CHAPTER 4

THE CASE OF GHANA

Introduction

The previous chapter examined the shift in financial intermediation from banks and other financial institutions to the financial markets, and presented the lack of consensus on the long-standing debate of finance-growth-poverty nexus. Chapter four is a case study of Ghana and presents the country's profile from independence in 1957 to 2020. The chapter also discusses the evolution of the financial sector and investigates the effects of banking reforms on the economy. Section 4.1 presents recent economic performance, including some key economic indicators since 2000. Section 4.2 is divided into two parts and examines the political economy of Ghana from 1957 to 1982, the trajectory of state-led accumulation to neoliberalism. Part two covers the political and economic developments from 1983-2019. This part explains the reason why Ghana adopted the Structural Adjustment Programme (SAP) and the transition into multi-party democracy in 1992. The consequences of neoliberalism are investigated in section 4.3. The various waves of financial sector reforms pre and post-adjustments periods are presented in section 4.4. Section 4.5 presents the distinctive features and the commonality of financialisation in the core and the periphery. This section analyses why the Ghanaian economy is under-financed yet financialising. Section 4.5 concludes with the empirical study of net capital flow from Ghana to the core countries, notably the US.

Country profile and overview of recent economic performance

Ghana is one of the most relatively stable and peaceful countries within the sub-Saharan African sub-region (SSA) and was the first country within the sub-region to gain independence in 1957 and to experience neoliberal's Economic Recovery Programme (ERP) together with Structural Adjustment Programme (SAP) in 1983. Recently, the country has made significant progress in its political and economic developments compared to the challenging years of political instability and economic policy inconsistencies that branded its initial years after independence. With a Gross Domestic Product (PPP) of $132.5 billion in 2015, Ghana's economy ranks second largest after Nigeria in the West Africa sub-region and twelfth largest

economy in Africa - African Economic Outlook 2017[1] (Africa Development Bank 2017). Ghana has consistently achieved year-on-year economic growth, with an average yearly GDP growth rate of 8% during 2009-2014; compared with the SSA average growth rate of 5% over the same period. Consistent economic growth coupled with the recent discovery of oil in 2007 and subsequent production in large quantities raised Ghana's GDP per capita (current prices) to $ 1,648 in 2017. In 2015, Ghana's GDP per capita reached $ 1,480 and was therefore classified as a low-middle income country as per the World Bank's country classifications (World Bank Group 2016; Bank of Ghana 2018).

The economy of Ghana has historically depended on two major sectors – the agricultural sector (mainly cocoa production)[2], and the mining sector (mainly gold). However, other minerals such as diamond, bauxite and manganese are also produced in commercial quantities. The service sector has in recent years surpassed the primary industry, thanks to the rise of financial services, information and communication sub-sectors. The country is therefore in an enviable position of few commodity-dependent economies that are blessed with all the three significant commodities of interest to Africa trade – agriculture, minerals, and oil. Therefore, there is a high expectation for accelerated growth and development and structural transformation of the country. Table 4.1 highlights selected key economic indicators from 2000-2017.

[Table 4.1 About Here]

Table 4.1 shows positive real GDP growth rates ranging from a low of 3.7% in 2000 to a high of 8.5% in 2017. This was achieved thanks to substantial growth in financial services and information and communication as well as mining production, which was helped by the relatively stable prices of its key export commodities (gold and cocoa) during the period. The decline in economic growth in 2009 is due to the global financial and economic crisis, and subsequent fall in cocoa price, fall in remittances, tourism, and other capital flows, together with the increase in global oil prices. Other internal problems such as severe energy challenges and deterioration of fiscal deficits also compounded its external balance of payment deficits to limit economic growth in 2009. The strong economic growth in 2011 was supported by the oil sector when Ghana started full oil production in commercial quantities (Figure 4.1).

[1] Based on GDP at PPP as at 2015, the 12 largest economies are Nigeria, Egypt, South Africa, Algeria, Morocco, Angola, Sudan, Ethiopia, Kenya, Tanzania, Tunisia, and Ghana.

[2] Ghana is currently the world's second-largest producer of cocoa. It held the first position for many decades before the 1980s bushfires that destroyed the crop.

Figure 4.1 Real GDP growth rate (%) 2000-2018

[Figure 4.1 About Here]

Source: Author's estimates using figures from Ghana Statistical Service (2018).

Historically, the agricultural sector has been the main contributor to Ghana's GDP. However, in recent times, the service sector has overtaken the agricultural sector's dominant contributions to the GDP. Between 2010-2016, the service sector accounted for over 50% of the total GDP, while the contributions of the agricultural sector declined every year from almost 40% in 2002 to just 19.5% in 2016. The growth of the industrial sector declined between 2006 and 2011 before rising in 2012 due to the production of oil in commercial quantities. The recent growth in the service sector has been engineered by the strong growth in the financial services, and information and communication sub-sectors, as shown in figure 4.2.

Figure 4. 2 GDP Composition by Sector 2002-2016

[Figure 4.2 About Here]

Source: Author's estimates, data from Ghana Statistical Service (2018)

The macroeconomic policy objectives for the country are set to achieve a stable macroeconomic performance together with the fiscal discipline to facilitate private sector development to accelerate the economic growth agenda. However, there have been some challenges in achieving these stability objectives. The intermittent high inflation accompanied by high-interest rates and the continuous depreciation of the domestic currency (Ghana cedi) usually troubles the economy. The instability often happens during the political election period, which occurs every four years. This could be seen in 2000, 2004, 2008, 2012, and 2016, mainly because of excessive budget deficits from expenditure overruns by the incumbent government to hold on to power. Table 4.1 illustrates fiscal deficits throughout the period with large deficits notably in 2000 (9.7%), 2008 (11.48%), 2012 (11.5%) and 2016 (7.9%) election years. Fiscal deficit financing has crowded out private sector investment. Besides, the occasional deterioration in the country's terms of trade and capital movements have created a large balance of payment deficits as seen in particular in 2000, 2008 and 2014. These twin deficits (budget and balance of payment deficits) adversely affect the macroeconomic stability coupled with

high inflation and high-interest rates, and weaken the domestic currency, as well as affect the economic development of the country.

The historical high inflation rate was brought under control from 2000-2007, except for a brief rise in 2003 due to fuel price hikes, and remained relatively stable after that between 10-15%. A combination of policies accounted for this relatively stable inflation. The automatic fuel price adjustment mechanism, as well as prudent fiscal and monetary policies coupled with a relatively stable exchange rate of the Ghana cedi, were due to savings made because of the external debt cancellation under the HIPC initiative[3].

Monetary policy rates have moved in tandem with inflation rates and therefore witnessed a fall during 2000-2007, after which it was raised to reduce inflationary pressures that occurred during 2008-2009. The two election years – 2008 and 2012 resulted in high fiscal deficits; consequently, interest rates on government securities increased as the government borrowed to finance the deficits.

The review signifies that Ghana's recent macroeconomic performance has been relatively stable compared to the historical years. However, the occasional deterioration in the twin deficits coupled with high inflation and rising interest rates obstruct private sector development. Nevertheless, continuous political stability, increasing economic growth and sound economic policies have played a significant role in stabilising the current economic performance.

The political economy of Ghana: from state-led accumulation to neoliberalism

The political and economic arrangements of Ghana are classified under two distinct periods. The period after independence from British rule, to the end of 1982 – where the state-led accumulation provided social welfare to the citizens. The neoliberal accumulation ushered in April 1983 and dismantled government intervention by glorifying and justifying individual freedom and market-led economic arrangements.

Political and economic developments from independence (1957) to 1982

Before proceeding to examine the process of Ghana's stabilisation and Structural Adjustment Programme (SAP), it is essential to assess in detail the structure of the country's economic and political decay. That is, the confluence of factors that precipitated the catastrophic state of

[3] Highly Indebted Poor Countries (HIPC), an initiative signed by the government of Ghana under the auspices of the IMF/World Bank, which resulted in debt cancellation.

affairs within which the recovery effort was launched. I argue in this section that the state apparatus is to be blamed for most of the crisis that prompted the excruciating process of SAP in Ghana.

The economic crisis that swamped Ghana since independence can be argued to involve the intensification of three interrelated problems that had their roots in the policies pursued after independence – in an attempt at building an integrated and self-reliant national economy.

Firstly, there was a structural crisis within the economy epitomised by an asymmetry between high domestic demands on the one hand, and sharply declining industrial and agricultural production on the other. Secondly, there was a fiscal crisis, exemplified by swelling external and domestic debt, massive budget deficit, and apparently uncontrollable expansion in government spending. Furthermore, there were deep-seated patterns of state instability, debilitation and increasing *delegitimation*, proven by frequent regime changes accompanied by frequent policy changes and revisions, increasing loss of policy control and effectiveness, and of popular confidence and support (Hutchful 1989; Killick, Malik, and Manuel 1992).

I argue in this book that these three components, which reciprocally reinforced each other to deepen the crisis, also functioned to create a context in which a decrease of state control over the country's political economy steadily originated – as demonstrated in a rapid expansion economic activity outside the reaches of state control during the 1970s.

Ghana's prospects for development were bright when it gained independence from the British in March 1957. The abundant natural resources aided the first president, Dr Kwame Nkrumah, to embark on a state-led strategy, focusing on import substitutions. Other Latin American countries had successfully started state-led development strategies during the period (Hutchful 1989; 2002). It is important to also acknowledge that, Keynesianism was the main orthodoxy during the period – the state grew larger relative to the economy and took a more active and interventionist role. The state established more or less comprehensive social welfare programmes and used fiscal and monetary tools to manage the economy. Government intervention was paramount in the private sector in several ways through regulation, taxation and subsidies, as well as dominant control over the financial sector.

Politicians are characterised by their distinct ideologies, and President Kwame Nkrumah was no exception. Atta-Boakye (2006) argues that he used his political ideology as a weapon and transformed the political landscape of Ghana into ideological concepts. Nkrumah established an institute to teach his doctrines of socialism, communism, and *'Nkrumaism'* – his ideologies became the blueprint in all public places – educational institutions, market places,

and workplaces. He argued that capitalism was too complicated for a newly independent country like Ghana, hence the need for a socialist society[4].

President Nkrumah established several State-Owned-Enterprises (SOEs) ranging from food, timber, Sanyo manufacturing to Cocoa Marketing Board. The government's 7-year development plans emphasised industrialisation through domestic production of import substitutes. The state provided the necessary welfare services from healthcare to public housing. Socialism became the engine of Ghana's economic development. As Killick, Malik, and Manuel (1992) and Hutchful (2002) observe, this socialist-oriented policy was based on the hope of a continuous increase in the price of cocoa and other minerals that Ghana was blessed with. The state-led approach encountered some problems, which precipitated the overthrow of president Nkrumah's party in 1966. Hutchful noted that since the focus of the state-led strategy was on redistributing the national prosperity, the state then became the father and mother, which resulted in colossal state expenditure. The rising deficit or national debt is not a bad thing if the proceeds were used to expand material economic production with full employment and rising wages, as these would lead to positive economic outcomes for the nation. However, with the sharp decline in export revenues following the fall in commodity prices, it became extremely difficult to fund these socialist-oriented policies.

The new military government of the National Liberation Council (NLC) led by General J.A. Ankrah and Kotoka abandoned Nkrumah’s socialist-oriented economic development projects and sort to empower the private sector. They started the country’s first negotiation with the Washington Consensus. The standby deal included a reverse of most of Nkrumah's state-led policies. The IMF prescribed trade liberalisation, contractionary fiscal and monetary policies, removal of subsidies, and the devaluation of the cedi (Boafo-Arthur 1999, 147). This free-market approach to economic growth and development was not received well by many recognised professional bodies such as the teacher’s union, lawyers and industrial workers’ union in 1969. This compelled the military government to hand power to Dr K. A. Busia’s constitutional government to form the second republic.

Interestingly, the second republic[5] was also pro-neoliberal and started to address the inefficiencies with market-based policies. This free-market ideology was evident in the 1971 contractionary budget, where new taxes were imposed, development levy was introduced, withdrawal of state subsidies, abolishing of free education, devaluation of the currency (cedi)

[4] Kwame Nkrumah, Ghana: An Autobiography (London: Heinemann 1957), pp.xv-xvi.

[5] The constitution of the Republic of Ghana provides the basic charter for the country’s second attempt at republican democratic government since independence in 1957.

by 44%, and liberalisation of trade. These reforms were not received well by most of the population and resulted in a military coup by a former student of the Kwame Nkrumah Ideological Institute, Colonel Kutu Acheampong, and the National Redemption Council (NRC). The NRC reversed almost all the neoliberal policies of Busia's government. The local currency was revalued by 42%, state welfare services were reinstated, and some external debts were crucially rejected. Despite how damaging some of these policies were, they received widespread support, but in the end, worsened the country's developmental position. Shillington (1992) asserts that the economic mismanagement, corruption, and incompetence of the Acheampong regime drained off Ghana's scarce resources. He contends that the hard-foreign exchange realised from the increased cocoa prices were primarily diverted from the state coffers. It was this high-level corruption that precipitated the first coming of the Armed Forces Revolutionary Council (AFRC) led by Flight Lieutenant Jerry John Rawlings in June 1979, intending to stabilise the economy. Gyimah-Boadi (1993, 6) reckons the AFRC fought corruption, mismanagement, and profiteering before handing power to Dr Hilla Limann's constitutional government to form the third republic.

The government considered seeking external assistance to address the empty national coffers. However, domestic pressure did not permit Limann's government to seek and implement the World Bank and the IMF neoliberal packages. The continued hardship of Ghanaians prompted the military-led by Rawlings, again, to stage another coup to overthrow Limann's government in December 1981 – and formed PNDC government – what most Ghanaians refer to as '*the second coming of Rawlings'*.

The efforts by successive governments in Ghana to provide national self-sufficiency and to disassociate the economy from neoliberal institutions have been futile. Like many periphery countries, the lack of the necessary material base makes it challenging to reject neo-colonialism. This weakness means that Ghana is forced to depend heavily on external economic forces, particularly the western countries and neoliberal institutions. The integration of the economy into the capitalist world, therefore, reduces the opportunity for policy manoeuvre. This dependency culture makes the country vulnerable to capitalist interests. Smith (1979) argues that periphery countries cannot exist without their dependency on the core, but they also cannot exist within it. This is the challenge faced by many periphery countries within the capitalist world economy.

It could be argued that the reason why some leaders in Ghana would accept neoliberal measures is because of the country's subordinate/inferior bargaining status to that of the neoliberal institutions. Ghana had limited ways, if any, of dealing with its economic woes. In

his analysis of modernisation, Frank (1971) argues that underdevelopment is a consequence of the unequal distribution of resources and the exploitation of the periphery countries by the core. He argues that resources/raw materials flow from the periphery to the core countries while manufactured goods flow in the opposite direction to enrich the core countries. Thus, countries in the periphery are underdeveloped because the core requires cheap raw material and labour. The appropriation of economic surplus to the core is the cause of underdevelopment in the periphery. Emmanuel (1972) adds that international trade leads to the core countries becoming richer at the expense of the countries in the periphery. He argues that high wages in the core countries are the critical factor in their development. This is because rising consumer incomes stimulate aggregate demand which leads to economic growth and development. Thus, any attempt to de-link a periphery country from such a structural-dependent arrangement will be difficult, if not impossible. The inability of Ghana to process and add value to some of its raw materials places the economy at the periphery of the world market. The country, therefore, exports raw materials and a dumping ground for western manufactured products. The economy depends on external sources for most of its needs, thus, making it challenging to de-link itself from global economic institutions. Thereby, successive governments have been compelled to seek international assistance to embark on national development.

The problems in Ghana were worsened by various domestic and international shocks. A severe drought hit the SSA sub-region accompanied by a series of bush fires, which destroyed cocoa and other cash crops. The global oil crises in 1973-74 and 1979-80 followed by global recession outstretched and magnified the domestic deterioration. Furthermore, the Nigerian government deported over 1 million Ghanaians who went there to seek greener pastures during the hard times in Ghana. The continuous economic deterioration and its political consequences for the PNDC government forced them to accept the neoliberal orthodoxy (Boafo-Arthur 1999). In her book, *The Shock Doctrine: The Rise of Disaster Capitalism,* Klein (2007) argues that neoliberal orthodoxy is so unpopular that the only time it wins an argument is through deception and coercion. Thus, neoliberal restructuring depends on crises, a time when citizens and nations are disoriented, confused and preoccupied with their own immediate survival. This desperate situation allows neoliberals to embark on trade liberalisation, privatisation of state own enterprises and austerity measures without any serious opposition from the people. Thus, neoliberalism embraces crises as opportunities to initiate its radical free-market ideologies.

Political and economic developments 1983-2019

This period witnessed a stable political and economic environment, albeit under the PNDC military rule until December 1992 when the nation restored its multi-party democracy to begin the fourth republic. The stable political environment, albeit some failed coup attempts, empowered the PNDC government to embark on economic reforms. The reforms covered both the real and the financial sectors (see sections 4.4 and 4.5).

A general election was held in December 1992 and won by Rawlings and the (p)NDC[6] party and was re-elected in December 1996. It is worth acknowledging that the re-election of Rawlings and the NDC government was the first time that an elected government had completed its term of office in the history of Ghana's multi-party democracy. The market-based policies adopted from the IMF and the World Bank continued. However, significant budget deficits accompanied the return to constitutional regimes. Huge government spending in election years resulted in excessive government borrowing, accompanied by rising inflation.

The year 2000 election witnessed the first transfer of political power from one political party to another and from one civilian government to another. This momentous event was historical in the politically turbulent SSA sub-region. The new administration – New Patriotic Party (NPP) government continued with the neoliberal economic agenda and empowered the private sector through various government policies. The (Centre For Policy Analysis 2003) contends that the dividend from a stable democracy was the massive external financing support to the private sector. The NPP government opted for the HIPC initiative offered by the IMF and World Bank. This initiative saved the country a substantial amount of external debt obligation. The NPP was voted out of power in 2008 after serving two terms and power was smoothly and peacefully transferred back to the NDC. The NDC handed power back to the NPP after losing the 2016 general election. These political processes have enhanced Ghana's democratic credentials. It is important to note that successive governments and political parties have embraced the political stability and the free market ideology started in 1983/1992.

[6] The PNDC military government formed the National Democratic Congress (NDC) political party to contest the 1992 general election. The ‘p’ was usually used by the opposition parties to claim that the NDC party is still under a military rule.

Neoliberalism in Ghana

Since the mid-1970s, SSA countries have suffered from slow economic growth, food shortages and famine, mass unemployment with widespread poverty, declining export earning, mounting national debt, and increasing marginalisation and isolation from the global economy. Although many periphery countries shared these experiences, the problem was more severe in Africa for many reasons, which included African democracy and its peasant transformation. These issues made social, political and economic reforms imperative. Table 4.2 presents some of Ghana's macroeconomic indicators from 1960-1995.

[Table 4.2 About Here]

Source: Author's estimates figures from the World Bank (1960-1990) and Ghana Statistical Service (1990-1995)

Table 4.2 illustrates the deterioration of the Ghanaian economy between independence and the early 1980s. The output of the economy declined while the population grew at an average rate of 2.7% per annum. Cocoa, the main cash crop and the primary foreign exchange earner for the country declined, which worsened the trade balance. As the foreign exchange problem became more severe, imports contracted from -1.5% in 1960-70 to -7.2% in 1970-83. The massive jump in gross domestic investment (1990-1995) was due to a substantial investment in gold mining in 1993 because of the privatisation of the sector. The dual oil crises in the 1970s (1973 and 1979) coupled with the depreciation of the local currency added to the deterioration of the economy. Table 4.2 also demonstrates a relatively stable economy from 1983 onwards with 5% annual average real GDP growth and 3.6% yearly growth in agriculture output between 1983 and 1989. The high imports after SAP reduced to 8.6% with exports average of 10% in the early 1990s.

Other economic indicators showed deterioration in the Ghanaian economy as inflation was running over 100% and imbalances in both domestic and external accounts became a permanent occurrence. These factors worsened economic development, as food and basic medical supplies became unaffordable for ordinary citizens. Inflation stayed above 100% in 1977, 1981 and 1983, where it peaked at 123% (figure 4.3).

Figure 4. 3 Inflation Rates in Ghana 1965-1995

[Figure 4.3 About Here]

Source: Author's estimates, figures from the Federal Reserve https://fred.stlouisfed.org/ and Ghana Statistical Service (1999).

Many interpretations have been given to explain the origin of the crisis, which has emaciated the Ghana economy and the wider society. The main schools of thought are the *'internalists*' whose view reflected neo-classical liberal, and the *'externalists'* whose view mirrored neo-Marxist dependency approaches.

The neo-classical liberal argument points to internal variables such as economically damaging developmental policies pursued by successive regimes, implementational problems due to inadequate state administrative capacity, excessive and debilitating state intervention, and corruption as the central causes of the crises in Ghana. The critical message that unites neo-classical liberals is their tendency to search for internal, predominantly political, often normative accounts as opposed to international, economic or structural explanations (Chazan 1982).

By contrast, *neo-Marxist cum externalists* have tended to argue that Ghana's economic deterioration can be attributed to the country's structural position at the peripheries of the global capitalist economy, a situation which inflicts severe restraints on independent attempts to create an integrated and self-reliant national economy. The advocates of this view contend that Ghana's underdevelopment is an unavoidable consequence of a colonial legacy, which bestowed an economy dependent on the primary export sector to acquire resources necessary for its further development in the absence of any sustainable mode of internal accumulation. This dependency, they argue, has left the economy at the mercy of exogenous shocks and fluctuations in a manner that wrought (in the medium and long-term) against any significant development, an argument shared by Frank (1971) and (Emmanuel 1972). They also highlight the hurtful operations of MNCs, whose activities have served to 'decapitalise' the economy through profit repatriation and the use of numerous under-the-counter strategies for surplus transferring like transfer pricing. This has been done in collaboration with their local comprador bourgeoisie[7] ruling elite, which has served parasitically off the resources of the *'swollen state'* and has freely 'mortgaged' the economy to foreign concerns in return for the benefits which accrue to them through their control of the state.

Although *externalists'* argument is tenable in the context of Ghana, there is no doubt that no coherent explanation of the country's economic woes can omit concerns raised by the *internalists* – such as state ineffectiveness, incompetence, and corruption. Gyimah-Boadi and Jeffries (2000) argue that the liberals' explanation offers a clear perspective of the root cause

[7] This is a section of the domestic middle class who act as agents for foreign investors and multinational corporations for their private gains (at times) at the expense of the whole country.

of Ghana's economic decline. However, they acknowledges that the approach alone is insufficient in accounting for the catastrophic decline of the economy. Chazan (1982, 14) remarks that:

> *If the government alone were responsible for the decline, (as the pragmatic-liberal school suggests) or if outside forces in consort with the state-linked classes must bear the blame (as the dependency school argues), then the unit of analysis remains the state or the state as it relates to the external variables.*

What is lacking in this approach is any careful scrutiny of the central position of the state vis-a-vis the society it purports to reflect. Therefore, there is a belief that government may represent the society or outside interests, but not much attention has been given to the impact of governmental policies on society as a reason for Ghana's underdevelopment. However, Fouskas and Gökay (2018) argue that a key feature of neoliberal capitalism is its uneven combined development across time and regions/territoriality; and as long as the political and economic policies in the periphery are designed and dictated by the core, there will always be winners and losers. They argue that the core countries are imperial in nature and impose their own political and economic systems as well as principles and cultures through the recruitment of local elites. Consequently, the domestic government may be forced to represent outside interests at the expense of society.

While subscribing to the argument that the state has contributed greatly to the country's economic woes, it is vital to qualify this position, for the centrality of the state should be understood as a reflection of the country's underperformance as well as a factor aiding to create further underdevelopment.

The trajectory of Ghana's economic and political decline since independence to the early 1980s made it indispensable to pursue the painful process of SAP under the second Rawlings regime.

The economic factors leading to poor performance, according to Sowa (2002) could be summarised as follows:

1) *The overvalued exchange rate that discourages exports and encourages imports;*
2) *The printing of money to finance government deficit and its resultant inflation;*
3) *The imposition of price controls at the manufacturing stage; and*
4) *Misallocation of and misuse of imports licence which created inefficiencies and denied inputs and equipment to high priority areas.*

Other structural weaknesses included:

1) *The over-reliance of agriculture as the leading sector with little investment in the industry to address the declining productivity;*
2) *Non-diversification of exports from cocoa, subjecting the economy to the volatile world commodity prices;*
3) *Large public and service sector; and*
4) *Insufficient mobilisation of internal resources for domestic capital formation.*

The consequences of economic decline after independence resulted in the deterioration of the standard of living and the general impoverishment of the citizens as a whole. Most indicators point to a worsening standard of living. Real GDP per capita declined from 634 cedis in 1971 to 394.8 cedis in 1983. Most Ghanaians could not afford basic necessities of life such as food, water and shelter. Index of food production per capita fell to 72 in 1982 with 1971 as the base of 100 (Ghana Statistical Service 1999; Sowa 2002).

After more than two decades of abysmal economic performance, Ghana and at least 33 other African countries adopted, or were forced to take the Economic Recovery Programme (ERP) together with SAP (Britwum, Jonah, and Tay 2001). The initial years of SAP involving stabilisation appeared successful. The economy grew at about 5% between 1984 and 1989. Killick and Malik (1992) observe that the reforms attracted unprecedented capital inflows and led to an overall balance of payment surpluses, despite a large continuous deficit on the current account due to imports. They also argue that the more realistic exchange rate, together with good weather, the decline in smuggling due to better producer prices and an increase in cocoa export revenue supported the GDP growth of 5% per year. Sowa (2002) observed budget surpluses from 1986, although he argued that it was due to an increase in foreign aid, which was included in the calculation. Although domestic credit did not expand as much, the increase in external inflows kept the growth of aggregate money supply high; inflation reduced from three-digit to about 25% per annum. The initial improvements in the macroeconomy had a positive impact on society and enabled the rising incidence of poverty to be stabled. However, some of the conditions attached to the stabilisation, such as the retrenchment of public sector workers and the privatisation of state-owned enterprises forced many people back into poverty.

The proponents of SAP attribute a significant part of Africa's malaise to the magnitude of state intervention, and thus, the relatively large size of the public sector in SSA is to blame for the woes of the region (Logan 1995). Africa is likely more interventionist than other regions; however, the interventionist explanation of the African problem is rather reductionist. Stiglitz

(2002) argues that intervention in the periphery countries can be useful at times to the development and expansion of the private sector. Thus, Stiglitz advocates the East Asian model of economic development, where governments though relies on the free market, actively intervened in creating, shaping and guiding markets. This has invigorates new technologies and promoting an environment in which firms take considerable responsibility for the social welfare of workers.

The drawback of neoliberal reforms is that it does not differentiate between types of state intervention in Africa, what Stiglitz (2002) calls *'one size fits all'*; a policy based on the out-of-date belief that markets are omniscient and by themselves, lead to efficient outcomes. Adewumi (1997) refers to the IMF policy as a *'bogus*' doctor who prescribes the same medicine for different ailments – market forces for the exchange rate, interest rates, and economic ailment. It is also doubtful whether SSA countries can be fully integrated into the global economy when there are internally disintegrated, and SAP does not address issues of international trade. Although SAP seems to address structural reforms in the domestic economy, it fails to appreciate the dynamics of the peasant sector. Due to these and many other issues, SAP continues to face opposition among many scholars and policymakers despite the general acknowledgment of the crisis of statist socio-economic systems in Africa.

The dominant position of the subsistence sector within SSA economies is one of the most striking differences between Africa economies' structure and those of other peripheral countries. In no other periphery region does the subsistence sector account for as much as 70-80% of the working population. Since the subsistence sector has significant implications for the performance of African economies as well as for their ability to absorb international market shocks, any developmental policy that ignores this vital sector may struggle to have a positive impact.

The key elements of SAP are the neoliberal doctrine of market-based policies, limited government intervention, export-led growth, financial discipline, absolute and comparative advantage, and prosperity and economic growth. The World Bank and the IMF have widely cited the economies of Pacific Asia as good examples of the success of such neoliberal policies of market-oriented, outward-looking development strategies (World Bank 1993), despite generally accepted evidence that the newly industrialised Pacific Asia countries developed with a maximum rather than a minimal state intervention. As Chang (2010) asserts, the economic success stories of the East Asian miracle, where the region's GDP per capita increased significantly accompanied by a drastic decrease in poverty, demonstrates the significance of strategic, rather than unrestricted integration with the global economy. For instance, Singapore

embraced free trade more extensively than other Asian countries and also relied on FDI for its economic development; however, it doesn't conform to many aspects of neoliberal doctrines. Singapore provides extensive support in the form of subsidies to attract MNCs into sectors that are considered strategic for national development. State infrastructure development and targeted academic and vocational courses at particular sectors and industries have been used widely. Singapore is a global leader in State Owned-Enterprises. The State Housing Development Board, for instance, provides about 85% of all housing units, and the government owns and controls almost all land in the country.

China and India's integration into the global economy was based on nationalistic inward-looking vision rather than global outward-looking dreams. China adopted high tariffs to protect its strategic industries, in particular, the manufacturing base of the economy. The average Chinese tariff was about 30% in the 1990s. Nevertheless, the country attracts more FDI but still imposes foreign ownership ceiling and local content requirements, which mandate foreign firms to acquire a certain proportion of their inputs from domestic businesses and suppliers. Therefore, there is no evidence to suggest that these countries would have been better off had they adopted a neoliberal open door policy as prescribed in SAP.

There was a general belief that the long-run benefits of SAP outweigh the short-run social costs. It was not known that the long-run was what Keynes refers to as *'when all may be dead!'* (Keynes 2018[1936]). Ghana implemented two phases of SAP. The first phase – SAP 1 or ERP1 covered the period 1983-1986 and was focused on resuscitating the ailing economy. The aim was to stabilise the economy from further declining. It was centred on fiscal, monetary, and trade policy reforms. The second phase of SAP covered 1987-1992, intending to consolidate the gains made from SAP 1. In the second phase, medium to long-term goals were set to try to incorporate stabilisation and economic growth. These goals include a 5% economic growth rate through increasing investment to over 25% from 10% of national income; increase savings to 15% by 1990 from SAP 1 level of 7%; implement Public Enterprise Reform Programme (PERP); reduce government spending, denationalisation of non-performing SOEs; and establishing Programme of Actions to Mitigate the Social Cost of Adjustment (PAMSCAD) (Donkor 2019, 124). The state-centric method to development pursued since independence made these measures very risky for the government. Nevertheless, SAP made SSA more integrated into the global economy because the conditions meted out were measured to open up the adjusting nations' economies to FDI, imports, and possible export-led growth that can be used to reduce debt and poverty.

However, some authors have argued that the negative aspects of SAP aimed at poverty alleviation, lightening debt burden and saving sinking economies of the SSA is enormous. According to Ismi (2004) and McGregor (2005), SAP was forced on SSA by the IMF and the World Bank to create conditions that benefit MNCs from the core. The liberalisation enabled these monopolies facing falling profits and stagnation of capital accumulation to move out from their home countries to protect falling profits and engage in financialisation cum globalisation of production. Strengthening this assessment, Osabu-Kle (2000) asserts that during the period of SAP, the income of the poorest fifth of the world's population fell from 2.3% to 1.4% while the wealthiest fifth of the world's population saw their income increased to 85% from 75%. Those who make the rules on trade and liberalisation benefited at the expense of the poor. This demonstrates that at least in the short-run, SAP made conditions worse and eroded some of the social gains such as employment, education and export earnings.

There are several areas where the SAP initiative impoverished Ghanaians. The privatisation of state enterprise resulted in mass unemployment, forcing families into extreme poverty; trade reforms also led to a reduction of income for rural peasant farmers, and spending cuts on education, health and other social services deepened poverty in communities. Even if there were some benefits of SAP, these were not evenly distributed as cuts to government social services affected the poor the most. Even the (World Bank 1997) acknowledged that conditions in 11 out of the 33 countries that adopted SAP deteriorated and further 9 countries only showed a slight improvement. For many years of SAP, the cries of the poor were largely ignored by the neoliberals. The poor who laboured in rural areas knew something was wrong when they realised cuts to government spending and subsidies they receive. But they were powerless to change the rules or influence the neoliberal institutions that made the rules.

On trade liberalisation, Adewumi (1997) challenges the World Bank and the IMF to show a country in the world that does not protect its agriculture and the industrial sector(s) in one way or the other. He questions why international financial institutions and donor countries compel poor African countries to liberalise their trade. He argues that these liberalisation measures are the cause of the destruction of African industries, with millions of job losses and conversion of SSA economies into a mere export of cheap primary products and the dumping grounds for finished goods of the core countries. This unjust and unequal liberalised trade could be argued to be one of the leading causes of chronic poverty in Africa. Trade liberalisation policy often involves the removal of subsidies on food, fertilisers, education, and other agricultural inputs; these have resulted in high food prices, malnutrition and hunger, and falling

education enrolment. These inhumane policies affect the poor and the vulnerable in the community.

In his analysis of unequal exchange, Emmanuel (1972) contends that peripheral countries consistently have unfavourable terms of trade; whatever they undertake and produce will always exchange a more substantial proportion of the nation's labour for a smaller proportion of foreign labour. He argues that capital and labour expended do not determine the value of exchange, but rather the reciprocal demands of the exchanging parties that determine prices. The prices received will determine the reward given to labour and capital. Emmanuel rejects Ricardo's comparative costs advantage and the international division of labour and posits that in peripheral countries the produce of labour will never match the value of a product of a comparable amount of labour in a core economy on the international market. This unequal exchange results in low wages and unfavourable terms of trade in the periphery for the benefit of the consumers in core countries. He concludes that any form of imperialism is mercantile in nature.

The World Bank and the IMF justified the massive retrenchment on the grounds that the public sector was unproductive and over-bloated. However, as too many professionals were forcibly retrenched in Ghana as part of the SAP agreement, it is difficult to understand who is going to tap and develop both human and natural resources for the development of Ghana.

On privatisation of State Corporations, evidence from Chile[8] suggests that this is to the benefit of the foreign investors and very few super-rich Ghanaians. The neoliberal ideologies of privatisation have been centred on efficiency and profitability, with little attention on the social costs and cultural dynamics of Ghana. The state has been the mother and father since independence, no wonder privatisation in Ghana was partly successful under a military regime. In its concluding seminar in Accra, the Organisation of African Trade Union Unity (OATUU) argued that the existence of every government should be the satisfaction of the basic needs of the people. The public sector is, therefore, the backbone of any government and the vehicle for development.

Although many critics of SAP agree to some forms of reforms to resuscitate the economies, they disagree with the diagnosis. They argue that the volatility in the international economy was to be blamed for the crisis, in particular, the harsh commodity price changes in the 1970s. Kahler (1990) argues that low-income African countries were destabilised by various market imperfections, bottlenecks and rigidities, and as a result, the neoliberal

[8] See for instance, Harvey (2007) *A Brief History of Neoliberalism*.

prescriptions were improper. Others question the economic wisdom of devaluation and trade liberalisation given the elasticities of supply of exports and demand for imports[9] in SSA. Africa exports mainly primary commodities and imports manufactured finished goods. The low exports and imports elasticities increase domestic costs of servicing debt and the cost of imported inputs; as a result, the prescriptions were inappropriate (Cornia et al. 1992).

According to Shah (2013), poor countries were forced to cut spending on education, health and other development projects, but debt servicing and other economic policies have been made the priority. That is, the World Bank and IMF are asking the poor countries to lower the standard of living of their citizens in order to meet their debt obligations. Shuh further argues that periphery countries have been encouraged to export more to raise sufficient funds to pay off debts promptly. This has resulted in a price war, making their commodities even cheaper on the international market, which favours the western consumer at the expense of the poor as imports become expensive. This unequal exchange could be argued to be exploitation to the exporting country.

Interestingly, Ayittey (2000) remarks that many Africans oppose economic liberalisation purely on ideological grounds. This, he argues, is because of the deep-seated resentment to capitalism or free markets, an attitude that dates back to the colonial era. Because the colonialists were capitalists, thus, capitalism is as evil and exploitative as colonialism. Some intellectuals viewed the World Bank involvement as a neo-colonial institution amplifying this bias against capitalism. Ayittey concludes that the government opted for what he calls *safe budget cuts* on education, health and road maintenance. Real per capita spending on health and education was reduced drastically as a way of reducing government spending while protecting spending on militaries and bureaucracies. The cut in social expenditures undermined economic growth and shrank revenue collection.

Neoliberalism and housing provision in Ghana

Ghana, like many low-middle income countries, is plagued with an acute housing deficit. This remains one of the central development challenges. The rising demand for housing, coupled with supply constraints has resulted in a huge gap, especially in the urban areas of the country. It is estimated that the country requires a minimum of 100,000 housing units yearly, but the estimated supply is just 35% of the requirement (ISSER 2013). Although there is a lack of

[9] The Marshall Lerner condition advocates that for devaluation to be effective, the sum of elasticities of imports and exports should be more than one- elastic.

comprehensive housing policy in Ghana, it is essential to distil a distinct policy focus between pre-SAP and post-SAP periods.

The pre-SAP (post-independence) era involves active and direct state provision of public housing. State institutions such as Bank for Housing and Construction, First Ghana Building Society, State Housing Corporation and the Tema Development Corporation were established with the view of facilitating sustainable and affordable housing provision and finance. This Keynesian intervention in housing delivery provided low-cost houses in the district and regional capitals which ended in early 1983 when Ghana adopted SAP. Government policy on housing took a different turn after SAP, with much emphasis on private sector involvement in housing delivery from production, financing to the production of building materials. Thus, the role of the state in neoliberal housing policy is to provide a regulatory and economic framework for the market to thrive. However, as pointed out by ISSER (2013), the private sector has never provided any significant role in building low-cost houses for poor and low-income segments in the country.

Most of the housing units in Ghana are provided by the private informal sector, where individuals finance house building through informal sources such as self-financing and remittance. With an unstable macroeconomic environment coupled with high inflation and persistent depreciation of the domestic currency, Obeng-Odoom (2012) reckons it could take up to 15 years for an average person to acquire a two-bedroom housing unit. This incremental building tied funds into uncompleted buildings which could otherwise have been used for other productive projects. Nonetheless, these self-financing remain the most popular viable option for many individuals wishing to own a house.

Housing finance is a significant part of the World Bank's financial sector strategy and the overall aim of poverty alleviation and improving lives. Housing finance plays a major role in the strengthening of the housing market, the development of the financial sector and the overall health of the economy. Vibrant housing finance supports labour mobility, job creation in both high and low-skilled sectors, investment and the overall improvement in the quality of life.

Across the world and especially in Ghana, housing financing is one of the major development challenges due to a variety of factors, including demand as well as supply-side constraints. Despite the various financial sector reforms in Ghana, financing arrangements in the housing market remain underdeveloped and unattractive to a large segment of the population. Teye, Teye, and Asiedu (2015) argue that the prevailing housing financing system in Ghana is minimal and only designed for high-income earners in the urban areas and those in

the diaspora. Consequently, for many people, informal sources – self-financing remain the only option available. Warnock and Warnock (2008) examined housing finance systems as a proportion of GDP in 62 countries, including Ghana. Their findings reveal that housing financing (formal) in Ghana accounts for just 0.5% of GDP, the least among the countries investigated compared with 15.7% average in the sub-region. The UN Habitat (2011, 98) presents that:

> *The pattern through history has been to establish institutions to provide housing finance ostensibly targeted at ordinary urban Ghanaians. Governments have then watched them decline and fail and then established new institutions which have also failed. In the cycle of decline, each has turned to the high-income market for a safe environment for its lending. In reality, none of the institutions has targeted the majority of urban households who have remained without any recourse to housing finance.*

Indeed, while most of the above focused on inadequate housing financing in urban areas, the problem is even worse in rural areas. The rural housing market is unattractive due to low-income and high levels of poverty. This has contributed to the poor housing conditions in rural communities of the country, and the rural occupants lack the necessary resource to make any improvement to their housing conditions.

In most of the core countries, especially the UK and the US, the mortgage market is a capable and vibrant financier of the housing needs of the citizens. However, an efficient housing finance system is crucial for the supply and demand for houses and its accompanying services. The supply obstacles in Ghana involve high costs of land (especially in the urban areas), lack of adequate capital of universal banks to finance long-term projects, partly due to liquidity problems and the benefit gained from short-term government securities. Besides, the inability of mortgage providers to assess the credit-worthiness of potential borrowers as well as other unstable macroeconomic conditions (for instance, currency depreciation) in the country amplify the problem. These supply-side constraints limit the number of providers in the mortgage industry. Even in situations where supply is available, demand constraints, such as high house prices often quoted in foreign currencies (notably in US$) as a hedge against domestic currency depreciation, priced out many low and middle-income segments to enter the market. Persistent high inflation and interest rates accompanied by unfavourable terms of loan repayment, and the cultural belief in many communities that it is forbidden to be in long-term debt amongst others have constrained demand for external financing for housing. These demand and supply constraints reinforce each other to limit the formal channels for housing financing system in Ghana. Thus, the reluctance of mortgage providers to lend to prospective homeowners is matched by prospective borrowers (homeowners) averse to enter the mortgage

market due to demand-side constraints. It is within this context that self-financing and informal means of housing in Ghana flourished.

These challenges are evident in the number of loans disbursed for housing financing in 2011. According to the (Bank of Ghana 2015), less than 3% ($ 26.1 million) of bank loans went into housing finance. This is very small even when compared with other low-middle income countries such as Sri Lanka and Kenya, where housing finance portfolios were over $1billion and $668 million, respectively, over the same period (Teye, Teye, and Asiedu 2015).

The 'real estate bubble' is a major part of the mechanisms of financialisation, which happened in the world economy during the last four decades. Economic expansion in the neoliberal era is heavily dependent on debt-financed household spending/consumption. Asset bubbles/inflation encouraged households to borrow against inflated assets. To augment the process, neoliberal institutions offer a transformed financial system ready to provide risky loans to homeowners. In simple terms, the main source of purchasing power in the housing market is bank credits/loans, in the form of mortgages, rather than households' income. The more banks are willing to lend, the more money floods into the housing market. This is one of the key reasons that housing prices have been able to race ahead of most household's income. Even the deregulation policies in the 2000s made second loans to low and no-income households possible. This was accepted because it was believed that housing prices would rise in perpetuity. The credit that banks lend for mortgages is not money in someone else's savings account, but new money created specifically and artificially to fund the loan. As banks become more and more willing to grant risky mortgages, the supply of money to the economy increases, and with that, the purchasing power of the individuals increases even if the actual income of the most household does not.

It was the deregulation and liberalisation of the credit market in the 1970s and 1980s that kick-started the shift towards this preference for mortgage lending over other activities, as banks and building societies were for the first time allowed to grant credit to households against the value of their homes. The incentive for the banks for this preference is clear: If a bank or mortgage company lends against a property and the borrower does not keep up their repayments, the bank ends up repossessing the house and the land it sits on, and sells it at a higher price since the prices continuously grow, or at least expect to grow. As land and house prices rise, households are compelled to take out larger mortgage loans to get on the housing ladder, boosting banks' profits and capital. The boost in profits and capital enables banks to issue more loans, which further pushes up prices. This process can continue even when house

prices are more than the households' incomes, sustaining the expectation that prices will continue to rise.

The practice can continue until there is an economic shock and a very large number of people's incomes can no longer keep up with debt repayments. Nevertheless, this practice has triggered a secular rise in consumer debt in the neoliberal era. As presented by Kotz (2008; 2013) the ratio of consumer debt to disposable income before the 1980s was relatively stable, and moves in line with the business cycle – rising during peaks and falling during economic slowdowns. The ratio of debt-income, however, more than doubled between 1982 and 2007, from 59% to 128.8%, respectively. Likewise, financial sector debt to GDP skyrocketed from 20% in 1980 to 120% in 2008. Consequently, the housing bubble that burst in 2007 rendered many financial institutions insolvent, notable among them are Northern Rock in the UK and Lehman Brother in the US[10].

Indeed, as the ratio of house prices and mortgage debt to income increases, the economy becomes more susceptible to any change that would spark a larger portion of households' income to be taken up in debt repayments on their mortgages: such as a fall in salaries or rise in interest rates. Such a change, if significant enough, would render the whole process go into reverse, consequently, mortgage defaults, falls in house prices and therefore falls in households' net wealth. This would trigger a contraction of bank lending, a recession in spending and, potentially, a financial crisis. As argued by Minsky, a sudden shock to the economy or if job and wage growth slowed, households' capability to sustain heavy debt load would be compromised. This could shift hedge financing to ponzi financing – where borrowers cannot afford the repayment of capital plus interest and therefore require new credit to service previous loans. This would impact consumer spending, aggregate demand and slow down economic growth.

There is almost a uniform agreement amongst experts that the 2007/08 global financial crisis started in the US sub-prime housing market[11] as a result of such practices and failures (Storm 2018; V. K. Fouskas and Gökay 2018). It seems in Ghana too, neoliberal financialisation has relied on the housing market to some extent, in particular in the major cities. The economic liberalisation and a corresponding increase in domestic and foreign private

[10] The collapse of Lehman Brothers' founded in 1847 was attributed to its involvement in the subprime mortgage crisis and its exposure to less liquid assets. Its filed for bankruptcy proceedings in September 2008. Lehman's collapsed played a leading role in the unfolding of the financial and economics crisis of 2007/08. Northern Rock (founded in 1965) on the other hand was nationalised during the financial crisis caused by the subprime mortgage problem.

[11] Subprime mortgage crisis was the considerable increase in high-risk loans to overvalued assets, with limited or no collateral to borrowers who often lacked the income for repayment, went into default in 2007.

investments, especially in the housing industry, affected the situation in the urban areas where one can observe an overproduction of housing for high-income earners, and this led to a dramatic rise of gated communities. On the other hand, however, there has been virtually no provision of housing for low-income earners, thus exacerbating their continued dependence on the informal sector for housing provision in these areas.

In Ghana, the private sector involvement in the housing market is dominated by a few large firms such as Regimanuel Gray Ltd, which controls almost 50% (market share) of houses built by real estate developers. This is followed by NTHC properties with 12%, State Housing Takoradi and Trasacco Estate Development with 8% and 7%, respectively. Although these oligopolies offer mortgages for prospective homeowners, the target segments have been the high-income group due to the high cost of buying, large deposit requirement and the high interest rate on mortgaging. Houses in the open market are too expensive for the low-income segments. Certainly, the high cost of housing is due to the high cost of land, which is a consequence of the liberalisation of the land market and its accompanied speculative activities escalating land prices. Thus, the adoption of neoliberal housing policy in Ghana has resulted in the overproduction of housing for the high-income segment with little to none for low-income earners. Consequently, worsening the marginalisation of low-income groups, especially, the urban poor to depend on the informal sector for housing provision. Indeed, lack of direct government involvement in the housing market has resulted in the development of slums and inadequate housing in the country, especially in urban areas where domestic and foreign private developers focus on expensive houses for high-income earners.

Financial sector reforms in Ghana – a historical perspective

This section presents events in the pre- as well as post-structural adjustment financial sector reforms that cover the privatisation of state financial institutions together with the various changes in the financial sector.

Pre-structural adjustment financial reforms 1957-1982

The financial sector in Ghana was dominated by state ownership between 1957 and 1982. Successive governments, since independence, established state banks to widen access to credit facilities to SMEs. The reason that prompted this was the fact that Barclays Bank Ghana Ltd., and Standard Chartered Bank (the only two existing (foreign) banks at the time) were reluctant

to lend to domestic households, farmers, and SMEs due to high default rates. In response, eight state banks were established between 1953 and 1977 to provide credit to priority areas. Furthermore, the state acquired a 40% stake in Barclays and Standard Chartered Banks (Bank of Ghana 2000). Thus, the state banks dominate the banking industry pre-financial liberalisation era.

The pre-liberalised era also featured a fixed exchange rate and state control of the money supply. Different economic policies by the successive governments resulted in a series of devaluations notably in 1967, 1971 and 1978 (discussed above). There were some re-valuations in the period as well. The lack of a competitive environment in the banking sector coupled with political patronage led to inefficiencies in the industry. However, the priority sectors in the economy were not starved of the needed credit.

The high inflation rate accompanied by the negative real interest rates discouraged savings in the banking sectors, which led to excess liquidity stored outside the formal financial system. This undermined the mobilisation of savings to facilitate the private sector's investment. The inefficiencies also impeded financial deepening and solvencies in the banking sector. Consequently, policy recommendations concluded that the Ghanaian economy could attain faster growth with financial sector reforms. Husain and Faruqee (1994) assert that mobilising the 16% savings stored outside the banking industry could stimulate growth rates and reduce poverty levels by a percentage point. In response to these financial sector inefficiencies, the government accepted, as part of SAP, the Financial Institution Sector Adjustment Programme (FINSAP 1 in 1983) and (FINSAP 2 in 1990).

Post-liberalised-reforms

The contemporary financial liberalisation has its roots in SAP. FINSAP 1 was aimed at restructuring the banking sector by mobilising savings and facilitating credit allocation. It also featured the establishment of Non-Performing Asset Recovery Trust (NPART) with interest-bearing bonds, which were redeemable in yearly instalments within 6 years. The Banking Act of 1970 was not explicit on the minimum capital requirements and risk exposure. This was amended under the 1989 Banking Act, which mandates banks to hold 6% as the minimum capital requirement and operational rights to set interest rates.

FINSAP 2 was implemented in 1990 with the aim of establishing money and capital markets, speed up loan recovery by NPART and privatisation of state-owned banks. These

were embarked on to promote competition and efficiency in the financial sector. The argument was that it would facilitate the private sector as the engine of growth. The Ghana Stock Exchange was established in 1990 with 12 listed companies and one government bond.

The government of Ghana initiated the Financial Sector Strategic Plan (FINSSP) in 2001 to further liberalise and deregulate the financial sector. The major development under FINSSP included central bank independence to promote price stability. Accordingly, the Monetary Policy Committee was established to set the policy rate to act as a benchmark rate for setting interest rates by other financial institutions. One notable development under FINSSP central to the argument in this book is the concept of Universal Banking ACT 2003[12]. This permits banks to perform investment, commercial and other activities without the need for a new/different licence. Accordingly, banks may choose to undertake any banking services in line with their capital and risk appetite. This was meant to facilitate flexibility of doing all banking activities with just one bank and encourage banks to engage in mortgage financing, insurance business, and other banking activities enshrined in the universal banking laws. However, banks were required to adhere to new capital requirements to qualify for the universal banking license. The risk of this universal banking reform is the systemic risk – where a risk to one arm of a bank spreads to all parts and the entire financial system and the real sector of the economy.

In 2004, a new regulatory change was enacted – the Banking Act (Act 673) to replace the existing banking laws. Some of the essential modifications include the expansion of the definition of banking activities to cover insurance business, mortgage financing, securities, portfolio management, and advisory services which comprise capital restructuring, mergers and acquisitions, credit reference services, and the keeping and administration of securities. The new Act gave credence to the universal banking model of relaxing bank activity restrictions.

This new banking status represents a significant shift from the traditional functions of commercial banks mobilising savings and advancing customer-specific loans that were kept on banks' balance sheets for the duration of the loan. This has enabled universal banks to search for new fields of profitability. As Lapavitsas (2013; 2009) argued, banks can now generate profits by mediating transactions in open markets due to their investment banking status. At the same time, banks can make profits from households by providing mortgages and other

[12] The banking laws before 2003 categorised banks into commercial, merchant and development banks and therefore banks were restricted in scope- what banks could engage in, and geography- where they choose to operate.

unsecured loans. He remarks that securitisation epitomises a sharp acceleration of the trend towards investment banking, widely adopted by commercial banks. Lapavitsas concludes that these new ways of bank profitability are what constitute the financialisation of personal income of households/workers. Davis and Kim (2015) add that securitisation epitomises a fundamental shift in how contemporary finance is carried out. They argue that traditionally (pre-liberalisation and deregulation periods), commercial banks provide mortgage loans and hold them in their books until the maturity date of the loan; they termed this *'originate-and-hold'.*

However, in the post-liberalisation and deregulation era, mortgages provided by commercial banks are sold off to securitisation trusts, which turn them into securities and trade them to financial investors, what the authors called '*originate-and-distribute'*. Thus, securitisation changes the '*originate-and-hold' long-term* relationship between a bank and its customers (a loan taker) into an abstract '*originate-and-distribute'* relationship between households and an unknown financial investor. This new relationship makes commercial banks mere underwriters of the mortgages/loans, while the loan takers are now the de facto issuers of securities on the international financial markets. This is a fundamental shift in financial intermediation from banks to financial markets.

Relaxation of Bank Entry Restrictions, and Abolishment of Secondary Reserve Requirements 2005-06

As part of the reforms, and to enhance competition and efficiency, the Bank of Ghana in 2005 relaxed bank entry restrictions. Consequently, it adopted an open but gradual licensing approach that allows the entry of new domestic and foreign private banks. This approach was expected to encourage the modernisation of banking operations and facilitate the efficiency of the industry. The central bank in July 2005 reduced the secondary reserve requirements of banks from 35% to just 15%, and further abolished the 15% in August 2006, leaving only the primary reserve requirements of 9% held in cash (the secondary reserve requirements act as additional liquidity for banks). The cancelling of the secondary reserve requirements increased the supply of loanable funds to the private sector, enhanced competition in the loan market and deepened financial intermediation. Foreign bank entry in domestic financial markets has been argued to be a decisive feature of international financialisation (P. Dos Santos 2009; Tabb 2013; Storm 2018).

Recapitalising Banks

To improve stability and enhance credit anticipated by the reforms, the Bank of Ghana occasionally revised the minimum capital requirement upwards. The more recent recapitalisation was by increasing the minimum capital requirements to Ghc 400 million from Ghc120 million (i.e. from US$ 12.7 million to US$ 84.6 million, based on the Bank of Ghana interbank exchange rate on 17th August 2018). This has drawn mixed reactions on the likely impact on the industry (Ghana Banking Survey, 2018) (PwC 2018) . While some stakeholders commended the directive, others expressed concern about the impact on the industry and the economy at large. With this recapitalisation, both local and foreign banks were expected to comply with the directives by December 2018[13]. In line with international standards and practices, the Central Bank increased the Capital Adequacy Ratio (CAR) from 6% to 10% (see appendix 1 for the various financial sector reforms).

Nigeria, like Ghana, has a history of recapitalising banks. In 2005, the Central Bank of Nigeria (CBN) raised the minimum capital requirements from N1 billion to N25 billion (i.e. from US$ 7.7 million to US$ 192.2 million based on the CBN average interbank rate for December 2005). As is currently being witnessed in Ghana, uncertainties existed over the future of the Nigerian banking sector as the destiny of many banks hung in the balance. However, during the 16 months window, banks used different methods (including mergers) to raise the necessary capital to meet the directive (PwC 2018). A similar trend is anticipated in the Ghana banking industry.

Supporters of the new capital requirement argue that few big banks will help accelerate economic growth and can underwrite big-ticket items as well as remain competitive and liquid. Besides, they believe stronger and larger banks can help decrease credit cost, improve access to credit, and reduce non-performing loans, amongst others. They also compare Ghana's economy to larger economies like Nigeria and South Africa, with few but stronger and liquid banks. Nigeria has 24 banks, while South Africa has 19 universal banks compared to 34 universal banks in Ghana (Bank of Ghana 2018).

Financialisation in Sub-Saharan Africa: accounting for the Ghanaian paradox

[13] Local banks have always been given longer time than foreign banks in the previous recapitalisation of the industry. For instance, in 2008, local banks were given up to 2012 to comply while foreign already in the country were to comply by December 2009.

At the macroeconomic level and relative to the core and semi-periphery countries, Ghana's financial system is underdeveloped. Industrial enterprises are more reliant on bank credit as opposed to the core countries where capital markets development enable large firms to access debt and equity financing. Besides, the numerous reforms and the privatisation of state-owned banks did not increase banking competition in the country. Banks continue to lend disproportionately to the government, which in turn crowds out the private sector. However, deregulation and the liberalisation of the financial market attracted more foreign banks into the economy with new forms of financial services, with lending and profit-making shifting towards households' income. The capital flows associated with the liberalisation of the capital account have resulted in a reversal of net capital flows.

Under-financed

Periphery countries can be assumed to have, *'all other things being equal',* low levels of financial sector deepening relative to the overall size of the economic output. Besides, the financial deepening of an economy mirrors the specificities of the country's historical and institutional settings. Ghana, by international standard measures, is under-financed. Goldsmith (1969) argues that the proportion of the financial sector relative to a country's growth will rise in line with the prosperity of the country, levelling out around 3-4 times of GDP. Ghana, on the other hand, displays financial under-development even when compared to other low middle-income countries. This under-development is noticeable in the overall monetary aggregates, the ratio of broad money relative to GDP, the ratio of stock market capitalisation to GDP, total credit to the private non-financial sector, bank assets relative to GDP and ATM/Bank branches per $1000km^2$. Following the financial sector reforms in the country, the domestic banking industry opened to foreign competition. The banking industry is highly diversified, comprising of 34 licensed universal banks, 17 of the foreign-owned banks accounting for almost 54% of the total industry market share in 2018. Apart from these universal banks, there are 138 Rural and Community Banks (RCBs), which account for 3.2% of total financial sector assets. There are also 63 Non-Banking Financial Institutions (NBFIs), and 503 Microfinance Institutions (Bank of Ghana 2018). The dominance of foreign-owned banks in the Ghanaian banking sector demonstrates a financial system that is vulnerable to shocks from the global financial system (table 4.3).

Table 4. 1 List of Universal Banks in Ghana as of June 2018

[Table 4.3 About Here]

Source: Ghana Banking Survey (2018).

The universal banks in Ghana consist of about 85% of the total banking assets and mainly offer credit to corporate customers and concentrate on the regional capitals. Because of the high minimum deposit requirements, it is estimated that universal banks reach only about 5% of households. In contrast, RCBs extend credit to farmers, government employees and small and micro businesses and entrepreneurs and represent about 5% of total banking assets, but account for half of the total banking outlets in the country (Africa Development Bank 2012). RCBs and other informal systems offer an important role in extending credit to the private sector and households to smooth out investment and consumption. These banks are particularly important in the development of rural areas.

Financial development has been measured by various financial indicators, such as the ratio of the money supply to GDP (Goldsmith 1969; Levine 2005). To measure financial depth in the periphery, the IMF has been using the ratio of broad money[14] relative to economic growth. Figure 4.4 below shows that Ghana's financial depth (a measure of the financial sector relative to the economic output) is relatively less than South Africa and certainly far less than the UK. The ratio of broad money relative to GDP has remained below 30% until 2011 when it increased to 32%. Since then it has remained 32%. The ratio in South Africa has averaged 70%, more than doubled Ghana's during the period, while the UK peaked at 165% in 2009.

Figure 4. 4 Broad Money Relative to GDP 2004-2018- Selected Countries

[Figure 4.4 About Here]

Source: Author's estimates, figures from the Federal Reserve
https://fred.stlouisfed.org/ and the IMF

Another measure of financial depth is the stock market capitalisation, which is the market value of a publicly traded company's outstanding shares. Figure 4.5 below reveals that Ghana's stock market is underdeveloped, relative to other low middle-income countries, such as Indonesia and India. This underdevelopment of the stock markets limits firms' ability to raise capital for investment purposes. There is no available data available for Ghana from 2012, as shown in figure 4.5.

[14] Broad money represents the total amount of money (notes and coins) that households and businesses can use for payments or hold as short-term instruments such as cash, bank account, gilts representing country's money supply.

Figure 4. 5 Stock market Capitalisation Relative to GDP selected Countries (2000-2017)

[Figure 4.5 About Here]

Source: Author's estimates, figures from the Federal Reserve
https://fred.stlouisfed.org/ *and the IMF*

In terms of market-based finance, stock market capitalisation relative to GDP in Ghana has been very low, averaging about 6% of GDP. The highest was in the year 2000 when stock market capitalisation was 9.8% of GDP, while the lowest was during 2006 at 3.4% of GDP. Ghana's stock market capitalisation has been below that of South Africa, India, and Indonesia, depicting an under-financed economy.

It was thought that during the recent recapitalisation of banks (discussed above) the Ghana Stock Exchange would be the vehicle where banks could raise the needed capital to meet the requirements. However, it failed to raise the combined amount of GHc 4.7 billion ($530 million) needed in time. This is partly due to low investor interest in the *bourse* because of the closure of seven banks recently and high yield on government securities. The lucrative high returns on government securities coupled with its low-risk nature made them a better choice for investors. For instance, with government securities trading at 14% in the primary market, and 20% in the secondary market, investors will opt for profitable securities than to play on the stock market (PwC 2018). The low liquidity on the bourse is a challenge for fund managers to trade en bloc, hence their general aversion to the capital market.

Figure 4.6 shows that credit provided by domestic banks to the private non-financial sector (include corporations and households) in Ghana has been rising steadily but relatively low compared to South Africa, India, and Indonesia. This was at just 7.2% in 2000 but rose to 17.8% in 2016. Private sector credit in India rose from 62% in 2000 to 71.6% in 2016, while in South Africa it has been above 70% during the period. The figure had plateaued in Indonesia at around 38% over the period. This is another standard measure illustrating financial underdevelopment in Ghana.

Figure 4. 6 Total Credit to Private Non-Financial Sector Selected Countries (2000-2016)

[Figure 4.6 About Here]

Source: Author's estimates, figures from the Federal Reserve
https://fred.stlouisfed.org/ *and the IMF*

Deposit Money Bank (DMB) asset is another indicator of the depth of the financial market. Figure 4.7 illustrates the underdevelopment of the financial sector in Ghana. Both central bank assets and deposit money bank assets started in 1973 at 8% and 7%, respectively. Central bank assets have been higher than deposit money bank assets for most of the pre-financial reform periods. However, since 2004, deposit money bank assets have been higher than the central bank assets with the gap getting wider every year over the period shown. For example, in 2013, deposit money assets relative to GDP was 24% while that of the central bank was under 9%; however, in 2016 the figures were 27% and 9.5%, respectively. It should be acknowledged that financial reforms (discussed above) might have contributed to this asymmetry. The Bank of Ghana attained its independence in 2002 while the universal banking Act was enacted in 2003. Other reform issues such as recapitalisation of banks, relaxation of Bank Entry Restrictions, and Abolishment of Secondary Reserve Requirements 2005-06 may also have contributed to the increase in DMB assets relative to GDP in the economy. However, despite these increases, financial sector development in Ghana based on the evidence above is relatively weak.

Figure 4. 7 Deposit Money Bank Assets and Central Bank Assets Relative to GDP Ghana (1973-2016)

[Figure 4.7 About Here]

Source: Author's estimates, figures from the Federal Reserve https://fred.stlouisfed.org/ and the Bank of Ghana (2018)

Apart from these conventional ways of examining the size and intermediation of financial sector development in a country, this book goes beyond the traditional measures by using new indicators to examine financial access – bank branches per 1000km^2 and bank accounts for 15 years and over. Financial access demonstrates the ability of individuals and businesses to obtain financial services, including credit, deposit, payment and other financial products. Those individuals and businesses that have no or minimal access to any financial services are known as the unbanked and underserved, respectively.

Figure 4.8 demonstrates further a weak financial sector in Ghana. The number of adults with accounts at a formal financial institution in Ghana has been below 40% throughout the period except for 2017 when it rose to 42% of the market segment. On the other hand, South Africa and India have more than half of the adult population with an account at a formal financial institution. They peaked at 68% and 79%, respectively. Indonesia was below Ghana

between 2012 and 2014 at 19%, but since 2014 has been marginally higher than Ghana and peaked at 48% in 2017. This measure of access illustrates that financial sector development in Ghana is not strong by international standards.

Figure 4. 8 15 Years and Over with Bank Account at a Formal Financial Institution Selected Countries 2011-2017

[Figure 4.8 About Here]

Source: Author's estimates, figures from the Federal Reserve https://fred.stlouisfed.org/

According to the (World Bank 2013) report on access to financial services in Ghana, 40% of the extremely poor, 29% of women and 27% of the youth had no access to banking services. Moreover, residents in rural regions are less likely than those in urban areas to access and use financial services. Several reasons could account for this, including the availability and proximity to a bank and the ability to offer the minimum deposit required to access and use financial services. As most poor people live in rural areas, it is not surprising that there is a lack of access and use of financial services. The report further outlines that in high-income countries such as the USA, the UK and other core economies, over 90% of adults have a bank account. This is in contrast to 57% in the upper-middle-income countries, 28% in the lower middle income and just 24% in the lower-income countries. On this account, it could be argued that 42% of financial access in Ghana, a low middle-income country, demonstrates a lower number of unbanked and underserved compared to the average low middle-income economy. Accordingly, this is the Ghana paradox.

Figure 4.9 shows the geographical outreach of universal/commercial bank branches per $1000km^2$. This measure of financial sector access shows that only two commercial bank branches were available in $1000km^2$ geographical outreach during 2006. At its peak in 2017 (with all the waves of financial sector reforms that followed SAP) the figure shows only 6.6 branches in geographical outreach of commercial/universal bank branches per $1000km^2$ demonstrating an underdeveloped financial sector.

Figure 4. 9 Commercial/Universal Bank Branches per $1000km^2$ in Ghana (2004- 2017)

[Figure 4.9 About Here]

Source: Author's estimates, figures from the Federal Reserve https://fred.stlouisfed.org/ *and the Bank of Ghana (2018)*

The analyses presented demonstrate that Ghana is relatively under-financed by international standard measures. However, despite the under-financed position of the country, it is essential to assess if Ghana is financialising. To address this paradox, it is crucial to examine the macroeconomic picture of the country.

…yet financialising

The dominance of the financial sector over the rest of the economy has been one of the crucial aspects of financialisation in the core. The rising proportion of bank assets relative to GDP indicate financial sector depth. Figure 4.10 depicts a sudden rise in bank assets as a share of GDP (albeit under-financed economy) during 1997 FINSAP and continues to increase every year over the period. For those economies considered as archetypes of financialisation – the UK and the US, the proportion of DMB assets relative to GDP has been intense, as shown in figure 4.11.

Figure 4. 10 Deposit Money Bank Assets Relative to GDP (Ghana) 1975-2015

[Figure 4.10 About Here]

Source: Author's estimates, figures from the Federal Reserve https://fred.stlouisfed.org/ and the IMF

Figure 4. 11 Deposit Money Bank Assets Relative to GDP Selected Countries 1973-2015

[Figure 4.11 About Here]

Source: Author's estimates, figures from the Federal Reserve https://fred.stlouisfed.org/ and the IMF

For example, in the US, DMB assets remained around 60% of GDP since 1973, while in the UK the figure peaked at 200% in 2009 and steadily declined to 1.3 times of GDP. Given this evidence, with the rate at which the financial sector is vigorously expanding, it is not difficult to present Ghana as either financialised or financialising.

Another measure of international financialisation is the rise of cross-border capital flows. The growth of these flows into periphery countries constitutes the global dimension of financialisation (Lapavitsas 2013; Stockhammer 2012b; P. L. Dos Santos 2013). As Gabor (2012) argued, the inflows of investment of foreign banks contribute to the financialisation of domestic financial systems. Ghana is not new to foreign banks; after all, the first two banks in

the country during the colonial era were foreign-owned banks. However, Lapavitsas (2009) argues that foreign bank entry facilitates financialisation in the periphery countries. The growth of foreign banks in the domestic financial market appears that the banking sector is exceptionally profitable and thereby attracting foreign entry. Foreign banks' entry into the Ghanaian financial market has complex outcomes on the growth and performance of the sector. Advocates of financial globalisation argue the superior efficiencies in improving domestic financial systems and enhancing credit shortages for SMEs (Asli Demirgüç-Kunt and Huizinga 2001; Clarke et al. 2003). However, there are doubts among mainstream economists on whether foreign banks have the appropriate skills to assess the *soft* information needing for lending to SMEs in the periphery countries (Detragiache, Tressel, and Gupta 2008).

Foreign bank entry in Ghana has been on the rise, and their assets accounted for 69% at the end of 2012 (see figure 4.12). These banks have expanded the provision of mortgages and credit cards to domestic workers facilitating the financialisation of households' income.

Figure 4. 12 Percentage of Foreign Bank Assets Relative to Total Bank Assets in Ghana 2005-2012

[Figure 4.12 About Here]

Source: Author's estimates, figures from the Federal Reserve https://fred.stlouisfed.org/ and the Bank pf Ghana (2016)

One notable consequence of foreign bank entry in Ghana has been the dynamics of lending practices. The expansion of lending aimed at personal incomes of high-income and middle-income workers, the introduction of mortgage and credit card lending as well as other financial services are noticeable. The lucrative and profitable nature of these practices has lured local banks into the field, thereby accelerating the financialisation of personal income.

P. L. Dos Santos (2013; 2012) presents evidence suggesting that foreign banks are the key agencies accelerating financialised activities; that is, making an excessive profit through practices that are unrelated to lending, such as trading, commission and assertive household lending. The key feature has been rising personal indebtedness because of these activities. He highlights credit cards and mortgage debt in Brazil as consequences of foreign bank entry. Mader (2015) remarks that the aggressive lending by foreign banks and microfinance contributed to the 2010 Indian crisis, which was marked by over-indebtedness, suicides and violence. The evidence in Ghana is still inconsistent, but the pace of change is frightening among the middle-income segment (see table 7.2 for the growth of credit cards issued).

Another notable thread in the literature of financialisation is the power and rising financial profit relative to the productive sector. Examining financialisation in the US, Krippner (2005; 2011) finds the dominant power of Finance, Insurance and Real Estate (FIRE) share of output. She reported that FIRE has grown from 10% of output in the post-war era to almost 25% in the early 2000s. However, the change in FIRE share of employment in the US marginally increased from 5% to 7%. Lack of data makes it challenging to estimate profitability by sectors in Ghana. However, banks profit before tax margin and Return on Equity give an indication of profitability in the industry.

Figure 4.13 illustrates a healthy profit before tax margin. The banking industry net profit before tax increased by 30.7% from GHc 2.54 billion ($432 million) in 2016 to GHc3.32 billion ($565 million) in 2017, which shows a higher growth than 2016. Profit before tax margin of 36.4% in 2017 is the highest margin since 2015. Details of the Ghana Banking survey 2018 shows that the banking industry net interest income also increased from GHc 6.1 billion ($1037 million) in 2016 to GHc 6.5 billion ($1105 million) in 2017, a growth of 6%. The increase in interest income from cash and short-term funds and investment security in 2017 was significantly less than in 2016, which is primarily due to the decline in yield of government securities in 2017. The report further adds that fees and commission income grew by 10% in 2017, which was largely attributed to the strong economic growth in the country.

Figure 4. 13 Universal Banks Profit before Tax Margin (2011-2017)

[Figure 4.13 About Here]

Source: Author's estimates, figures from the Ghana Banking Survey (2012-2018)

The strong performance from trading income, fees and commissions and investment income improved the overall industry profitability despite slow growth in the industry interest income – a feature of contemporary financialised capitalism. However, it is worth noting that the top ten banks share on the average 60% net profit before tax margin, and the industry holdings of government securities increased by 43%. The data also reveals that 57% of Ghana commercial bank's (GCB) – the largest domestic bank, investment income came from government securities, a useful and secure source of income for the banking sector.

Another measure of profitability is the Return on Equity (RoE)[15]. This indicates how shareholders'/investors' funds are used to generate profit/net income in a business. A sustainable and positive RoE as in the case of Ghana means the banking industry is generating shareholder value by making profitable investments, which generate returns.

Figure 4.14 shows that RoE in the Ghana banking industry has been higher and positive throughout the period. With an average RoE of 41.9% for Ghana, 10.4% for the UK and 9% for the US, there is no doubt why foreign banks are attracted to the Ghanaian financial sector. The industry RoE recovered from the decline to 11% (the lowest in the industry history in 2009 – which may be due to the global financial crisis) and recorded a healthy return of 21.9% in 2016. This is due to stronger profit performance in recent years. The industry net profit increased by 29.3% to GHc2.3 billion ($391 million) in 2016. Thus, as long as rising financial profits could be used as a measure of financialisation (as in the literature), Ghana could be argued to be financialising.

Figure 4. 14 Return on Equity for Ghana, the UK and the US Banks

[Figure 4.14 About Here]

Source: Author's estimates, figures from the Ghana Banking Survey (2000-2018) and the Federal Reserve https://fred.stlouisfed.org/

This increasing dominance of the financial sector relative to industry and agriculture, and the incessant short-term lending to government and households instead of long-term lending to industry suggests that the Ghanaian economy (albeit under-financed) is financialising.

Ordinary Ghanaians have been drawn into the realm of finance because the continuous economic growth has not been shared equitably; wages have been stagnant while industry and agriculture profits have been falling. Households need access to healthcare, education, housing and a variety of other needs. The state historically provided some of these needs. However, a new phenomenon emerged since the implementation of SAP, which has been a retreat of the state and introduction of private provision. As this is happening, finance has emerged as a facilitator, thus, financial markets make profits from household needs of these social amenities. Changes in institutions and ideology through waves of deregulations in both the labour market and financial markets have given rise to neoliberalism – the idea that the state is bad, and the

[15] Return on Equity (RoE) is calculated as net income/profit divided by shareholders equity. The higher the ROE, the more efficient managers generate income from equity financing.

market is good. These changes have created a profoundly unequal society. Lapavitsas (2011; 2013) and Harvey (2007) argue that financialisation is fundamentally about inequality epitomised by the changing behaviour/conduct between banks, industrial enterprises, and households. Thus, finance has acted as a critical lever in increasing inequality by creating wealth through access to financial assets and privileged ways of trading and positioning in the financial system.

Ghanaian household financialisation, like many in the periphery, is distinct from the core. Banks lend to the government while households are increasing their borrowing, predominantly the middle class of a short-term nature through hire purchase and loan advances. Microfinance, Susu schemes[16], and mobile money platforms target the informal sector with short-term loan advances with high interest rates. However, on the macroeconomic level, financialisation is still very low.

The evidence presented points to the fact that Ghana's case of financialisation is a *subordinate/inferior* one, which is an uneven combination of the transformations that characterise inter-sectoral relations in a new era of capitalism. That is, Ghana is under-financed yet financialising. When the banking system and other financial institutions focus on making quick financial returns rather than making a real long-term investment, the economy balloons and creates a bubble that awaits bursting. Making money out of money with the capitalists eating off the hard labour of the poor, thus, the ordinary Ghanaian dream of sharing national prosperity has been taken by rather a few elites. For the rest of the citizens, prosperity has only been accessible on credit. The lower and middle-income households took on more debt to finance spending on education, healthcare and housing. This practice has been facilitated by the deregulation and liberalisation of the financial markets, which attract households with a modest income to borrow in order to meet their basic spending needs. Therefore, the Ghanaian economy is financialising using international standard measures. However, there are some distinct characteristics of financialisation in Ghana, due to the underdeveloped nature of the financial sector.

Reverse of net capital flows – a subordinate/inferior financialisation

The origin of financialisation in SSA can be found in SAP and its related liberalisation and deregulation of the financial sector in the 1980s, which abolished price and quantity control in domestic financial systems. The World Bank and the IMF steered periphery countries to adopt

[16] This is an informal means of collecting and saving money through a savings club or partnership.

market-based domestic finance to open up domestic economies to global capital markets, with the view that capital would flow to the periphery countries to stimulate economic development. However, it has been shown that as periphery countries become more closely integrated with the global capital markets, capital flows in the opposite direction – from the periphery to the core countries, a trend Powell (2013), and later Lapavitsas (2013) term *subordinate financialisation*[17].

Lapavitsas (2009; 2013) asserts that capital flows have become negative on the net basis for the periphery countries, notably SSA. This, he argues, has been a striking feature of international financialisation, marking a profound difference with the period of imperialism. This is because the reverse flow of capital has not been initiated in actions taken by capitalist enterprises and other private agents but originated in actions taken by the monetary authorities in both core and periphery countries and reinforced by the international monetary systems through the World Bank and the IMF. He concludes that the reverse capital flows are associated with the contemporary role of the US dollar as the world quasi-money, which has affected the hierarchy among capitalist economies in the global market as well as lending a subordinate character of financialisation in the periphery. This is a process Gowan (1999) refers to as *'Dollar Wall Street Regime Theory*' (DWSR). He argues that the vast majority of countries would like to hold the US dollar as their preferred reserves because most commodities are traded in US dollars. This strengthens Wall Street as an international financial centre, enhancing the supremacy of the dollar. Tabb (2013) presents that between January 1999 and July 2008 the global official reserves held in the form of US government or government agency security increased by 368% from $1.6 billion to $7.5 billion.

The key features to *subordinate financialisation* have been the flows of both international capital and international trade, particularly after the Asian crisis of 1997-98. Based on international trade, three broad sets of periphery countries stand out. The first consists of countries that have gained share in global manufacturing, most importantly the BRICs economies (semi-periphery), and thus earned large surpluses from export to the core, including consumer goods to the US and Western Europe. The second set of countries consists of hard commodities exporters such as oil and metal. Rising commodity prices have resulted in considerable trade surpluses. The third set of countries comprises producers and exporters of

[17] Jeff Powell (2013) first suggested subordinate financialisation in his analysis of Mexican non-financial corporations, and later by Costas Lapavitsas (2013:245 see footnote).

agricultural raw materials. Unfortunately, countries in the third category, notably in SSA operate substantial trade deficits.

However, judging by exports' relative GDP, there has been some minimal improvement, thus, the closer integration of SSA into the world market as forced policies of trade liberalisation during the 1980s has not been generally positive. Consequently, the trajectory of the current account in the era of trade liberalisation has varied considerably among periphery countries in line with trade specialisation and other historically specific factors (Lapavitsas 2013; Bortz and Kaltenbrunner 2018).

Accumulation of reserve is ultimately the reason why the net international flow of capital has been reversed, leading to capital flowing from the periphery to core economies. Bortz and Kaltenbrunner (2018) argue that periphery countries occupy lower ranks of the global currency hierarchy and thereby have to accumulate a large amount of forex reserve as a rational response to sudden capital outflows. The *subordinate* global currency hierarchy forces these countries to adopt high interest rates to maintain the domestic currency, which in turn induces hot money flows. The World Bank and the IMF monitoring the levels of reserves relating to exports and domestic monetary growth have actively prescribed *self-insurance*. In practice, Tabb (2013) and Lapavitsas (2013) reckon three rules have been used. These are; first, the ratio of reserves to imports should be enough to defend any unexpected worsening of the balance of trade, which is a crucial problem in SSA. Secondly, the ratio of reserves to short-term external debt should be sufficient to cover all short-term external debt due for a period ahead, usually twelve months (the Greenspan- Guidotti rule). Finally, the ratio of reserves to the money supply should be enough to defend any unexpected capital outflow (typically reserves should correspond to 20% of M2).

Furthermore, reserve accumulation has also been due to exchange rate policies adopted by SSA countries. Hard commodities exporting countries that have current account surpluses have attempted to keep their currency from rising to be internationally competitive. However, targeting inflation, which has been a feature in neoliberalisation, means that exchange rates were pegged against the US dollar and other major trading currencies to control imported inflation. To be able to defend the peg, central banks in SSA have to accumulate large reserves as a buffer to be able to manipulate the exchange rate. By the same token of controlling inflation, SSA has adopted high-interest rates, which have resulted in even rising exchange rates at the same time, a paradox emerges. The higher domestic interest rate has fuelled forms of *'carry trade'* where domestic residents' borrowing from abroad in order to invest in financial assets in SSA. As borrowers abroad increased, so did the pressure to hold more reserves. Investors,

seeking ways to benefit from the financial market turned to currency speculation, a feature that has grown significantly. Tabb (2013) contends that the average daily trading volume rose by 20% to $4 trillion in 2010. For many SSA countries, sudden movement of speculative capital in and out of their economies characterises a clear and sustain danger. Monetary authorities are cautious in announcing policy rate changes in advance for the fear of rapid movement in currency speculation and its destabilising impact on the macroeconomy.

The costs of reserves accumulation have been high, measured either as spread between domestic and foreign interest rates or as the cost of sterilisation by central banks. Lapavitsas (2013) sees it as the periphery countries paying explicit tribute to the core countries, notably the US.

Ghana has a long, albeit modest history of capital flows. The early establishment was predominantly in import-substitution industrialisation. However, the introduction of SAP commenced a relatively successful transition to the market-based open economy. The initial surge in Foreign Direct Investment (FDI) was in response to policies adopted in 1986 to attract investment into natural resources after the new mining laws were passed. The privatisation of SOEs and most notably the partial privatisation of Ashanti Goldfields Corporation to the South African mining company *Lonmin* in 1994 attracted a total of $233 million of FDI (UNCTAD, 2011). Telekom Malaysia also acquired 30% shares in state-owned Ghana telecom. The discovery of oil and subsequent production in commercial quantities has attracted FDI to this and related sectors in the economy. The recent recapitalisation of universal banks is expected to result in mergers and acquisitions that will fuel capital inflow into the economy.

The passage of the Ghana Investment Promotion Council Act 1994 established the framework for investment flows. The tax holiday, import duty exemptions for foreign investors, improved remittances of dividends and profits abroad, and improved judicial processes are some of the measures adopted to attract foreign capital to the country. Besides, in 2005, Ghana obtained its first sovereign rating and then gained access to the global capital market. Furthermore, the security of investment provided by the national constitution, as well as the Multilateral Investment Guaranteed and the investment Promotion Protection Agreements have given investors confidence and have attracted capital flows to the country (Bank of Ghana 2015).

Ghana witnessed a rise in capital flows after the 2008 global financial crisis, as well as continuous dependence on remittances from its overseas workers, which saw an increase of 50% over the period 2003-2014. The increase in the capital inflows could be due to the country's

stable political-economic arrangements, and the legal protections given to foreign investors. Higher mineral prices accompanied a surge in FDI inflows in 2012 at $3,293.4 million, and a continuous rise in investment in the oil sector since the discovery of oil in 2007. Private transfers increased every year from $1,017.2 million in 2003 to $1,868.8 million in 2014, except for 2009 and 2013. Official transfer, on the other hand, has been more volatile starting at $227.7 million in 2003, rising to $603.7 million in 2006 before declining to $9.6 million in 2014 (table 4.4).

Table 4. 2 Trade Balance, Current Transfers and Net Capital Flows to Ghana (in millions US$) 2003-2014

[Table 4.4 About Here]

Source: Bank of Ghana (2015)

Figure 4.15 shows that most of the capital flows into the economy have remained relatively stable/stagnant. However, the overall current account balance is in deficit throughout the period, with the largest deficit being in 2013. Only direct investment (net) saw a significant increase from a few hundred million US dollars to over $3billion a year since 2009.

Figure 4. 15 Trade Balance, Current Transfers and Capital Flows to Ghana (in millions US$)

[Figure 4.15 About Here]

Source: Bank of Ghana (2015)

Table 4.5 shows that mining and quarrying (a global conglomerate multinational corporation) attracted the most FDI into the economy during the period. Investments into these sectors have more than tripled from $3,115.15 million to $9,919.02 million in 2012 due to the increase in prices of these commodities. Finance and insurance (which includes banking) activities have also attracted considerable FDIs rising from over $900 million in 2010 to almost $1.4 billion at the end of 2012. FDIs into the manufacturing sector increased from $366 million in 2010 to $590 million at the end of 2012. Agriculture, forestry and fishing, which employ most of the labour force attracted $70.43 million, an increase of $50.57 million from the 2010 level. The Real Estate activities attracted a marginal and falling FDI of $0.66 million due to the underdevelopment of the sub-sector.

Table 4. 3 Sector Distribution of Foreign Direct Investment (in millions US$) 2010-2012

[Table 4.5 About Here]

Source: Bank of Ghana (2015)

The development of the domestic sovereign bond market attracted net inflows of $ 620.50 million in 2010. However, the depreciation of the cedi has resulted in falling non-residence participation, despite the high yields on their investment. Ghana was the first SSA country to borrow from the international capital market when it issued a 10-year Euro bond in 2007 to raise $750 million at an interest rate of 8.5%. A second Eurobond was issued in 2013, which raised $1billion at a coupon of 8% with a maturity of 10 years. Another Eurobond was issued in 2014 to raise $1billion.

Therefore, to examine the net capital outflow from the Ghanaian economy, it is essential to analyse how the central bank addresses IMF and the World Bank *'self-insurance'* policy that may arise from increasing liquid capital inflow.

The liquid capital inflows into the country mandate the Central Bank to hold enough reserves to support the Ghana cedi and hence inflation to maintain a stable economy. To preserve the real purchasing power and maintain a high degree of liquidity of the accumulated reserve in the face of rising inflows, the Central Bank has to utilise some of the accumulated reserves in a relatively less risky but liquid asset. In a situation like this, the safest way for periphery countries to accumulate reserve has been to purchase US public debt. However, this attempt by the Bank of Ghana to address the issue of rising liquidity inflows generates colossal opportunity costs as these resources cannot be utilised for any productive domestic investment. This unintended consequence impedes economic development in the peripheries.

Thus, unintentionally, while private enterprises/individuals borrow from abroad at a rate lower than domestic interest rates, the Bank of Ghana proceeds to *insure* it by advancing/lending loan to the US at a much lower US official rate. Therefore, the beneficiaries of this *carry trade* are the US government, and the private domestic borrowers at the expense of the whole Ghanaian economy. Consequently, the social cost of holding reserves is perhaps a reduction in GDP. The higher domestic interest rate to manage inflation and strengthen the local currency fuels/induces this process while at the same time increasing the cost of capital for domestic firms. It is clear that the rising inflows of liquid capital into Ghana are not due to rising returns on productive activities but gains from exchange rate trading and interest rate arbitrage. Private enterprises, notably domestic financial institutions, borrow cheaply from abroad to capitalise on higher returns on domestic financial assets. The process has facilitated privileged private borrowers' bourgeoisie a direct appropriation of the benefit of interest spread, a process which fuels internal differentiation in the economy with dire consequences of income inequality and poverty. Thus, the practice of making more money from money or $M \rightarrow M^1$ (*in*

the money circuit of capital) mostly through carry trade and exchange rate arbitrage impedes real productive investment.

Conclusion

This chapter provided the country profile and the overview of Ghana's political and economic development. The review illustrates that Ghana has undergone a massive transformation in its economic and political development since independence. The political and economic contradictions that symbolised the initial years after independence have been stabilised. The economy is now the second largest in the West Africa sub-region and the 12th largest on the continent.

Nevertheless, the challenges of the initial years, which include three major problems of structural crisis, fiscal crisis, and political instability, plunged the country into the economic predicament. The confluence and the intensification of these interrelated problems reduced the efforts by successive governments to provide domestic self-reliance agenda started at independence. The predicaments forced Ghana to adopt ERP together with SAP in 1983. The ERP and SAP involved macroeconomic stabilisation, liberalisation, deregulation and privatisation of state-owned enterprises.

The shift from state intervention to market-based policies resulted in various reforms, notably, financial sector reforms, which replaced the pre-adjustment reforms. Thus, all the specialised banks created by the various governments were wholly or partially privatised, followed with abolished credit ceiling and restructuring of the distressed banks. The banking sector reforms also relaxed the entry of foreign banks, which resulted in different forms of financial products in the economy. The universal banking concept allowed banks to perform commercial, development, merchant, and investment banking activities without a new licence.

The distinctive feature of financialisation in Ghana is that the economy is under-financed by international standard measures, yet it is financialising. The underdevelopment of the capital market limits industrial enterprises' access to debt and equity financing. Consequently, firms are more reliant on bank credits as opposed to the core where large industrial firms can access a range of sources for financing. Banks continue to lend disproportionately to risk-free government securities, which crowds out the private sector.

The liberalisation and the deregulation of the financial market enabled capital flows and the ascendency of finance in Ghana. However, the initial belief that financial liberalisation will

induce capital inflows to periphery countries was short-lived. As countries opened their capital market, there has been a reverse flow of capital from the periphery to the core countries. The accumulation reserves pioneered by the World Bank and the IMF have been the catalyst for this negative reversal of capital from the periphery countries. Domestic policies to attract more investment and the high interest rates in the periphery also contribute to net outflows of capital. The next chapter presents theoretical and empirical investigations to assess whether non-financial/industrial enterprises in Ghana are financialised, as presented in the literature of financialisation in the core countries.