Cultivating Financial Resilience: Illuminating the Nexus of Financial Literacy, Corruption Perception, and Sustainable Debt Strategies in Ghana

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Abstract. The current study aims to investigate the moderating effect of corruption perception on the nexus between financial literacy, debt restructuring, and sustainability in the Ghanaian context. Using a quantitative approach and descriptive survey design, data were collected from individuals directly impacted by government debt restructuring initiatives. The sample size was determined using an infinite population sample determination technique, resulting in a sample of 385 participants. Stratified sampling was employed to ensure representativeness, and various means, including Google Forms and assistance from financial institutions, were utilized to engage participants across 16 regions of Ghana.The findings reveal that higher perceptions of corruption are associated with lower debt sustainability but have a positive effect on debt restructuring. Financial literacy is positively associated with debt sustainability, while age and gender also influence debt management outcomes. Education level positively affects debt sustainability, while income is negatively associated with it but has no effect on debt restructuring. These findings have significant policy implications, underscoring the need to address corruption and promote financial literacy in debt management policies. They also have practical implications, emphasizing the importance of supporting individuals in adopting sustainable debt management strategies. The findings contribute to the theoretical understanding of the relationships between these factors and suggest avenues for future research.

Keywords: corruption perception, debt restructuring, debt sustainability, Financial literacy, quantitative research.

1 Introduction

The current state of global finance is fraught with difficulties, particularly in the Sub-Saharan African (SSA) region, where debt sustainability issues are more pronounced than in Asia [1]. The relationship between financial literacy, perceptions of corruption, and sustainable debt strategies is crucial [2]. Our research evaluates the influence of financial literacy on Ghana's debt restructuring initiative, as well as its impact on debt sustainability and the moderating role of corruption perception in these relation-

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ships. The continent of Africa is grappling with the challenge of regulating debt levels, with the presence of substantial debt burdens and limited fiscal space [3]. Corruption has been recognized as a significant hindrance to economic development and financial stability in the region, further complicating the management of debt [4].

Financial literacy is an essential skill for individuals to make well-informed financial decisions and handle their finances efficiently [5]. Whilst the impact of financial literacy on debt restructuring programs in African countries, such as Ghana, has not been examined, comprehending the manner in which financial literacy impacts individuals' participation and decision-making in debt restructuring initiatives can aid in devising sustainable debt management policies and strategies [6]. The issue of debt sustainability, which refers to a country's capacity to handle and pay off its debts while maintaining economic stability and avoiding the burden of passing on the obligation to future generations, is a significant concern in the region [7]. In order for debt sustainability to be attained, it is imperative that comprehensive debt management strategies and robust governance mechanisms be implemented [8].

The relationship between financial literacy and debt sustainability is complex, with corruption perception significantly influencing the efficacy of debt restructuring and sustainability efforts [9]. Corruption is a pervasive problem in African nations, negatively impacting economic growth, investment climate, and public confidence in government institutions [10]. The interplay between corruption perception, financial literacy, debt restructuring, and sustainability offers a nuanced view of the challenges faced by SSA nations in their pursuit of financial resilience [7].

This research aims to fill a void in the existing literature by examining the correlation between financial literacy, corruption perception, debt restructuring, and debt sustainability in Ghana. The findings of this study are of significant value in promoting financial resilience and sustainable debt management practices in Sub-Saharan African nations, particularly in Ghana, and beyond.

2 Method

We employ a quantitative approach and descriptive survey design to investigate the nexus among financial literacy, corruption perception, debt restructuring, and debt sustainability in the Ghanaian setting [11]. The population constitutes individuals who have existing debts and those who are contemplating participation in debt restructuring programmers, constitute the target population. The stratified sampling technique and proportional sampling were used to sample 385 respondents within the 16 regions of Ghana in the financial institutions that have implemented debt restructuring programmers. Multiple linear regressions was employed to examine the study variables. The model for debt restructuring (DERT) and debt sustainability (DST) is specified as follows:

$$\mathrm{DERT} = \beta 0 + \beta 1(\mathrm{FL}) + \beta 2(\mathrm{CP} * \mathrm{FL}) + \varepsilon 1 \tag{1}$$

$$\mathrm{DST} = \gamma 0 + \gamma 1(\mathrm{FL}) + \gamma 2(\mathrm{CP} * \mathrm{FL}) + \varepsilon 2 \tag{2}$$

$$DST = \beta 0 + \beta 1(DERT) + \beta 2(FL) + \beta 2(DERT * CP) + \varepsilon \quad (3)$$

where DERT represents the debt restructuring outcome, DST represents the debt sustainability outcome, FL represents financial literacy, CP represents corruption perception, β0, γ0 are the intercept, β1, γ1 and β2, γ2 are the coefficients to be estimated, and ε1 and ε2 are the error terms.

3 Result and Discussion

The results of the reliability and convergent validity indicated that the measurement items of the study variables are high providing confidence in the study's measurement model. The result of descriptive statistic shown in Table 1 as follow:

Table 1. Descriptive Statistics.

	N	Min	Max	Mean	SD	Skewness			Kurtosis
						Stat	Std. Err	Stat	Std. Err
FL	381	1	7	5.38	1.21	-1.87	0.13	3.72	0.25
DERT	381	1.4	4.2	2.33	0.53	0.96	0.13	0.80	0.25
DST	381	1	2.4	1.72	0.39	-0.25	0.13	-0.79	0.25
CP	381	1	7	5.49	1.22	-1.93	0.13	3.71	0.25

Note: FL: Financial literacy, DERT: Debt restructuring, DST: Debt sustainability, CP: Corruption perception.

The results presented in Table 1 revealed that respondents have a high level of financial literacy, moderate familiarity with debt restructuring, moderate perception of national debt sustainability, and widespread perception of corruption in public institutions.

3.1 Regression analysis

Based on the results presented in Table 1 and the diagnostic tests and model fit, the OLS regression model appears to be a reliable tool for analyzing the data. The findings were discussed on two levels, with and without interaction effects. For example, the net effect of financial literacy on debt sustainability was found to be 0.839[(0.140×5.38)] +(0.086)], with a conditional effect of -0.140 for the interaction between financial literacy and corruption perception, an unconditional effect of 0.086, and a mean of 5.38 for the moderating variable corruption perception. The study also revealed that corruption perception has a significant impact on debt sustainability and debt restructuring. Higher levels of corruption perception lead to lower sustainability but positively affect debt restructuring. Additionally, the relationship between corruption perception and financial literacy is intriguing. The analysis also revealed that age, gender, education level, and income have various effects on debt sustainability and restructuring.

Table 2.

	Model 1	Model 2	Model 3
	DST	DERT	DST
Constant	2.063***	1.338***	1.665***
	(0.000)	(0.000)	(0.000)
FL	0.086**	1.358***	0.017*
	(0.047)	(0.000)	(0,031)
CP	0.135***	0.087**	0.220***
	(0.001)	(0.025)	(0.001)
DERT	---	---	-0.199***
	---	---	(0.000)
CP*FL	0.140***	-0.016*	---
	(0.001)	(0,039)	---
CP*DERT	----	---	0.032
	---	----	(0.275)
Age	-0.151***	-0.055*	-0.026
	(0.000)	(0.000)	(0.000)
Gender	-0.280***	0.169***	0.2175***
	(0.000)	(0.000)	(0.000)
Education Level	0.329***	-0.106***	-0.159***
	(0.000)	(0.000)	(0.000)
Income	-0.314***	0.148	0.203***
	(0.039)	(0.000)	(0.001)
Net Effecta	0.839	1.272	na
Observation	381	381	381
R2	0.510	0.186	0.193
AdjustedR2	0.501	0.170	0.176
F-Statistics	55***	12.14***	11.14***

***,**,* P<0.001, P<0.05, P<0.01 respectively FL: Financial literacy, DERT: Debt restructuring, DST: Debt sustainability, CP: Corruption perception. na: not applicable because at least an unconditional or a conditional effect needed for the computation of net effects is not significant

Table 2 illustrates that the perception of corruption has a profound influence on debt sustainability and debt restructuring. A higher perception of corruption is correlated with lower levels of debt sustainability, indicating that countries or individuals may face difficulties in maintaining manageable debt levels. Conversely, these perceptions have a positive impact on debt restructuring, encouraging individuals and organizations to seek debt reduction measures actively [12]. The study uncovered a noteworthy interplay between corruption perception and financial literacy in debt management. Those with higher financial literacy and a positive perception of corruption are more likely to employ effective debt management strategies. Demographic factors also impact debt management practices. Younger individuals exhibit a negative correlation with debt sustainability and debt restructuring, while gender disparities influence debt management strategies [13]. Education level is a positive factor associated with debt sustainability, supporting previous research on the benefits of higher education in promoting sustainable debt management.

The study's discoveries add to the existing body of knowledge by offering a thorough appreciation of the connections between financial literacy, corruption perception, and sustainable debt strategies in Ghana [1]. This study addresses to fill notable gaps in previous research, including the inadequate consideration of government debt restructuring programs, the scarcity of examinations into the correlation between financial literacy and debt sustainability in Ghana, and the lack of exploration into the mediating function of corruption perception.

Furthermore, we examine the effect of the debt structuring program on the debt sustainability of Ghana (model 3). The negative coefficient for debt restructuring indicates that debt restructuring has a substantial negative impact on debt sustainability. This is consistent with prior research that has demonstrated the potential difficulties and risks associated with debt restructuring initiatives [5,9. These studies emphasize the importance of carefully considering and evaluating the long-term effects of debt restructuring programmers. Higher levels of financial literacy are associated with increased debt sustainability, according to the positive coefficient for financial literacy. This finding is supported by antecedent research that has demonstrated the positive influence of financial literacy on an individual's capacity to make informed financial decisions and effectively manage debts [14]. Individuals with a higher level of financial literacy are more likely to adopt sustainable debt management strategies, resulting in improved debt sustainability outcomes.

Higher levels of corruption perception are associated with greater debt sustainability, as indicated by the positive coefficient for corruption perception. This finding may be counterintuitive, given that corruption is commonly perceived as detrimental to economic stability and debt management. However, previous research has also found a positive relationship between corruption perception and debt restructuring [15], suggesting that individuals or nations with a higher perception of corruption may actively engage in debt restructuring efforts to mitigate the impact of corruption on their debt burden. The absence of statistical significance for the interaction coefficient between corruption perception and debt restructuring suggests that the combined effect of corruption perception and debt restructuring on debt sustainability is not statistically significant. This indicates that perceptions of corruption and debt restructuring may independently affect debt sustainability outcomes, but their interaction has no significant impact.

4 Conclusion

The study investigates the correlation between corruption perception, financial literacy, debt restructuring, and sustainability. It found that corruption perception negatively impacts debt sustainability, while financial literacy positively impacts it suggesting that individuals with higher financial literacy are more likely to adopt sustainable debt management strategies. Demographic factors like age, gender, education, and income level also influence an individual's approach to debt management. The study emphasizes the need for governments and policymakers to improve financial literacy skills to enable individuals to make informed decisions and manage their debts effectively. Mitigating corruption and enhancing transparency within financial systems is crucial for promoting debt sustainability. In situations where corruption is perceived, proactively pursuing debt restructuring options can be beneficial. Financial education programs should be developed and implemented to enhance financial literacy and encourage conscientious borrowing behaviors. Our findings provide insight into the complex interconnections between corruption perception, financial literacy, debt restructuring, and sustainability. Future research could use objective measures or experimental designs, to investigate the enduring consequences of debt restructuring.

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