

## **Making Sense Of A New Currency: An Exploration Of Ghanaian Adaptation To The New Ghana Cedi**

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*This paper reports data that forms part of a program of research exploring the experiences of Ghanaian consumers after the re-denomination of Ghana's currency in July 2007. Justified and publicized as being good for the country, the redenomination had significant criticism before its implementation. Interviews exploring what respondents thought about the redenomination were conducted a year after the launching of the new currency. The responses validated some of the Bank of Ghana's justifications of the process. However, several significant unanticipated consequences were reported. The responses reflected a significant change in the meaning or symbolism of money to Ghanaian consumers.*

### **INTRODUCTION**

A change in currency at a national or international level offers a unique opportunity to explore spending habits, cognitive processes shaping financial transactions, and attitudes towards money management. Ghana's currency underwent re-denomination in July 2007, and the goal of this study is to investigate the process of adaptation to the new currency.

### **Background on Ghana**

Located in West Africa and formerly known as the Gold Coast, Ghana was a British colony until 1957 when it gained independence. Today the country has twice the per capita output of poorer countries in West Africa, a population estimated at 23 million, a 1.9% population growth rate, and a new president, elected into power by a multi-party election at the beginning of 2009. Agriculture accounts for 35% of its GDP (Central Intelligence Agency, 2009). Improved macro-economic management, a stable political environment, and high international trading prices for gold and cocoa are helping its economic growth. Commercially significant quantities of offshore petroleum deposits were recently discovered, and it is hoped that this will be the source of further economic growth and development in Ghana.

## **Currencies in Ghana**

Prior to Independence, West African pounds, shillings and pence were the official legal tender in the country. In 1958, the country introduced its first national currency, Ghana pounds, shillings and pence. In 1965, Cedi notes and Pesewa coins were introduced, marking Ghana's departure from the colonial monetary system. The name "cedi" means cowrie shell, a 19<sup>th</sup> Century medium of exchange in Ghana, and the name "pesewa" refers to the smallest quantity of gold dust, which used to be a former medium of exchange in Ghana as well. Two years later, the New Cedi (N¢), replaced the 1965 cedi at a rate of  $\text{¢ } 1.20 = \text{N¢ } 1.00$ . The motive behind this change was partly political: the original cedi notes bore the image of Osagyefo Dr. Kwame Nkrumah, Ghana's first president, and the ruling government in 1967, a military government, had overthrown Dr. Nkrumah's government (Bank of Ghana, 2008). The change also allowed for an easier conversion from the Ghana pound (Schuler, 2008). In the 1970s, Ghana's economy declined. In 1979, a government-ordered demonetization occurred with new cedi notes replacing the old ones at a discount of 30% for amounts up to  $\text{¢ } 5,000$  and 50% for amounts in excess of  $\text{¢ } 5,000$ , an equivalent of 23 cents to the dollar. This was conducted in a period of high inflation, with the goal of reducing "excessive cash holdings in the non-banking public" (Schuler, 2008). The 1980s saw Ghana's currency being devalued several times, partly as a result of the implementation of International Monetary Fund Structural Adjustment Programs. Ghana joined the Enhanced Highly Indebted Poor Country (HIPC) initiative in 2001, which is a debt-relief collaboration between the IMF and the World Bank (Bargawi, 2004). The country has experienced significant economic growth, decreased inflation over the past decade.

## **Redenomination of the Cedi**

While several cashless media for financial transactions exist in Ghana, majority of financial transactions are done with cash. At the time of the redenomination, the exchange rate was approximately  $\text{¢ } 10,000.00$  to the US dollar. The largest currency note was a  $\text{¢ } 20,000.00$  bill, the equivalent of two US dollars. Needless to say, everyday financial transactions such as grocery shopping, going to the market, and buying a pair of shoes required stacks of cash, irreverently referred to by Ghanaians as "bricks". Bricks of cash were handed out in banks, and most tellers gave out plastic bags for people to put their cash-bricks in.

The decision to redenominate the cedi was heralded by some as an "inevitable necessity" (Barrett, 2007). The Bank of Ghana (BOG, 2007) justified the transition stating that the old note regime placed "a significant deadweight burden on the economy" reflected in high transactions costs to cashiers, susceptibility to accounting irregularities, incompatibility with data processing software, strains on the ATM payment system. In addition, the BOG highlighted the ever-growing risk of criminal victimization due to the necessity of carrying large amounts of cash, distinctly visible to whoever was nearby. The proposed denomination would make the exchange rate  $\text{¢ } 10,000$  to 1 New Ghana  $\text{¢}$  (NG $\text{¢}$ ).

The proposal was met with skepticism and outright opposition in certain sectors of the Ghanaian populace. For example, a review of blogs addressing the redenomination proposal revealed a number of dissenting themes. First, it was perceived as unnecessary given that West African Countries plan to move towards using a common currency at some point in the future. At that point, the new currency would become redundant. Secondly, it was argued that changing the currency without institutionalized plans for other significant changes to the country's economy was pointless (<http://ghanconciuous.ghanathink.org>). Some newspapers echoed unspoken fears that the redenomination would trigger inflation. For example, the Ghanaian Chronicle (2007)

cited a prominent Ghanaian Economist, Mr. Pianim as highlighting the probability “that petty traders, taxi drivers, newspaper vendors, food sellers and other businesses of that category could be inconvenienced with lack of change, which could in turn, lead to frequent rounding offs and thus, eventually fuelling inflation.” However, the BOG refuted those claims. Others argued that the country had more pressing problems to deal with. Articles were published that documented failed redenominations in other countries such as Afghanistan and Zimbabwe. People scarred from the demonetization in the 1970s feared that this exercise would once again decrease their net worth. Finally, numerous people suggested dropping 3 zeroes instead of 4, for easier conversion.

The country was informed about the proposed redenomination for the first time in December 2006 via a radio announcement. The announcement was made before the Bank of Ghana took the proposal to the country’s legislative parliament. While this was applauded by some as a demonstration of the independence of Ghana’s central bank, others argued that perhaps some input from the general public and researchers might have been a good idea (Doe, 2007). By January 2007, the BOG estimated that 90% of Ghanaians (based on a survey of an urban sample) were aware of the planned redenomination, but only 65% knew specifically what that entailed. After 7 months of debate and public education, the new currency was launched (July 2007). The new and old currencies were jointly in circulation for 6 months, after which the New Ghana Cedi became the sole legal tender (effective January 1, 2008). By the end of 2007, the Bank of Ghana (BOG) reported that it had withdrawn about 90 percent of the old currency from circulation. In March 2009, a total of almost 8000 respondents had responded to a poll on the Ghana cedi’s website about whether the Ghana Cedi notes and the Ghana Pesewa coins met the expectations of Ghanaians. 86% of respondents said it had, 9.3% said it had not, and 4.6 percent were uncertain whether it had or had not (BOG, 2009).

## **THEORETICAL CONSIDERATIONS**

Evidence from academic literature suggests that consumers re-evaluate their money management strategies in order to adapt to a newly introduced currency especially when the old and new currencies are used simultaneously, pending a phase-out of the old currency at a later date. For example, Marques and Dehaene (2004) posited that 2 major processes can occur when a country is adapting to a new currency: rescaling (transforming all prices in the old currency to values in the new currency at the same time) or re-learning (memorize the new prices of consumer goods one by one). The first process would predict an easy adjustment to a new currency, whereas the second process lends itself to a slower, more cumbersome process. The Money/Euro Illusion theory highlights the perception of prices in a smaller denomination new currency lower than when expressed in the former national currency if it had a higher nominal value (Gamble, Garling, Charlton & Ranyard, 2002). This suggests that individuals adjusting to a new currency with a smaller nominal value will initially, at least, have trouble in understanding the true value of goods and services.

Thus, while the re-denomination exercise aims at enhancing economic activity and economic growth, it is proposed that it might have some unintended consequences on Ghanaians' cognitive processes and spending behavior. It is therefore important to investigate how the Ghanaian society made sense of and used the new currency.

## THE STUDY

The goal of the study reported in this paper is exploratory: to assess the subjective experience of the redenomination in Ghanaian workers. Specifically, our aim here is to investigate whether or not media reports fully captured the positives and negatives aspects of the adjustment to the redenomination. The data presented here is a small subset of a series of quantitative and qualitative studies conducted six (6) months after the new currency became the sole legal tender in Ghana.

### Method

A convenience sample of twenty (20) adult Ghanaian consumers from the Accra-Tema Metropolitan area in Ghana was interviewed about their experience with the redenomination by the first author. Participant recruitment underscored diversity across gender. While demographic information was not recorded because some initial interviewees were reluctant to provide information about their age and income, had varying degrees of education ranging from some secondary education to terminal degrees, and appeared to range in age from mid twenties to mid sixties. All interviewees purchased items regularly (at least on a weekly basis) for their households and had used the new currency ever since it was released. Interviews were done in English or Twi (a Ghanaian language), depending on which language the interviewee preferred.

Interviewees were asked one open ended question: “what do you think about the redenomination”? They were asked for elaboration in cases when the context was unclear and were allowed to continue talking for as long as they chose. Interviews lasted on average between five (5) and ten (10) minutes. The interviewee responses were recorded and subjected to a thematic analysis. Coding categories were based on themes emerging from data. The coding process aimed to capture the range of views (consensus, conflict, absence) reflected in the descriptions of the individual experiences. Because the goal was to identify the different categories of experiences, the frequency of mention of the category was not considered important in the analysis.

### Results and Discussion

Three themes emerged that were consistent with predictions by the Bank of Ghana about the advantages of the redenomination. This provided support for the redenomination process. The new currency clearly had advantages in terms of its portability, which in turn made individuals feel safer, and also made it easier to keep track of how well the country was doing relative to other currencies.

1. Security: *“I find the new currency safer to carry around: I don’t have to look for somewhere to hide bundles of cash anymore because I do not have to carry large bundles of cash around anymore.”*
2. Portability: *“The new currency is much easier to carry: you can keep all the money you need to go out in a wallet.”*
3. Currency Comparison: *“It is easier to see how the cedi is performing compared to the Euro and the dollar. We started out as almost 1 to 1 with the dollar. It is easier to tell if our currency falls or rises against the dollar now.”*

These responses reflected a significant change in the meaning or symbolism of money. Ghana now had a medium of exchange that had different attributes from what it had before. In a sense, the new currency had altered the meaning of Money. The meanings of having money on one's person, and withdrawing cash from an ATM had changed. It no longer meant danger or inconvenience, but instead portability and being less of a visible target of thieves. It meant easy comparison to international currencies.

In addition, an interviewee pointed out that the absolute value of charitable giving had increased. Another observed that because of the redenomination, very few people were millionaires; that to be a millionaire in Ghana actually meant "something" now.

4. Charitable Giving: *"One interesting thing about the new currency is that offertory (donations at churches) has gone up because people do not want to put coins in the offertory bags when they come around: it is not considered ... you know... um proper to offer coins for God's service"*.

This observation reflects the money illusion. While an individual could be voluntarily giving the same value of money as they previously did, people tended to perceive the fact that it was now a coin as having less value than when it was a note.

Several themes emerged from the data that highlighted negative consequences of the redenomination. The respondents who gave these answers reflected the difficulties of the transition process, particularly at the beginning of the transition.

5. Confusion Understanding Price Quotations: *"It's confusing sometimes if you are buying something from the market (unmarked prices, bargaining expected): you do not know if the prices are being quoted in the old or new currency. For example, if a vendor says 20, do they mean 20,000 in the old currency (equivalent to 2 new Ghana cedis) or 20 in the new currency? You have to be smart about it, or inquire elsewhere about the price first; otherwise you will end up getting cheated and pay ten times the cost."*
6. Confusion about Conversions: *"At the beginning I always had to convert to the old cedi and there were times I when over-paid because I could not make sense of the numbers."*
7. Confusion about the Value of Money: *"I never know how much money to take (out of an ATM), and for a while, it felt as if I did not have enough money on me: you know: it felt light, but then the money that I would put in my wallet seemed small."*

The stated difficulties reported by the interviewees were neither covered during the Bank of Ghana's press releases about the redenomination nor in the public education campaign about the denomination that preceded the transition, and went on for a period of time after the new currency was introduced. Overall, the general public opinion of the conversion from the old to new currency was that it was simple; all one had to do was to drop four (4) zeros from the old currency to get the price of an item in the new currency. In addition, reference price conversion charts that displayed old prices and their equivalent in the new currency were supplied to vendors. However, the examples given by the interviewees in the current study indicated that the transition to the new currency was not as smooth as had been predicted. While these reported difficulties were particularly prominent at the beginning of the transition process and would

probably decrease over time, they are clear indications that Ghanaians did not immediately make sense of the new currency enough to conduct daily financial transactions without the potential of running into problems.

While portability of the new currency was seen as an advantage to some, one respondent pointed out that it had a downside:

8. Security: *“You lose more money if you lose one note of the new currency (or if it gets stolen) compared to one note of the old currency. For that reason, I do not like the 50 new Ghana cedi note.”*

Thus the largest bill of the new currency had a special meaning for some: dangerous if lost or stolen. Another thing that Ghanaians do not like is the 1 pesewa coin, once again, an unanticipated consequence of the change.

*The One Ghana Pesewa coin, which was introduced as part of redenomination of the country’s currency in 2007 is not easily accepted among the public either for purchases or change, a survey has revealed. The survey, mainly public opinion sampling on the acceptability of the One Pesewa coin further revealed some buyers prefer to let vendors keep the coin, rather than to collect it as change. In few instances, some people even refuse to accept the One Pesewa coin as legal tender, a situation which requires prompt action from authorities to step up education to drum home the fact that irrespective of its value, the coin remains a legal tender (Ghana News Agency, 2009).*

Once again, this clearly demonstrates the money illusion. In the old currency, it was 100 cedis. However, in the new currency, it is 1pesewa (1p), and considered inconsequential enough to give to the vendor. Finally, a shortage of coins provided the last coded category.

9. Frustration: *“The new currency is frustrating when you want to buy something and the seller has no change. You either have to change your mind about buying the item, or buy more than you need to, or dash them the change. Also sellers have increased prices because there is no change. It’s a cheat!”*

In contrast to the low value ascribed to the 1p, the concept of no change is clearly a source of frustration, which could potentially impact consumer behavior. It will be recollected that the coin shortage was predicted by a Ghanaian economist but refuted by the BOG.

The responses were also coded for absent themes. None of the respondents mentioned decreased transaction costs, easier financial accounting, or decreased strain on ATMs, reasons given by the bank of Ghana as partly driving the need for the change. However, given that the individuals interviewed were consumers and not employees in the financial sector, this is understandable. None of the interviewees supported some of the anti-redenomination arguments including decreased value of their finances, increased inflation. However, these misgivings are measured on a national level, and the other concerns raised can only be evaluated on the basis of whether or not the new currency stands the test of time.

## **Limitations and Implications**

The results of the data we presented are clearly hampered by the method of sampling, the small sample size, and the mode of investigational inquiry. Nevertheless, this study provides important preliminary information about how Ghanaians made sense of the new currency one year after the national currency's redenomination. The results indicate that respondents found the new currency more portable than its predecessor, and that the new currency facilitated the process of perceiving the local economy in a global context due to a 1:1 exchange rate with the US dollar at the time of redenomination. Unfortunately, the new currency also brought about a variety of frustrations (about conversions, value of money, and understanding prices) that Ghanaians had to deal with everyday. The mixed findings suggest that the process of redenomination in Ghana cannot be characterized as a resounding success in its execution.

Considering the Ghanaian example from a case study perspective provides several suggestions for countries planning on demonetizing or redenominating their currency, particularly in the current climate where regional currency unions are perceived as optimal. The first suggestion addresses the length and scope of the pre-redenomination public education period. The BOG embarked on a pre-redenomination nation-wide public education policy that lasted 7 months, and included media education campaigns, posters, and public forums. While the BOG laudably continued to educate the public after the process began, it is clear from the numerous forms of confusion reported by our respondents that the country as a whole could have benefited from additional preparation. It is therefore important for institutions planning a currency change to plan and effectively execute a very comprehensive, marketing-oriented, public education campaign that goes beyond addressing only the obvious logistic issues involved in a currency change to tackling more subtle money behaviors as well. For example, psychological theories that impact conceptualization of money, such as Money Illusion, Re-scaling, and Re-learning Theories can inform the adaptation process and should be encapsulated within the public education campaign.

Other recommendations that the current Ghanaian case study elicit include the importance of a readiness to deal with unplanned consequences because the process will never be as simple as planned, as well as the importance of paying attention to critics because their concerns might be warranted. In addition, we recommend that critics pay attention to the proponents of the redenomination because the latter might have valid reasons for seeking the currency change. Finally, to minimize frustration during the implementation process, it is vital to ensure the availability of large amount of pocket change and smaller denomination notes; currency used for everyday purchases.

This preliminary study should in no way be considered an exhaustive examination of Ghana's adaptation to the redenomination of the Cedi: numerous questions remain unanswered. For example, the current study neither addresses the issue of redenomination from the perspective of cashless forms of financial transactions currently available in Ghana, nor the impact of the changing global economy on the adaptation to the changed currency. Further studies currently in progress are exploring quantitative and qualitative aspects of how Ghanaians are making sense of the new currency over time and in more structured ways.

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