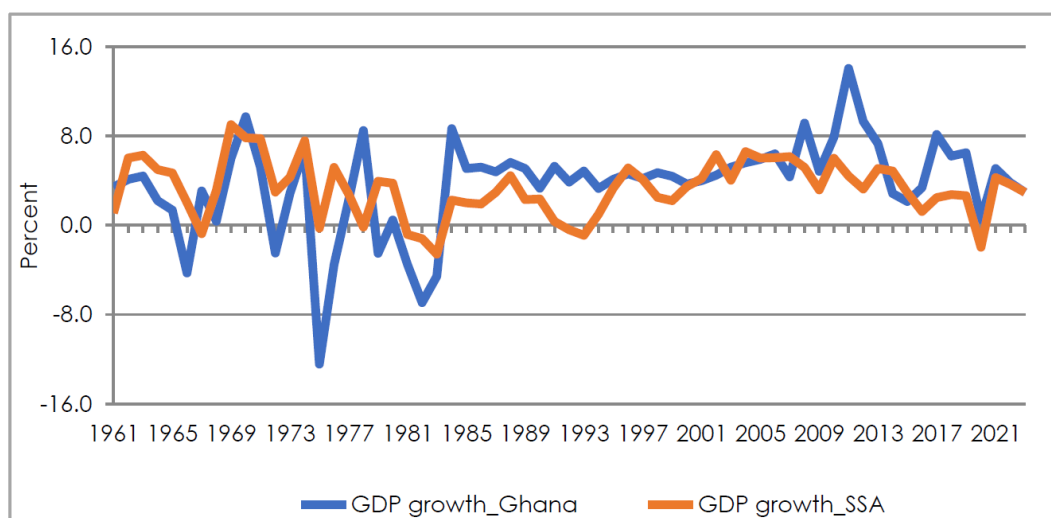
Description of Data Sources - Sectoral Distribution of Bank Credit to the Private Sector in Ghana

Year	Data Point relied on for calculation ¹	Data Source ²
1999	Q4 1999	Quarterly Economic Bulletin October-December 2001
2000	Q4 2000	Quarterly Economic Bulletin October-December 2001
2001	Q4 2001	Quarterly Economic Bulletin October-December 2001
2002	Q4 2002	Quarterly Economic Bulletin October-December 2002
2003	December 2003	Bank of Ghana Annual Report 2005
2004	December 2004	Quarterly Economic Bulletin October-December 2005
2005	December 2005	Quarterly Economic Bulletin October-December 2005
2006	December 2006	Quarterly Economic Bulletin October-December 2006
2007	December 2007	Quarterly Bulletin – October-December 2009
2008	December 2008	Quarterly Bulletin – October-December 2009
2009	December 2009	Quarterly Bulletin – October-December 2009
2010	December 2010	Quarterly Bulletin – October-December 2010
2011	December 2011	Quarterly Bulletin – October-December 2013
2012	December 2012	Quarterly Bulletin – October-December 2013
2013	December 2013	Quarterly Bulletin – October-December 2013
2014	December 2014	Quarterly Bulletin – October-December 2017
2015	December 2015	Quarterly Bulletin – October-December 2017
2016	December 2016	Quarterly Bulletin – October-December 2017
2017	December 2017	Quarterly Bulletin – October-December 2017
2018	August 2018	Quarterly Statistical Bulletin – Quarter four 2018
2019	December 2019	Quarterly Bulletin – January-March 2020
2020	December 2020	Quarterly Economic Bulletin – Fourth Quarter 2021
2021	December 2021	Quarterly Economic Bulletin – Fourth Quarter 2021
2022	December 2022	Quarterly Economic Bulletin – Fourth Quarter 2022
2023	September 2023	Quarterly Economic Bulletin – 3rd Quarter 2023

¹ The aggregate figure at the end of fourth quarter of each year (December) is used to calculate each sector's share of total private sector credit. Where data does not exist, the last quarter for which the data exist is relied on (in particular, August 2018 and September 2021)

² Reports from 1999 -2023 are from the Bank of Ghana.

Appendix 2 Ghana's GDP Growth 1961-2023



Source: Ghana Statistical Service – Productivity, Employment and Growth: National Report 2024.

<https://www.statsghana.gov.gh/headlines.php?slidelocks=NzU0Nzk0NjlyNy42Nzk=/headlines/pqnr36216n>

Appendix 3 Unemployment and NEET³ Rates in Ghana (2000-2023)

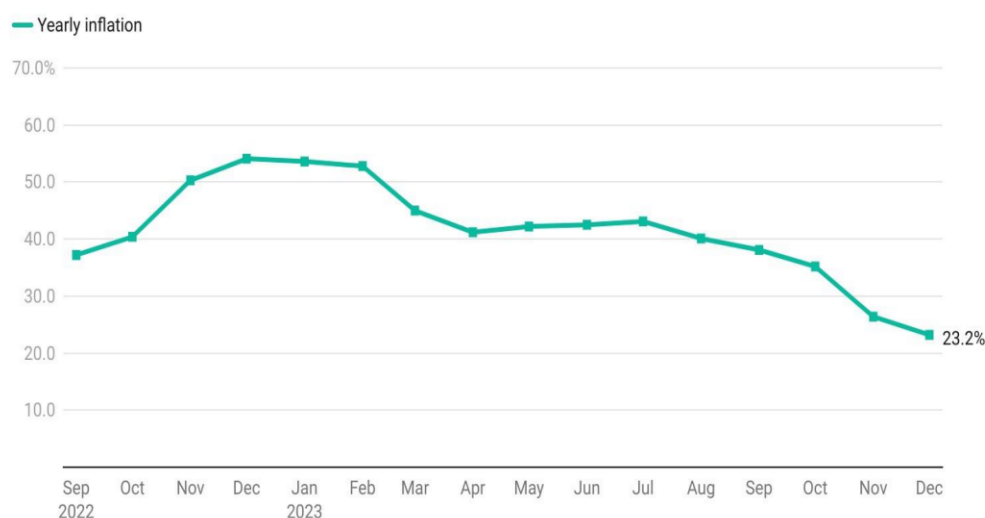
Unemployment rates	Population Census			GLSS		AHIES	
	2000	2010	2021	2013	2017	2022Q4	2023Q3
Over all 15+ years	10.4	5.8	13.4	5.2	8.4	11.3	14.7
Sex							
Male	10.1	5.4	11.6	4.8	7.5	10.1	10.9
Female	10.7	6.3	15.5	5.5	9.2	12.3	17.7
Location							
Urban	12.8	6.1	14.2	8	11.4	14.1	18.3
Rural	8.6	3.5	12.3	3.9	5.2	7.6	9.8
Youth group							
15-24 years	16.7	12.9	32.8	10.9	18.3	20.9	29.6
15-35 years	-	-	19.7	-	-	16.5	22.4
NEET							
15-24 years	-	-	-	-	-	18.7	19.7
15-35 years	-	-	-	-	-	20.3	18.7

Source: Ghana Statistical Service – Productivity, Employment and Growth: National Report 2024.

<https://www.statsghana.gov.gh/headlines.php?slidelocks=NzU0Nzk0NjlyNy42Nzk=/headlines/pqnr36216n>

³ Not in Employment, Education or Training (NEET)

Appendix 4 Ghana – Inflation, Yearly Change (%) – December 2023)



Source: Ghana Statistical Service December 2023 Statistical Bulletin.

[https://statsghana.gov.gh/gssmain/fileUpload/Price%20Indices/Bulletin %20CPI%20December%2023.pdf](https://statsghana.gov.gh/gssmain/fileUpload/Price%20Indices/Bulletin%20CPI%20December%2023.pdf)

Appendix 5 Sectoral Categorisation and Explanation of Productive/Unproductive Credit.

Key Bank of Ghana Sector Categories ⁴	Description/sub-categories
Agriculture, Forestry and Fishing	Crop production, animal rearing, timber, and fish harvesting. Subsectors may include poultry, logging, and cocoa production
Commerce and Finance	Includes import trade, mortgage financing and cocoa marketing.
Services	Sub-categories include salary credit, business services, government services and personal services.
Manufacturing	Metal fabrication, food and beverages, Tobacco, sawmilling, and wood processing
Productive vs Unproductive Credit: Perceptions of productive and unproductive credit used in this paper follow the Schumpeterian theorisation which was most recently expanded by Dirk Bezemer and reviewed in Section two. Productive credit finances innovation, generation of new products and thus supports structural economic transformation. Credit to Agriculture and Manufacturing is termed productive in the sense that it supports the fundamental basis for meaningful structural change - production of sufficient food, raw material and technological base for industrial activity that can generate larger and sustainable jobs. Ignoring these primarily productive sectors by redirecting financial credit to retail services creates petty, unsustainable and sometimes precarious jobs and, therefore, is considered as unproductive credit allocation. More unproductive credit is that which goes excessively into real estate and speculative financial activities. As Bezemer, Grydaki and Zhang (2016) ⁵ explain, mortgage financing “does not finance income formation...It finances the trade in	

⁴ Bank of Ghana (2006) Quarterly economic bulletin: October – December 2006 <https://www.bog.gov.gh/wp-content/uploads/2019/07/q4-2006.pdf>

⁵ Bezemer, D., Grydaki, M. and Zhang, L. (2016) More mortgages, lower growth? *Economic Inquiry* 54(1), 652-674

an already existing asset...on the macroeconomic level, such mortgage lending grows the economy's debt but not total incomes". It should be noted, however, that this paper does not suggest that bank credit is not useful in the services, construction or commerce sectors. The argument is that in support of transformative economic growth, it is necessary to shift more credit into sectors that produce rather than commerce which predominantly entails retail of imported goods and services, in the case of Ghana.