Post Redenomination and Money Management among Ghana's Urban Poor

by Edwin Clifford Mensah and Vivian Dzokoto

Following the 2007 redenomination exercise in Ghana, we wondered what impact it had on the most financially vulnerable populace in Ghana. It is our assertion that the redenomination of the cedi may have had a unique impact on Ghana's urban poor with respect to their money management, saving behavior, and financial literacy. This study focuses on the coping strategies adopted by those living on less than a dollar a day post redenomination.

With the use of a semi-structured interview, document review and recruiting participants from the slums, streets, ghettos and market places, we explored several money-related issues among Ghana's urban poor in the context of the redenomination. The study identified some shortfalls (gaps) of the currency changeover process and also revealed some redenomination induced creative solutions to money management, savings problem and financial literacy.

Our analysis of the data revealed a number of emerging themes. Consistent with previous redenomination research on other segments of the Ghanaian population, the data indicated that the old currency was still in use in discourse during everyday transactions three years after the currency change. Respondents maintained that it was easier to think in terms of the old currency than the new. Subsequently, they would engage in a back and forth conversion of the currencies in order to determine the real value of a transaction. Other respondents were of the view that the velocity of money post redenomination was relatively higher—"you don't feel as if you are paying a lot for something…….; more money is spent now than before…….; with the new Ghana Cedi you spend more……….." These are excerpts from comments made by some participants on the issue.

Although respondents felt safer carrying money now (post-redenomination era) than before, they argued that the amount of money lost in the event of a misplaced note or coin was much more post-redenomination. The shortage of both coins and smaller denominations for change was cited as one of the biggest constraints associated with the introduction of the Ghana Cedi. According to our respondents, especially hawkers and peddlers, the currency shortage made it difficult to conduct business. A number of our respondents also asserted that the campaign to educate the populace about the new currency was poorly executed and the duration was woefully inadequate.

The identified lapses (gaps) include the following:

a. **<u>Access Gap</u>**: The inability of the poor to access the formal banking sector and hence resorting to varying forms of rotational savings and credit associations in the informal sector for lending, borrowing and saving money (e.g. Susu). This unorthodox means of storing wealth stems from the perceived steep requirements of banks for an account. It was a common complaint that the requirements for bank ID cards and initial deposit were too steep. Other cited reasons included insufficient earnings, the intimidating atmosphere at the banks and the need to be literate to complete banking procedures. Overall, dealing with the bank was considered to be daunting, tedious and time consuming.

b. **<u>Coin Acceptability Gap</u>:** The Ghanaian anti-coin culture is still pervasive even among its poor. Respondents took issue with the coins in the new currency especially, the one pesewa coin. Our study showed a lack of homogeneity in transacting with the one pesewa coin—it did not enjoy equal acceptability with the other coins. It was considered too small in size and easily corroded tarnishing its appearance. But for a few upscale shops who did accept the coin, most vendors and surprisingly street beggars rejected the coin. Beggars reported being very apprehensive about accepting it when begging for alms. It had become the norm to pick any other coin on the ground but the one pesewa due to its unattractive features and perceived worthlessness.

c. **<u>Savings and Storage Gap</u>:** Although most respondents considered savings important, they reported saving notes and spending coins. While many reported saving using non-formal bankers (Susu dealers), others devised creative storage solutions such as the use of cloth, every day containers (empty cans and plastic containers etc.) for temporary storage of coins.

d. **<u>Knowledge Gap</u>**: We observed a knowledge gap between our research target population and the "rest of the country" which manifested itself in several ways. Some thought that the one pesewa coin was out of circulation and no longer legal tender; others grossly over-estimated the minimum balance required to set-up a savings account; yet another group attributed the rationale for the redenomination to political rather than economic reasons. Overall, the poor population had very little or no information about bank location, requirements and the essence of the redenomination.

An interesting, yet, thought provoking redenomination induced creative solution is the "*Nairalization*" of the Ghana Cedi among the Islamic poor. A phenomenon where one changes Ghana Cedi to Naira in order to increase its nominal value so that it could be used in gifting (showering the bride at an Islamic wedding). Unfortunately, post redenomination, a unique and unintended consequence has imposed a constraint on the Muslim poor who no longer can throw their 100, 500, 1000, 5000 or even 10,000 Cedi notes at the bride since the first four denominations are now coins and the later is only worth 1Ghana cedi. Subsequently, to avoid pelting the bride with coins (for obvious reasons), the Ghana Cedi is thus changed into its equivalent in Naira and used during such occasions. The long run impact of the Ghana cedi "*Nairalization*" on macroeconomic stability leaves much to be desired.

Learning and Adapting to the New Currency

While a number of our participants attributed their awareness of the new currency to media promotions (e.g. radio, TV ads) and other redenomination related supporting materials (e.g. pictures and charts of notes) circulated among the public by the government, a section of the populace, especially the visually impaired (some of which were street beggars) had a very unique experience. In the case of the blind, deciphering one denomination from another is basically achieved by a tactile means of identification. The embedded picture presents a disabled beggar explaining to the researcher how she tactilely identifies one coin from another using its features. They reported being able to tell the difference between Ghana Cedi notes by size although sometimes confounding. In such instances, they relied on trusted friends and family members for help. We gathered that beggars generally separated the one pesewa coins from the rest of their earnings and discarded them at the end of the day upon tactile identification. The remaining coins were spent on sachet water, food or transportation. The Ghana Cedi notes were saved to support family needs.

As discussed earlier, the transition from the use of a large number of physical notes to the use of large denomination paper notes and small denomination flat, rounded discs (coins) did inspire some behavioral adaptation. With respect to storage, some kept their coins in polythene bags (which used to be a common choice for storage of the notes of the old currency) or tied them into the corner of a cover cloth (a traditional way of keeping money on a person) while others used everyday containers (empty margarine tins, bottles, biscuit tins) as coin holders.

On the Issue of Coins

By and large, coins were considered to be a burden and a bane of the redenomination. A common complaint was that the coins had undesirable physical characteristics (tarnished easily) and were heavy too. Others complained that coins were much more likely to be lost because "if they fall out of your pocket, you will not notice….." Referring to its small size, it was argued that it could easily be swallowed by children and hence posed a potential health risk. Some recommended changing the coins into paper notes since "if you want change, you don't get……there is always a shortage of coins needed for change anyway." Other problems stated included the bulkiness of the coins. While this particular characteristic may be considered laughable in comparison with the bulkiness of its predecessor, it is somewhat logical; if one of the goals of the redenomination is to increase the portability of money, consumers would not appreciate decreased bulkiness in one area coupled with the introduction of another bulky replacement.

Finally, it is noteworthy that a currency modification in any form is a significant change in an economy which often requires adjustments by economic agents of varying degrees. Subsequently, like any newly introduced commodity or technology, a currency changeover will require an "unlearning-relearning" process by the adopters of the currency. Given the idiosyncrasies of potential users of the currency, it would be ideal for policy makers to pay attention to existing cultural factors which may either facilitate or retrench the currency adoption process.

The case of Ghana is not exempt from this recommendation; considering the socio-cultural and economic diversity that exists in the economy. It is evident from this study that while policy-makers embarked on some level of public education, the "one-size fits all, cookie-cutter" approach through media campaigns and TV ads is woefully inadequate and did not target or take into consideration all the facets of the economy. Alternate programs aimed at reaching the poor should be intensified and particular attention should be given to the disabled population in the society. Organizing programs to educate the socially disenfranchised populace (e.g. those living on less than a dollar a day) should be a priority and not trivialized to ensure inclusion and subsequent adoption.