Development and Change
Published on behalf of the Institute of Social Studies, The Hague

Debate

Local Currency Bond Markets in Africa: Resilience and Subordination

Florence Dafe, Annina Kaltenbrunner, Ingrid Harvold Kvangraven and Iván Weigandi

ABSTRACT

This article examines the development and implications of local currency bond markets (LCBMs) in African countries in the context of international financial subordination (IFS). Despite the promotion of LCBMs as a solution to debt vulnerability, there is a dearth of research that offers a systematic empirical examination of their actual benefits along with conceptual explanations as to when and why such benefits may or may not materialize. This is especially true for countries at the bottom of the global economic hierarchy. To explore how the subordination in global production and financial systems shapes LCBM development, the article offers an empirical analysis of selected African countries that combines interviews with policy makers, officials and experts with statistical data. The findings suggest that while LCBMs offer some benefits, such as mitigating risks associated with foreign currency debt, their potential is limited by the structural processes created by IFS, such as their dependence on the global financial cycle, the relatively higher costs of this debt and the sustained constraint on macroeconomic policy making. However, there are also domestic factors which shape how these structural constraints are mediated in the context of LCBM development — in particular, historically developed financial structures of developing countries, the political economy of the state and the structure of production. This study thus contributes to the debate about the developmental benefits of domestic debt market development and the emerging research agenda on IFS.

INTRODUCTION

Over 25 years after the international community launched the Heavily Indebted Poor Countries Initiative in 1996, followed by the Multilateral Debt Relief Initiative launched in 2005, to address the debt crisis in the global South, many developing countries such as Ghana, Sri Lanka and Zambia are again experiencing debt crises or facing high risks of crises.

Development and Change 0(0): 1–34. DOI: 10.1111/dech.12797

The COVID-19 pandemic and Russia's war in Ukraine exacerbated vulnerabilities that have been building up since the 2010s, when investing in developing countries' debt became more attractive due to low global interest rates and due to growth prospects in developing countries benefiting from high commodity prices. While much of the policy and academic work on the current wave of debt distress in the global South has focused on external debt and on short-term policy solutions, less attention has been given to the role of local currency domestic debt and how debt accumulation in countries in the periphery is shaped by their structural subordination in the global economy. Since the mid-1990s, the share of local currency debt in total debt for low-income countries has grown from around 19 per cent to reach 35 per cent by the end of 2021 (Chuku et al., 2023: 21). This increase in local currency debt — which is held largely by private creditors — raises serious challenges for debt resolution. This study, therefore, focuses specifically on the role of local currency debt, both in shaping emerging debt vulnerabilities and as a conduit for sustainable development finance in African countries.

Governments across the global South have long made efforts to develop local currency bond markets (LCBMs). Yet, after international financial institutions (IFIs) and donor countries put LCBM development on their agenda, as reflected by the 2007 'G8 Action Plan for Developing Local Bond Markets in Emerging Market Economies and Developing Economies', there was an increasing emphasis on opening LCBMs up for foreign investors, and in many countries their size expanded drastically. LCBMs were presented as a technical fix to many of the risks associated with external, particularly foreign currency, borrowing. Principally, four main benefits were advanced. First, LCBMs were seen to attract additional financial resources, especially if opened to foreign capital. Second, they were expected to contribute to the development and deepening of domestic financial markets, including the development of a corporate bond market and patient domestic capital such as domestic pension and insurance funds. Third, the expansion of local currency debt markets was expected to reduce financial fragility and external vulnerability as destabilizing currency mismatches in domestic balance sheets would be removed, and countries would no longer need to accumulate foreign exchange for debt service. Finally, it was anticipated that LCBM development would increase the efficiency of monetary policy making, widen the domestic macroeconomic policy space and reduce the need to hold 'wasteful' foreign exchange reserves.

In this contribution, we investigate whether, and under what circumstances, LCBMs can fulfil these promises in African countries that are financially subordinated in the global economy. To do so we draw on the recently developed framework of international financial subordination (IFS) (Alami et al., 2022). Within this framework, IFS is understood as a relation of domination, inferiority and subjugation between different spaces across the world market, expressed in and through money and finance (see also Bonizzi et al., 2020; Koddenbrock et al., 2022). This relationship penalizes

actors in the global South disproportionally, as is evident in their vulnerability to volatile global financial cycles, limited space to pursue policies that violate the interests of international financial agents and, quite broadly, in the fact that their economic development is dependent upon the dynamics in countries located at the top of global economic hierarchies.

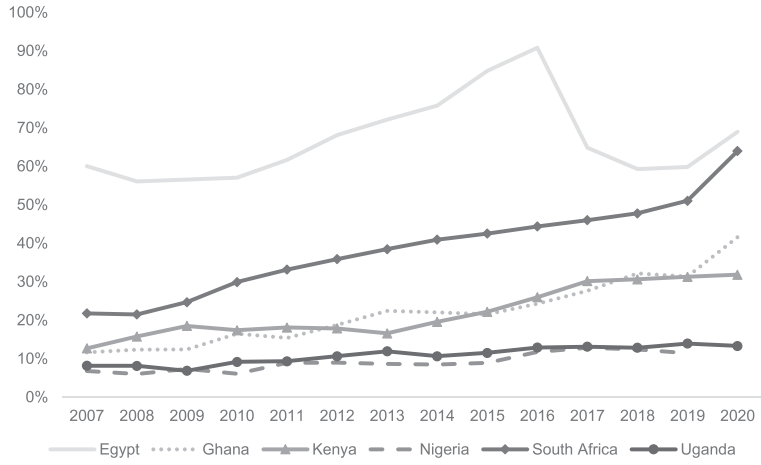
The empirical manifestations of IFS in the global South, such as global investors' search for short-term yields (Akyüz, 2017; Goda et al., 2013), volatile capital flows driving financial crises (Arestis and Glickman, 2002; Kregel, 1998) and sharp exchange rate swings driven by conditions in international financial markets (Naqvi, 2019; Prebisch, 1939) have long been observed.[1] The added value of IFS as a critical framework for approaching uneven financial and economic development in the global South is its systematic integration of these empirical and theoretical insights, and the identification of particular factors (axes) that mediate IFS in the specific domestic context, and might help to inform future research on IFS.

This article builds on these recent attempts to develop a more systematic understanding of developing countries' subordinate integration into global money and financial markets to analyse the developmental potential of LCBMs. While the developmental potential of LCBMs has become a dominant view in IFIs and many donor institutions, there has been surprisingly little empirical examination of whether and to what extent LCBMs actually fulfil their promise in the context of countries that are subordinated in hierarchical global economic and financial systems. We fill this gap by examining selected LCBMs in Africa, including Egypt, Ethiopia, Ghana, Kenya, Nigeria, South Africa and Uganda. We focus on these countries because policy makers within IFIs and on the continent have promoted LCBMs for these economies with great enthusiasm, expanding these markets in recent years (see Figure 1). In addition, by focusing on countries that differ with respect to the degree and nature of LCBM development, we can explore how specific domestic factors shape the developmental outcomes of LCBM development within global structures of subordination.

Two key insights from an IFS research agenda are particularly relevant for obtaining a more nuanced understanding of LCBM development. The first concerns the need to consider the ways in which financial systems in the global South are impacted by, integrated into and subordinated within the hierarchic international monetary and financial system (Alami et al., 2022). The second pertains to the domestic factors which shape the way IFS

1. An important insight for the IFS research agenda came from the Latin American structuralist Raúl Prebisch (1939), who argued that a hierarchical and uneven global economy led to peripheral economies' financial sector dependence on global liquidity and global business cycles. Since then, contributions exploring the limits and potential of financial systems in the global South have come from many traditions, including structuralism (e.g. Lampa, 2021; Tavares, 1985), regulationism (Becker et al., 2010), Marxism (e.g. Amin, 1974; Patnaik and Patnaik, 2021; Reis and Antunes de Oliveira, 2023), and post-Keynesianism (Dow, 1999; Levy-Orlik, 2022; Prates and Andrade, 2013).

Figure 1. Local Currency Public Debt as a Share of GDP (%)



Source: Authors' elaboration based on Arslanalp and Tsuda (2014) and Fitch Connect (www.imf.org/en/Publications/WP/Issues/2016/12/31/Tracking-Global-Demand-for-Emerging-Market-Sovereign-Debt-41399; and www.fitchsolutions.com/fitch-connect).

is mediated in a specific context and thus its concrete outcomes. Drawing on six axes identified in the IFS literature (ibid.), we find that in the context of LCBM development in Africa, it may be fruitful to pay particular attention to: the historical evolution of domestic financial structures, the political economy of the state, and the nature of domestic productive structures (Dafe, 2020; Karwowski, 2022; Koddenbrock et al., 2022). As the research agenda on IFS still lacks systematic, comparative empirical analyses of IFS and its potential variation within the global South, this article provides some evidence of cross-national differences in LCBM development and suggests how they relate to variations in the forms and manifestations of IFS.

Our analysis is based on two types of data. First, we have primary data from interviews with policy makers, senior officials from aid agencies and development finance institutions, and experts from private financial institutions.[2] These interviews were carried out in two rounds: the first took place in December 2019–March 2020, and the second in December 2022–January 2023. While the first round of interviews focused on getting a better understanding of the political and economic drivers of LCBM development, the second round concentrated on its potential costs and benefits in the context of IFS. Second, we used statistical data from debt management offices and

2. See Appendix for an overview of interviews conducted.

ministries of finance, and datasets from the International Monetary Fund (IMF).

Our analysis suggests that although LCBMs might provide some benefits for countries in the global South — in particular, vis-à-vis the risks associated with foreign currency debt — these benefits are fundamentally circumscribed by the countries' subordinate position within global product, money and financial markets. Specifically, with regard to the ability to garner additional funding, our results show that the availability of local currency funding depends essentially on global liquidity conditions as global investors seek alternative, high-yielding assets. For African economies, these funds have come at a significant financial cost in the form of high interest rate payments. In addition, we find that the countries that have more weakly developed productive sectors, and financial systems lacking more long-term oriented domestic investors, are less likely to reap benefits in terms of domestic financial sector development. We show that LCBMs so far have contributed little to deepening corporate debt markets and do not seem to have significantly altered existing domestic financial systems, which remain, with some exceptions such as Nigeria and South Africa, concentrated in a few banks. While this provides some stable demand for sovereign bonds, the concentration of local currency bonds (LCBs) in domestic banks might reduce private credit availability. In these contexts, the existence of more long-term oriented domestic investors, such as pension and insurance funds, might constitute another important source of domestic demand for public LCBMs.

Another increasingly important holder of LCBs in some African countries are non-resident investors. In contrast to what was expected by IFIs, foreign investors have done little to provide stable financial resources to African economies and have tied domestic financial markets even more closely to the global financial cycle. This has also meant that African central banks have gained little additional autonomy in monetary policy making, which has remained dominated by international monetary conditions and pressures to accommodate non-resident investors. While this is an outcome of a common history and trajectory of IFS, we also observe important differences here. Whereas some countries with more diversified financial systems and productive structures, notably Nigeria, attempted to increase monetary autonomy through foreign exchange and capital controls, other countries such as Ghana and Egypt were more accommodating to non-resident investors.

The next section will give a brief overview of the drivers of LCBM development in Africa. In line with the IFS research agenda, our focus is on both the global drivers, which have pushed for LCBMs in Africa, and the domestic factors which can cause differences within those global pressures. The section that follows engages critically with the four potential benefits of LCBM development from an IFS perspective. The final section concludes

with some critical reflections on the role LCBMs play in supporting developmental goals and policies.

THE DRIVE FOR AFRICAN LOCAL CURRENCY BOND MARKETS

The drivers of LCBM development across the African continent are complex. The dominant trend in the mainstream economic literature is to focus on domestic economic and institutional drivers of LCBM development, with main variables being the size of the economy (measured in terms of GDP and country area size), the 'stage' of economic development (measured in terms of GDP per capita) and various indicators of policy openness and institutional arrangements, including legal origin.[3] Regarding economic size, the argument goes that larger economies have greater availability of potential buyers and sellers, which leads to the development of deeper and more efficient bond markets that are also thought to attract multinational corporations and other large potential foreign investors, which in turn lead to further development of these markets (Claessens et al., 2007, Eichengreen and Luengnaruemitchai, 2004). In terms of the impact of the level of economic development, typically measured as GDP per capita, many economists have both theoretically and empirically established a positive relationship between the developmental 'stage' of an economy and its bond market development (Berensmann et al., 2015, Calderón and Liu, 2003, Levine, 2005). Higher stages of economic development are associated with more stable institutions and less volatile economic conditions, enhancing investor confidence and reducing bond financing costs (Eichengreen and Luengnaruemitchai, 2004, 2008). Finally, a central tenet of financial economics is that bond markets thrive in more open economies because of the exposure to international competition and market discipline, which would make domestic investors more confident and interested in bonds (Claessens et al., 2007). In addition, capital account openness has been identified as an important factor for attracting foreign investment, especially for an economy with relatively large domestic demand (Christensen, 2005).

From the perspective of an IFS research agenda, when analysing the drivers of LCBM development, the mainstream literature fails to consider the fundamental role of the structural subordination of developing economies. Moreover, little is said about the global and domestic political economy factors, the relationship between financial systems and structures of production, and how colonial histories have shaped financial markets. Although it is beyond the scope of this article to cover all these issues, we will discuss some alternative ways of understanding the drivers of LCBM development in the next section.

3. See Essers et al. (2016) for a full overview of relevant variables considered in the literature.

Understanding African LCBMs in the Context of IFS

Domestic and external political-economic factors are fundamentally connected, but here we attempt to separate them for analytical purposes. We first delve into the external before considering domestic political economy factors. The former will be our main emphasis given the considerable extent to which African countries are susceptible and vulnerable to external dynamics reflecting their IFS.

External Political Economy Factors

While the development of LCBMs may be in the interest of global investors, who may also be lobbying intensively for it, the official push for LCBMs and the deepening of capital markets seems to come from public or semi-public institutions such as the IFIs, the UK's (former) Department of International Development (DFID), Germany's Credit Institute for Reconstruction — Kreditanstalt für Wiederaufbau (KfW) — and their offshoots. These actors all influence each other and do not operate independently, but we have tried to distil the key interests and actions that are relevant for each group of actors. Here we will consider the role of foreign investors first, before exploring the role of international and bilateral institutions. Many of our insights draw from interviews with development finance institutions and bilateral donors.

Given the structural subordination of African economies within the international financial system, global conditions are crucial for investors' interest in African debt markets (Bonizzi et al., 2019; Gevorkyan and Kvangraven, 2016). Monetary policy decisions in centre economies are particularly influential in this regard (Berensmann et al., 2015; OECD, 2015). For example, following the 2008 financial crisis and the European debt crisis, very low interest rates induced by loose monetary policies in centre economies led investors to search for higher yields in riskier assets to finance long-term obligations (Bonizzi, 2017; Müller, 2016). What's more, private investors competing for higher-than-average returns have increasingly looked to invest in 'frontier markets', including several African bond markets, in a search for higher-yielding assets (Coulibaly et al., 2019; SOMO, 2019). This has been the case for local currency bonds too (Polychronopoulos and Binstock, 2013: 4). The drivers of local currency bonds were thus partly based on the demand for securities generated by international investors, including hedge funds, asset managers, insurance companies and multinational corporations (Gabor, 2018a). This private demand encouraged IFIs to push for the development of domestic bond markets (Müller, 2016). IFIs — mainly the IMF and World Bank and to a certain extent the Bank for International Settlements, as well as regional financial institutions, particularly the African Development Bank — have played an important role in opening

the markets for foreign issuers, the provision of technical assistance and research and the direct issuances of local currency bonds. A justification put forward by the IFIs for their push to get global South governments to develop LCBMs has been 'to get private finance to fund development, social and environmental initiatives' (Sundaram and Mah Hui, 2019). As these authors put it, the message 'has shifted from "working on finance", to try to ensure more resilient and robust development despite international financial volatility and instability, to "working with finance"' (ibid.; see also Müller, 2016).

While the development of LCBMs had already become an important agenda item in international financial reform circles in the 1990s (Hardie and Rethel, 2018), in the early 2000s, economists and policy makers looking at Asian countries which had large banking sectors, and often embryonic bond markets, started 'promoting the idea of developing and deepening local currency bond markets', both as a solution to currency mismatch issues, and 'as a means to recycle growing regional foreign currency reserves' (UNCTAD, 2012: 25, with reference to Park and Park, 2003). Then, with the aforementioned G8 Action Plan of 2007, the argument was forcefully made that deeper securities markets would improve the ability of countries in the global South to withstand volatile capital inflows and reduce their dependence on external financing. The World Bank committed to setting up the Global Fund for Emerging Markets Local Currency Bonds, intending to transform local bond markets into a mainstream asset class (Gabor, 2018a: 407), and to accompany it, a private global index was constructed to measure the attractiveness of these bond markets for foreign investors. Since then, IFIs have promoted LCBMs as a tool for financial deepening that can lead to growth and stability. The IMF et al. (2013) identify an increase in such bonds as important for a sustainable market-oriented debt management strategy and as an important generator of economic growth. Furthermore, the Local Currency Bond Market Initiative, designed by the World Bank and the IMF at the request of the G20 in 2011, encourages countries in the global South to develop liquid local currency securities markets that can attract foreign investors (Gabor, 2018b). With the G20 action plan to develop LCBMs launched at the G20 Cannes Summit in 2011, the African Local Currency Bond Fund was established by KfW and the German government to promote corporate local currency bond markets as a viable source of funding in Africa.

Interviews with development finance institutions (DFIs) based in London reveal that the actions of these institutions reflect the interests of donors and/or private capital. For example, a London-based DFI, whose mission is 'very much about developing local capital markets and mobilizing local currency to finance infrastructure', sought to develop a partnership with the London Stock Exchange (LSE) because they saw that there were 'a lot of

investors, large pools of capital, sitting here in London, New York'.[4] While this is not necessarily in contradiction with their mission, it demonstrates that connecting African capital markets to global markets also benefits idle capital and its holders in London and New York. Indeed, it was the LSE that reached out to that same DFI a couple of years ago to set up the 'international securities markets',[5] as it corresponded to political objectives at DFID (DFID, 2018). One of the reasons for the creation of a Dutch development finance institution was the low interest rate environment.[6] The fund, which was created by four governments, development banks and a number of impact investors, helped investors sitting on hard currency who wanted to secure local currency returns in emerging economies. Moreover, bilateral economic interests of donors, such as forging political and economic alliances, at least partially informed decisions of development finance institutions about which countries to focus their efforts on.[7]

Overall, this provides some support to the argument that the development of market-based finance in Africa has been shaped in large part by the demand for high-yielding securities among international investors, and that it is to some extent determined by conditions in the North (Gabor, 2018a). This suggests that it is precisely the internationally subordinate financial position of these countries that is driving some investors to those markets, and not necessarily developmentalist motivations.

Domestic Political Economy Factors

The IFS research agenda does not only locate peripheral economies within an unequally structured global economy, but also calls for investigating and understanding the differences in the form that IFS assumes in different countries. One key element of the IFS research agenda involves examining how IFS has historically evolved and mutated in its concrete forms and variations, and how different configurations of IFS are thus a product of specific histories. Drawing on the axes identified in IFS research (Alami et al., 2022), we conduct this examination with reference to three factors which might shape the outcomes of LCBMs.

The first concerns the historical evolution of domestic financial systems and how their subordination has been shaped and changed over time (Amin, 1976; Bernards, 2020; Koddenbrock et al., 2022; Nkrumah, 1965; Ouma, 2016). In keeping with the way that most colonial financial systems were constructed, financial systems in Africa have remained largely bank-based, with sectors like the pension fund and insurance industry growing only

4. Interview, chief executive officer of a UK-based DFI, London, December 2019.
5. Ibid.
6. Interview, chief executive officer of a Netherlands-based DFI, London, December 2019.
7. Interview, senior vice president of a Netherlands-based DFI, online, April 2020.

slowly in a few countries over the past decade, supported by a growing middle class and more developed corporate sectors. Banks have historically focused on short-term lending to a few prime borrowers including large corporations and the state (Brownbridge and Harvey, 1998). Especially colonies that were set up as trading economies, such as Ghana or Uganda, developed banking systems in which banks were designed primarily to settle the accounts of the colonial economy, given their extractive nature (Koddenbrock et al., 2022; Mkandawire, 1999). However, countries with different colonial histories, for example, settler territories such as South Africa and Kenya, are more likely to have developed deeper financial sectors relative to trading economies, given that the banking systems were also meant to serve the colonial settler population (Bernards, 2020). Even in Nigeria, which has a large financial sector compared to other countries on the continent, banks' provision of credit to the (non-oil) real economy — in line with Nigeria's history of oil extraction — remains limited, as risk-adjusted profits are higher in areas such as foreign exchange speculation than in lending to productive sectors.

Structures established during colonialism had a negative impact on many African banking sectors even after formal independence (Amin, 1976; Nkrumah, 1965). Reforms to liberalize financial sectors, often imposed by IFIs when African countries experienced economic crises in the late 1980s and 1990s, frequently led to a reduction in the volume of lending to the real economy (Jones, 2020; Lewis and Stein, 1997; Nissanke, 2001). In many African countries, frustration with the banking sector's limited role in providing long-term funding for the state and businesses, and the perceived need to gain financial independence from donors and foreign countries and create space to fund national development initiatives, all contributed to the efforts to reach out to investors in sovereign bond markets (Dafe, 2020; Zeitz, 2022).

The second factor highlighted by the IFS framework concerns the role of the state in capitalist society (Alami et al., 2022). Interrogating the role of the state entails going beyond recognizing that all states are disciplined by the structural power of finance, to ask how IFS influences this relationship and how IFS, in turn, shapes the ways in which these states attempt to manage class relations and foster capital accumulation within their national territories. Notably, the African state was reconfigured in many ways from the 1980s onwards, with high finance acquiring a more prominent role as the state rolled out policy packages based on deregulation and privatization (Desai, 2019). While some scholars argue that the peripheral state plays an important role in *sustaining* relations of dependence through its management of the monetary and financial sphere (Musthaq, 2021a), others see the state as a possible agent of resistance to global capital through policies ranging from management of class and financial relations to more radical projects of delinking (Cardoso and Faletto, 1979; Marini, 1973; Pérez, 2021). In countries where the state plays a limited role in the provision of social security,

key services such as pension finance are often outsourced to the private sector. The investors that are nurtured through these developments might create a demand for local currency bonds, and thus spur LCBM development.

In addition, the political economy underpinning the state's approach to the governance of the economy might also shape the characteristics of LCBMs. In some countries, states pursue a market-led approach, limiting themselves to providing an 'enabling environment' for the growth of LCBMs and for attracting investors. In other countries, they pursue a state-led approach, in which they are more proactive and seek to intervene in financial markets in ways that might even antagonize investors when this is considered to serve other developmental goals (Dafe, 2020). As such, in the context of IFS, historical (global) class structures may have implications for the extent to and ways in which state actors may be able to shape LCBMs and the institutional structures such as capital controls governing them.

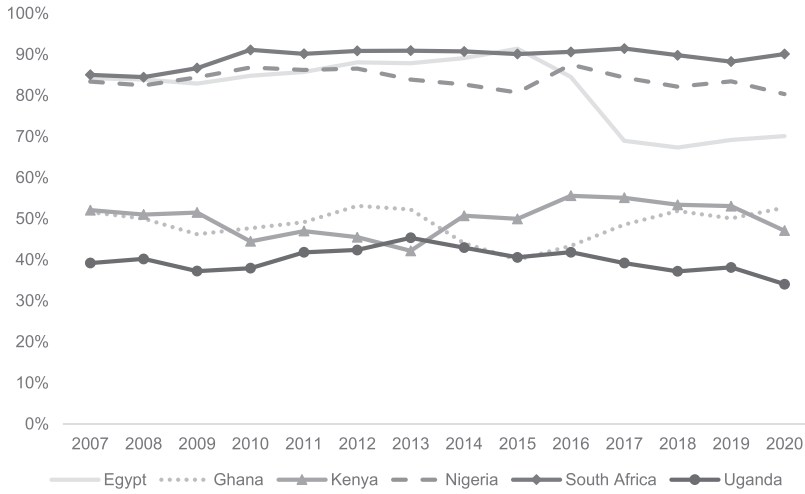
The third factor highlighted by the IFS framework concerns the symbiotic relationship between financial subordination and countries' structures of production. A relatively stronger productive base may help to retain space for less financialized development paths, limiting vulnerability to the interests of (foreign) investors and creditors (Dafe and Rethel, 2022; Massoc, 2022; Naqvi, 2021). Moreover, a stronger productive sector tends to be associated with stronger financial development which in turn contributes to LCBM development as the domestic financial sector may be an important, relatively patient investor base (Hardie, 2011).

The largely global drivers underpinning the push for LCBMs in Africa can therefore be summarized as abundant global liquidity and low returns in developed economies which spurred a hunt for yield in new asset classes, reflecting these countries' subordinate position in global financial markets. However, the IFS framework also highlights the role of domestic factors which might shape the developmental implications of LCBMs, namely historical financial structures, the political economy of the state and domestic production structures. It is these developmental implications — and their potential differences — that we turn to next.

INTERNATIONAL FINANCIAL SUBORDINATION AND DEVELOPMENTAL IMPLICATIONS OF LCBMs IN AFRICA

Proponents of LCBM development have highlighted the generation of additional resources, domestic financial market development, financial system resilience and monetary policy effectiveness as important developmental benefits of LCBMs. Before we probe each of these assumptions and examine how IFS shapes the costs and benefits of LCBMs, it is useful to address the question of how important debt in local currency has become in African countries.

Figure 2. Local Currency Public Debt as a Share of Total Public Debt (%)



Source: Authors' elaboration based on Fitch Connect (www.fitchsolutions.com/fitch-connect).

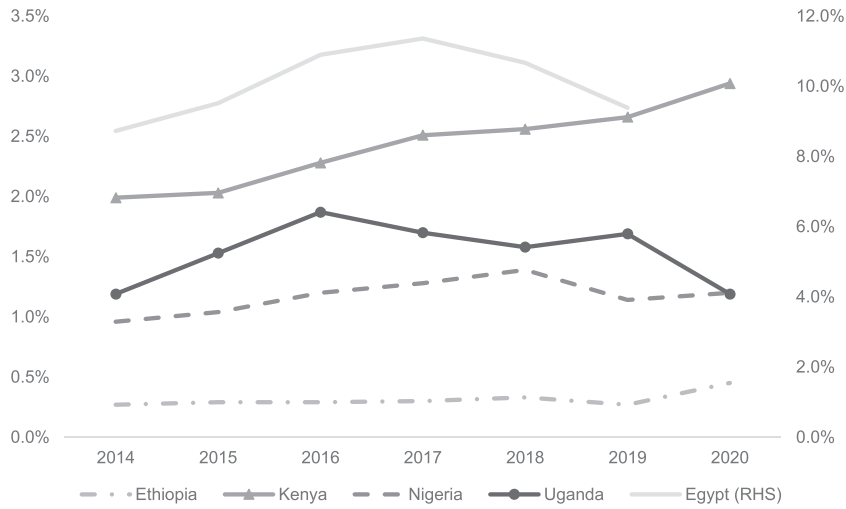
Over the past three decades, African governments have expanded and developed local currency debt markets (Dafe et al., 2018: 3320), epitomizing the trend of low-income countries which, as a group, almost doubled their share of local currency debt as a share of total public debt (Chuku et al., 2023). Since 2007, local debt has amounted to around half of the total debt, though there is some variation. As Figure 2 shows, in South Africa, Nigeria and Egypt, for instance, over 60 per cent of public debt is in the local currency.[8] In the other selected countries, Ghana, Kenya and Uganda, 40–50 per cent of public debt is in the local currency.[9]

Generation of Additional Resources or Costly Debt Build-up?

In the global South, LCBMs are often seen to offer a new source of (long-term) funding for critical investments such as infrastructure and structural transformations required for climate mitigation and adaptation (Mezui, 2017). This has become an important potential funding alternative in the context of falling aid and concessionary lending to many lower-middle-income countries in Africa. Moreover, in theory, the availability of a well-functioning market for domestic debt could provide domestic savers with

8. This share is affected by changes in the exchange rate, as shown by the case of Egypt after 2016.
9. The countries included in the different Figures are subject to change given the available data.

Figure 3. Interest Payments on Domestic Debt as a Percentage of GDP



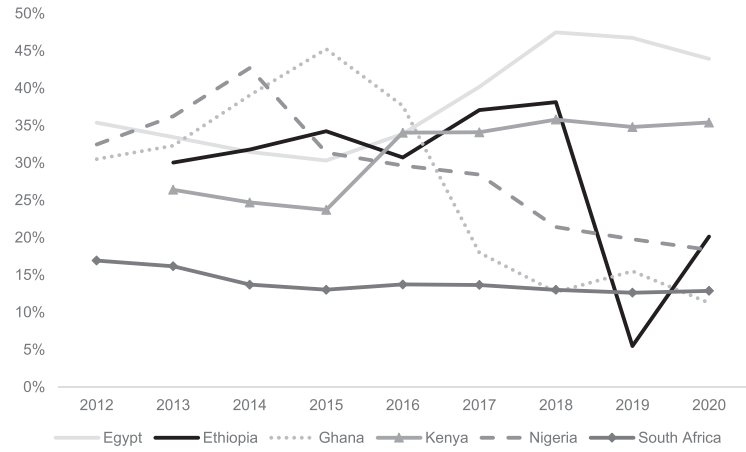
Source: Authors' elaboration based on data from national Ministries of Finance and Treasuries (www.mofed.gov.et/resources/bulletin/; opentreasury.gov.ng/; mof.gov.eg/; www.treasury.go.ke/; www.finance.go.ug/).

an alternative to investing abroad or in the informal economy, thus reducing capital flight, widening the tax base and increasing the depth of the domestic financial system (Abbas and Christensen, 2007; Fabella and Madhur, 2003; Vajs, 2014).

In practice, the development of LCBMs can have negative repercussions for fiscal and debt sustainability. This is particularly the case for LCBMs in Africa, which are characterized by high interest rates. Figure 3 shows that the interest burden of domestic debt over the past few years has absorbed a significant share of national income in Egypt and is on an increasing trend in Kenya. In Ghana the interest on domestic debt accounts for around three-quarters of total interest costs.[10] As discussed above, high interest burdens reflect at least partly the subordinated position of African countries in the global financial system, where investors are able to demand compensation for the risks they associate with investing in countries at the bottom of the global economic hierarchy (Brooks et al., 2015; Olabisi and Stein, 2015). These higher debt-servicing expenditures, however, reduce the amount available for states to directly invest in infrastructure and public services (Fosu, 2009). Moreover, even if LCBMs have the potential to stimulate investments in infrastructure and structural transformation, it is important to note that it is difficult to trace where the money actually goes given the fungibility of finance raised through (non-earmarked) government bonds.

10. Interview, senior credit research analyst, online, January 2023.

Figure 4. Stock of Short-term Debt as a Percentage of Domestic Public Debt



Note: Short-term instruments include mainly treasury bills and other instruments with maturity lower than one year. There may be differences in definitions between countries.
Source: Authors' elaboration based on national data from national Ministries of Finance and Treasuries (www.mofed.gov.et/resources/bulletin/; www.treasury.gov.za/; opentreasury.gov.ng/; mof.gov.eg/; mofep.gov.gh/; www.treasury.go.ke/; www.finance.go.ug/).

The potential concerns regarding debt sustainability are further aggravated by significant roll-over risks in the case of short-term debt issuances. Policy makers on the continent have been successful in lengthening the tenors of LCBs. Indeed, as Figure 4 shows, there has been a decline in the proportion of domestic debt that is short-term in the last five years for some countries, such as Nigeria, Ghana and Ethiopia, which have been able to issue 10-, 20- and 30-year local currency bonds.[11] Despite this positive development, there is little room for complacency since a much higher percentage of short-term debt is domestic rather than external. We also observe some significant differences. For example, while the share of short-term domestic debt has decreased in Ghana and Nigeria, it has increased in Egypt.

Finally, reflecting the subordination of LCBMs to international financial market conditions, every country in our sample had to seek IMF financing in the wake of the COVID-19 pandemic. For these countries, being at the bottom of the global economic and financial hierarchy meant that borrowing on international financial markets in the local currency became prohibitively costly when global liquidity conditions tightened and IFIs became the only funding option. However, there were differences in terms of how much leverage the IFIs had over different governments. In some

11. Interview, senior debt management official, Nigeria, online, 9 December 2022; Interview, former policy official, online, January 2023.

cases, such as Ghana, this came with full-fledged IMF programmes and policy conditionalities, restricting government policy space, while in other cases, such as Nigeria, a withdrawal from the Rapid Credit Facility — a funding channel from the IMF that provides fast concessional financial assistance to developing countries facing an urgent balance of payments need and does not come with any policy conditionalities — was sufficient.

Domestic Financial Market Development and its Limits

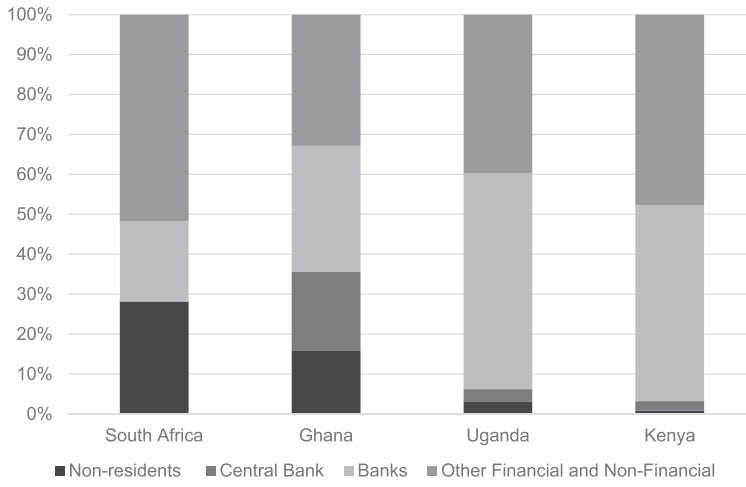
The second major benefit of LCBM development that has been advanced is that as local currency bond markets develop, other elements of domestic financial markets, such as the corporate bond market or the pension fund and insurance industry, which are potential long-term investors, do so as well (IMF, 2013; Mehrotra et al., 2012; Mu et al., 2013). While a diversified, patient investor base in LCBMs that is not reliant on foreign investment might be central to providing steady demand for domestic local currency bonds, thus enhancing the developmental contribution of LCBMs, in many African countries the situation is quite different.

Apart from a few exceptions such as South Africa, as LCBMs have developed, financial sectors have largely stayed on their historical trajectories and remained quite concentrated, with a large share of the assets controlled by a few institutions, mainly banks, and have contributed only to a limited extent to financing the real economy. The adoption of international financial standards such as Basel I and II[12] has provided incentives for banks to increase the holdings of government securities rather than extending credit to underserved segments of the economy (Jones, 2020). Thus, the 'divorce' between the financial system and the real economy has endured long after the colonial period (Koddenbrock et al., 2022).

In line with this divorce, sovereign LCBM development has so far had little impact on supporting funding for the productive sector through spurring corporate LCBM development, as IFIs and donors have argued (IMF, 2013).[13] So far, corporate bond markets in Africa are, with a few exceptions such as Egypt, South Africa and Nigeria, at a nascent stage. Part of the reason seems to be the limited private sector development in general, and the limited productive sector development in particular, that characterize many African countries. Another reason, as one credit analyst argues, is that in the event of corporate bond default, institutional procedures are less developed compared to those of sovereign LCBMs, reducing investor

12. Basel I and II represent a set of international banking regulations first released by the Basel Committee on Banking Supervision in 1988 and 2004 respectively.
13. Interview, UK-based DFI, London, December 2019.

Figure 5. Holders of Domestic Debt, 2021



Note: There may be differences in the definition of domestic debt between countries.
Source: Authors' elaboration based on data from national Ministries of Finance and Treasuries (www.treasury.gov.za/; mofep.gov.gh/; www.treasury.go.ke/; www.finance.go.ug/).

demand.[14] In countries where corporate bond markets are more developed, banks are often major issuers given limited productive sector development.[15]

Another consequence of LCBM development in the context of weak financial sectors is that the investor base has remained narrow. In many countries, including Ghana, Kenya and Uganda, the main holders of sovereign LCBs continue to be commercial banks (see Figure 5). Other types of investors such as asset managers, pension funds, or the insurance industry have only become more important in recent years, and only in more developed African economies such as Egypt, Nigeria and South Africa (Irving, 2020).[16] In Nigeria, for instance, pension funds and the rapidly growing insurance industry jointly requested the issuance of a 30-year sovereign bond in 2017, arguing that their liabilities were long-term in nature and that they needed to match their assets and liabilities.[17]

There may be some advantages to having a narrow investor base in which domestic banks dominate given that, to the extent that they have strong incentives to invest their local funds in relatively risk-free instruments, domestic banks constitute a captive investor base. These investors are patient, in that they do not exit easily in the face of a short- or medium-term

14. Interview, senior credit research analyst, online, January 2023.
15. Ibid.
16. Interview, senior credit research analyst, online, January 2023.
17. Interview, senior debt management official, Nigeria, online, December 2022.

downturn of the economy or when the sovereign faces financial difficulties (Hardie, 2011).[18] In addition, given their knowledge of the market, and that they do not incur any exchange rate risk when holding LCBs, banks might be more willing to continue providing funding in the face of economic downturns. For the same reason, they might also demand a lower risk premium as they invest in sovereign LCBs, lowering the costs of borrowing. For countries that are financially subordinated in the global economy and thus suffer from external volatility and the associated capital flight (see also next section), such a patient, domestic investor base might bring developmental benefits.

That said, considerable developmental costs may be incurred in a situation where LCBMs have an investor base in which the dominant banks have historically provided little credit to the real economy. LCBM development might further encourage the misallocation of resources that has historically taken place in Africa, where banks have focused on prime borrowers such as the government to generate relatively high, and low-risk, returns (Adelegan and Radzewicz-Bak, 2008; Beaugrand et al., 2002). This risk is likely to be higher in countries that have weaker domestic financial and productive systems since sovereign LCBMs provide banks with greater incentives to invest in relatively high-yielding, low-risk government securities.[19]

In addition, where LCBMs are developed in contexts with a weak pension fund industry and banks remain the dominant investors, pension funds have difficulties in acting as a source of state financing in times of economic crisis. In Nigeria, for instance, pension funds increased their investments in LCBs issued by Nigerian public institutions in the wake of the COVID-19 pandemic (Adegboyega, 2021). The fact that the assets of Nigerian pension funds under management are, in keeping with government requirements which stand in contrast to many other developing countries, almost exclusively held in domestic as opposed to foreign asset classes, supported the investment of pensions funds in the Nigerian LCBM during the pandemic (Irving, 2020). Meanwhile, governments in other countries with less diversified financial systems such as Ghana and Kenya also turned to pension funds and insurers to help provide fiscal support, including by accepting a temporary reduction in yields from their holdings of government securities and reinvesting interest payments, but pension funds strongly opposed such efforts. This opposition is not surprising given that the financial scope to support governments in these countries is more limited than in Nigeria, as industry is less developed, the amount of assets managed is smaller and reliance on the interest payments from government securities is considerable (Irving, 2020: 4–5).

18. Interview, former policy official, online, January 2023.
19. Interview, senior debt management official, Nigeria, online, December 2022.

Resilience, Financial Fragility and External Vulnerability

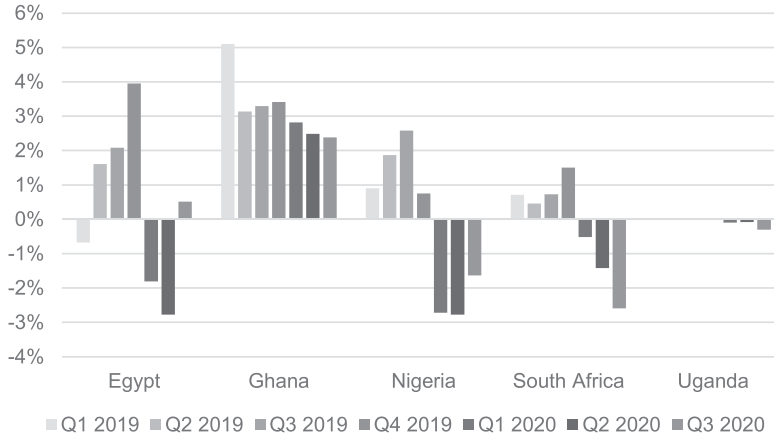
A third potential advantage of LCBMs is their contribution to financial stability and reduced external vulnerability. As highlighted in BIS (2007), heavy dependence on foreign currency debt has played a key role in virtually every major financial crisis affecting emerging and developing economies since the early 1980s. The main reason for this is the vulnerability to currency depreciation arising from the currency mismatch between foreign borrowing and domestic currency income, and the need to generate foreign exchange to repay the debt. The development of LCBMs — ideally with the participation of non-resident investors to complement low domestic savings and lengthen yield curves — was expected to address this issue. As a senior government official from Nigeria explains, non-resident investor participation is often welcomed because it is considered important to enhance competition in LCBMs and thereby reduce the costs of borrowing.[20] At the same time, as highlighted by the same interviewee, local bond markets can become an important funding alternative if liquidity on international financial markets dries up or becomes inaccessible. As Figure 5 shows, by 2021,[21] there was a heterogeneous participation of non-resident investors in our sample, reflecting the overall pattern on the continent. At one end of the scale, there are countries like Uganda and Kenya,[22] where foreign investor participation is low. At the other, there are countries like South Africa and Ghana where non-resident investors are among the main creditors.

The 2008 global financial crisis, and the recent COVID-19 shock, showed that strong participation of foreign investors in developing LCBMs does not necessarily stabilize financial markets. Indeed, large non-resident investor participation in domestic financial markets ties those markets closer to international liquidity conditions and might even exacerbate rather than reduce external vulnerability, resulting in large exchange rate fluctuations (Berensmann et al., 2015, Gabor, 2018b; Hofman et al., 2020; Kaltenbrunner and Painceira, 2015).

These dynamics are particularly likely in thin financial markets — where a few or even one foreign investor might be able to influence financial asset prices or exchange rates — and in markets where foreign inflows are largely motivated by high interest rates and profitable exchange rate movements (the carry trade). Both conditions apply to African countries.[23] Additionally, economies primarily exporting commodities and with weaker global value

20. Interview, senior debt management official, Nigeria, online, December 2022.
21. The distribution of debt holders in 2021 is similar to the average of previous years.
22. However, while foreign participation is limited in some countries, the behaviour of foreign-owned resident investors might be more sensitive to foreign conditions. This is particularly important in sub-Saharan Africa, where foreign ownership of the banking system is significant (Stein, 2010).
23. Interview, international fund manager, online, November 2021; Interview, international fund manager, online, January 2023.

Figure 6. Cumulative Liability Portfolio Flows (4 Quarters) over 2018 GDP



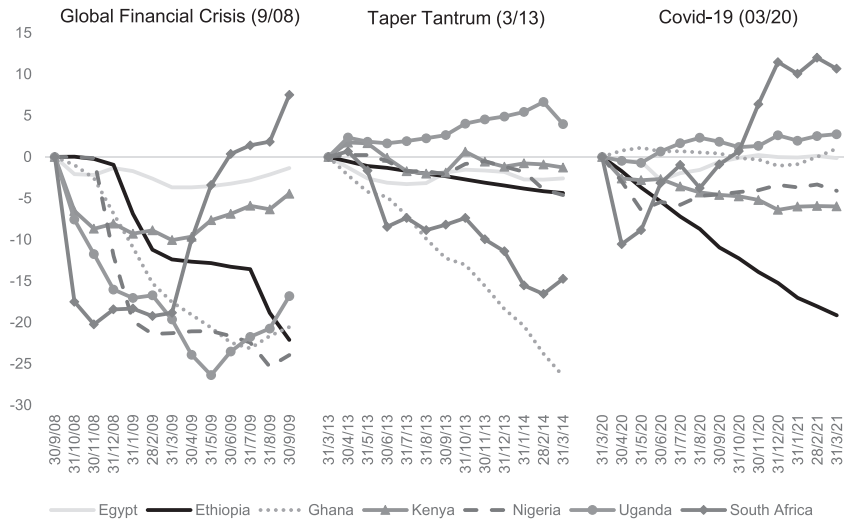
Notes: Data for Kenya not available for the period.
Source: Authors' elaboration based on the IMF International Financial Statistics database (https://data.imf.org/ifs).

chain integration are more susceptible to negative global financial shocks, such as an appreciation of the US dollar (Carrera et al., 2023; Shousha, 2019). Okot et al. (2022) show that, for African countries, productive factors have a strong influence on exchange rate volatility. In that sense, countries with less diversified productive structures might be more sensitive to the detrimental implications of IFS, such as the high volatility of foreign investor participation.

Figure 6 shows the substantial short-term portfolio flows (comprising both bond and equity flows) for most countries before the COVID-19 shock in the first quarter of 2020. Flows to South Africa and Ghana were particularly strong between 2008 and 2016 and flows to Egypt and Nigeria picked up substantially in 2017. As several interviewees noted, these large portfolio flows were predominantly driven by record-low interest rates in advanced economies which pushed financial flows into higher yielding assets, including African LCBs. It is interesting to note that it is also those economies with the highest share of non-resident investments which faced the largest outflows during the COVID-19 shock (Egypt, South Africa and indeed Nigeria). Interestingly, Ghana continued to receive sustained inflows throughout that period.[24] Recovery from the COVID-19 sudden stop was

24. Largely due to a Eurobond issuance early in 2020.

Figure 7. Percentual Cumulative Change in the Exchange Rate (Local Currency–US Dollar)



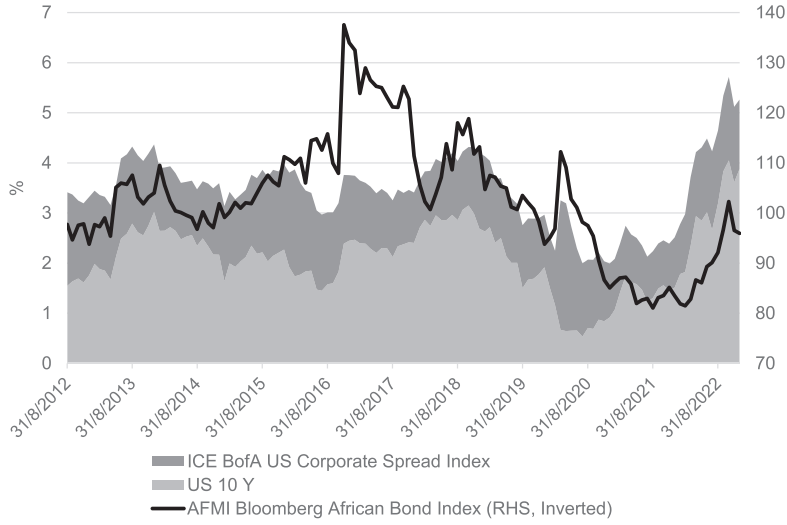
Source: Authors' elaboration based on the IMF International Financial Statistics database (https://data.imf.org/ifs).

quickest in Egypt, where foreign portfolio flows had already turned positive again in the third quarter of 2020.[25]

Figure 7 shows the impact of these private foreign financial flow dynamics on exchange rates during three episodes of global financial instability: the global financial crisis of 2008, the taper tantrum in 2013,[26] and the COVID-19 shock in March 2020. There are strong, and very sudden, exchange rate depreciations in the context of the global financial crisis. Most currencies also depreciated during the taper tantrum of 2013, and again at the time of the COVID-19 shock of 2020. During the COVID-19 pandemic, the largest depreciations were experienced by South Africa, Nigeria and Egypt — all three countries characterized by a relatively high share of non-resident investor participation in LCBMs. However, whereas the South African rand recovered quickly and started to appreciate again, the Nigerian naira and

25. The swift recovery in portfolio flows, and international financial conditions more generally, was largely related to the quick and decisive actions by the US Federal Reserve which provided dollar liquidity to global financial markets.
26. Taper tantrum refers to the increase in the US Treasury yields during 2013 after the Federal Reserve announced that its quantitative easing policy would be reversed in the future.

Figure 8. African Sovereign Debt – Local Currency Prices and US Interest Rates



Note: The AFMI African Bond Index is a composite index of the Bloomberg South Africa, Egypt, Nigeria and Kenya local currency sovereign indices. The ICE BofA Option-Adjusted Spreads is a composite index of US corporate bond spreads over the US Treasury curve.
Source: Authors' elaboration based on data from Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis and Bloomberg (fred.stlouisfed.org). AFMI African Bond Index Bloomberg ticker: BADB.

especially the Egyptian shilling continued their downward trend (interestingly despite the quick reversal of capital flows).[27]

The substantial co-movement between international market conditions and local currency assets is also observed in Figure 8, which shows the relation between US interest rates, the spread between US sovereign and credit risk as an indicator of international risk aversion, and African local currency sovereign debt prices. The price index of African local currency sovereign bonds has been inverted, that is, a higher value means a fall in prices and an increase in yields. The data show that whilst higher yields in the US are generally accompanied by higher yields in Africa, this relationship breaks down during moments of market turmoil.[28] Indeed, during the COVID-19 shock, as international risk aversion and funding costs increased (reflected in the

27. It is important to note that we cannot identify precisely the role of portfolio flows for currency movements. As discussed by Fischer (2015), drawing on the classic structuralist argument, peripheral countries tend to experience pro-cyclical dynamics across various dimensions (trade, exchange rates, various financial flows, interest rates).
28. Exchange rate movements can also explain the periods of lower correlation. For instance, the sharp increase in 2016 is driven by Egyptian yields, while the general increase in the period might be associated with the deterioration of commodity prices.

increase in US corporate spreads), interest rates on US treasuries declined whereas the prices of African bonds collapsed, and yields surged.

Another potential implication of LCBM development for financial stability is the repercussions that a default or restructuring might have for the domestic financial system. Although debt restructuring or default on domestic debt might appear legally more feasible than on foreign debt, practical challenges arise due to domestic political economy considerations and financial stability concerns. To illustrate, an interviewee highlighted that in recent debt negotiations in Zambia, the possibility of domestic debt restructuring was excluded from the outset.[29] This underscores the potential impact of LCBM development on financial stability, as the significant concentration of sovereign local currency bond holdings within the domestic banking system could readily trigger a severe banking crisis, as noted by Panizza (2008).

Ghana serves as an example of how international financial subordination might leave these economies with no other choice than to also default on their domestic debt. As the above-mentioned interviewee pointed out, one of the conditions to obtain IMF assistance in 2023 was to agree to a restructuring of domestic debt.[30] While to many this seemed irrational given that domestic creditors would resist it, an analyst working for a global bank with a base in Ghana[31] said, 'The government agreed because basically it had no option', and 'the government wanted to really show that it is doing something better and it also has no option but to go to the IMF in order to restore investor confidence'.[32]

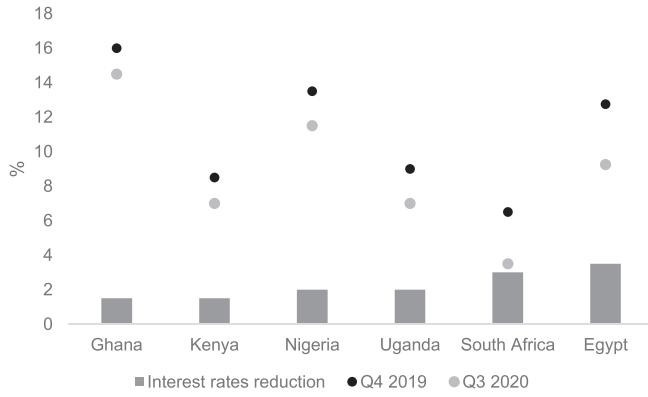
In summary, LCBM development in Africa in the context of IFS is accompanied by sustained risks and vulnerabilities for these economies. As Gabor (2018b) observes, a contradiction might arise as this kind of development of local financial systems actually requires a substantial increase in state capacity to manage the economy's integration in global financial cycles through macroeconomic policies (e.g. exchange rate management and reserve accumulation) and financial sector measures (e.g. macro-prudential regulations and/or capital controls). This is the focus of the next and final section.

Monetary Policy Effectiveness and Macroeconomic Policy Autonomy

In addition to reducing external vulnerability and promoting financial stability, LCBMs are also seen to play a crucial role in supporting monetary policy implementation and effectiveness, including in times of crisis. According to the literature, this can be achieved through three channels. First,

29. Interview, senior credit research analyst, online, January 2023.
30. Ibid.
31. Interview, analyst in Ghana branch of a European development bank, online, January 2023.
32. Another argument was that Ghana had no choice given the surge in domestic debt from 58.3 per cent of GDP in 2019 to 88.8 per cent in 2022.

Figure 9. Monetary Policy Rates during the COVID Shock



Source: Authors' elaboration based on the IMF International Financial Statistics database for the fourth quarter of 2019 and the third quarter of 2020 (https://data.imf.org/ifs).

the existence of government securities can be a vital instrument for the conduct of open market operations aimed at regulating liquidity in the domestic banking system, with the ultimate goal of maintaining the central bank target policy rate. This means central banks can rely less on 'non-market-based' direct controls, such as credit ceilings, interest rate controls and high reserve requirements, which are seen to distort financial sector decisions (Guide and Pattillo, 2006). Second, by reducing currency mismatches, the substitution of foreign for domestic debt might allow for countercyclical monetary policy and the implementation of floating exchange rate regimes (Mehrotra et al., 2012). Third, by providing an avenue for domestic funding of the government, domestic bond markets may reduce the need for government monetary financing.

Opposing this positive view of LCBM development, several recent contributions highlight the political and economic costs and persistence of constraints on macroeconomic policy autonomy among governments and central banks in the context of IFS (e.g. Dutt, 2021; Kaltenbrunner and Painceira, 2020; Musthaq, 2021b). Our analysis of monetary policy in selected African countries — especially during the COVID-19 pandemic — resonates with this critical literature. Empirical evidence shows that, as in other developing and emerging economies and in contrast to previous international shocks, African central banks not only intervened actively to stabilize markets, but also applied countercyclical policies during the risk-off period (Rentsendoru and Schellhase, 2020). Despite strong substantial capital outflows (as discussed above), African central banks lowered their interest rates (see Figure 9), touching historical lows in many African economies (Adam et al., 2022).

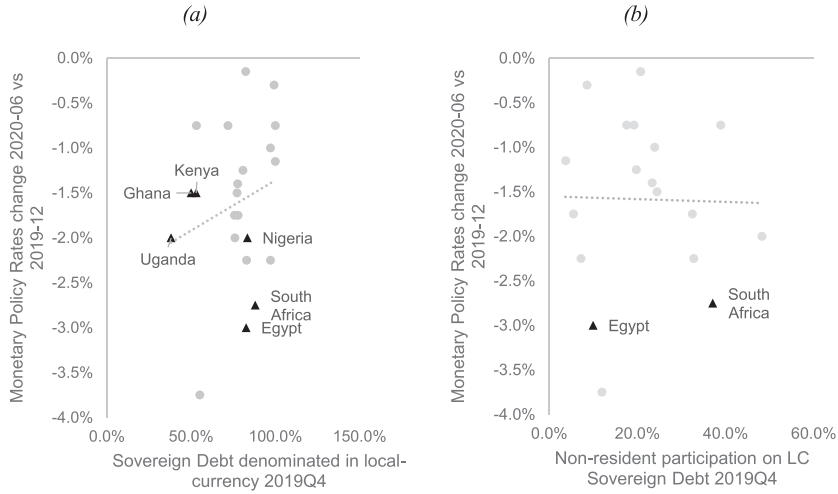
In addition, several African central banks lowered reserve and capital requirements to reduce their operational and leverage costs and avoid a deterioration in credit conditions (Rentsendoru and Schellhase, 2020). African central banks also implemented liquidity support measures such as loan guarantees (in Ghana and South Africa, for instance), extended special lending lines to commercial banks and granted debt moratoria (for instance, in Egypt and Nigeria).

This seems to indicate that LCB issuances might have created some additional space for African monetary policy authorities to conduct countercyclical policies. That said, interest rate reductions were still less common in Africa than in other emerging economies. Moreover, interest rate reductions were largely made possible by the rapid and decisive policy responses in advanced economies, particularly by the US Federal Reserve. The lowering of interest rates in those economies not only lowered the cost of funding for their residents, but also the cost of external funding for developing countries. Thus, while there has been a wider policy response in comparison to previous crises, the cross-country differences remain. The size of interventions in African economies was not only substantially lower than in advanced economies, but also lower than in emerging economies.

With regard to the financial policies, it is important to note that policy responses were implemented in several African economies, and not only in those which increased the size of their local currency debt markets. As Figure 10 shows, there was no clear pattern between the level of local currency denomination in sovereign debt markets, or the participation of non-residents in these markets, and the magnitude of the monetary policy rate reduction. The countries that were most restricted when it came to relaxing local financial conditions were those with the greatest dependence on primary goods exports and imported inputs (Schanz, 2019). The significant constraints imposed by IFS — manifest in, among other things, the new risks created by non-resident participation in LCBMs — are particularly reflected in significant exchange rate interventions by African central banks (where feasible). Indeed, in contrast to the expectation that African central banks could intervene less in foreign exchange markets, exchange rate inter-ventions were particularly important on the African continent during the COVID-19 shock, even in comparison with other emerging market economies (Adam et al., 2022; Rentsendoru and Schellhase, 2020). According to Adam et al. (2022), the focus of these interventions was more closely related to avoiding excessive depreciations, rather than providing liquidity in foreign currency to financial institutions.[33]

33. In order to support local financial institutions' lending in foreign currency operating smoothly during stress periods, central banks provide temporary liquidity lines in foreign currencies to these institutions, without assuming any foreign exchange risk. Rather, foreign exchange interventions, if not reversed, decrease the foreign assets holdings of central banks permanently.

Figure 10. Emerging Markets' Monetary Policy Rate Changes between December 2019 and July 2020 and (a) Local Currency Participation in Sovereign Debt and (b) Non-residents' Participation in Local Currency in Sovereign Debt

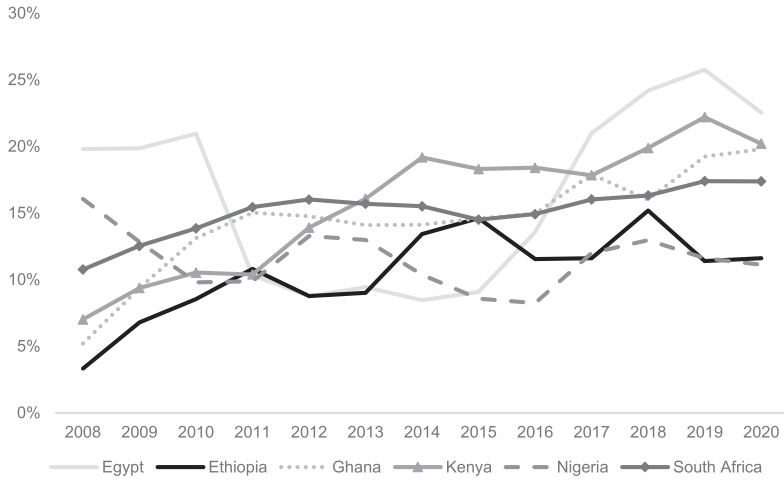


Source: Authors' elaboration based on the Sovereign Debt Investor Base for Emerging Markets and Developing Economies database from Arslanalp and Tsuda (2014) and on the central bank policy rates database of the Bank for International Settlements (www.imf.org/en/Publications/WP/Issues/2016/12/31/Tracking-Global-Demand-for-Emerging-Market-Sovereign-Debt-41399; www.bis.org/statistics/cbpol.htm).

One way to interpret these operations during the COVID-19 pandemic is that rather than supporting domestic financial institutions, African central banks spent scarce foreign exchange reserves on providing an exit opportunity for non-resident investors. Indeed, as pointed out by one frontier asset manager, in these economies, given extremely illiquid and seasonal foreign exchange market liquidity, the central bank remains the main — and often only — provider of foreign exchange liquidity.[34] This interpretation was also echoed by another international asset manager. He argued that 'Egypt would allow everyone to sell their positions, have all the foreign investors… leave the market … before they devalue their currency …. They did that in 2020 … they did that in the early 2022 … so they allowed all the capital outflows, all the portfolio flows to go out'.[35] According to the same interviewee, these non-resident investor friendly interventions by the Egyptian central bank also explained why financial flows returned so quickly to the country after the COVID-19 shock (see Figure 6).

34. Interview, international fund manager, online, November 2021.
35. Interview, international fund manager, online, January 2023.

Figure 11. Foreign Exchange Reserves as a Percentage of GDP



Source: Authors' elaboration based on the IMF International Financial Statistics database (https://data.imf.org/ifs).

The attempt to stabilize LCBM — and potentially reduce losses to non-resident investors — was also reflected in central bank operations in primary and, for the first time, in secondary bond markets. Adam et al. (2022) show that the increase in central bank balance sheets was driven particularly by claims on central bank governments and other claims, with an average size of around 2 per cent of GDP. Based on survey data from central banks, the authors indicate that the main objective of these policy interventions was to facilitate market functioning (Adam et al., 2022). Indeed, as Arslan et al. (2020) note, central bank interventions in secondary government bond markets in developing and emerging economies were not so much motivated by supporting private credit for firms, assuring bond market stability and providing assistance to monetary policy. Rather, 'they address market dislocations arising from investor risk aversion. By launching them, central banks in emerging markets signal that they are taking the role of dealers and buyers of last resort in the bond market, to reassure investors' (ibid.: 2).

These central bank interventions show that LCBM development — with the participation of non-resident investors — might not alleviate the constraints imposed by IFS, as countries remain at the mercy of developments in international financial markets and need to intervene heavily to stabilize currencies and domestic financial markets. In order to be able to fulfil this stabilizing function, central banks need to accumulate costly foreign exchange reserves. As shown in Figure 11, before the COVID-19 shock, international reserve assets in our selected countries were on average twice as large as they were just before the 2008 global financial crisis.

However, again we see differences between the countries. For instance, while countries like Ghana that pursue a more market-led approach to LCBMs are reluctant to introduce capital controls to avoid an exchange rate depreciation when foreign investors exit local bond markets, countries with more state-led approaches like Nigeria are less reluctant. For example, when oil prices declined in 2014, the Nigerian government introduced restrictions on foreign exchange transactions to deal with foreign exchange shortages. Due to the foreign exchange controls, JP Morgan Chase & Co and Barclays Bank PLC excluded Nigeria from their indices in 2015 and 2016 respectively. As a result, foreign investors exited, with their share declining from 15 per cent in 2013 to 3 per cent in 2015. The story of foreign exchange controls and a subsequent flight of foreign investors in federal government LCBMs repeated itself in Nigeria in 2018 when non-resident investor participation declined from 11 per cent in 2018 to 4 per cent in 2019 due to foreign exchange controls, and when the government increased foreign exchange controls in the wake of the COVID-19 pandemic. Arguably, the ability of Nigeria to take this action also reflects its more diversified and developed domestic investor base, which acted as a 'spare tyre' during global financial shocks and allowed Nigeria to take a less accommodative approach towards non-resident investors.

CONCLUSION

Despite the increasing significance of LCBMs in Africa, very little research has been carried out on their developmental implications and the associated risks, and the little research that has been done has tended to neglect structural constraints and/or political economy analyses. What is out there is dominated by technical assessments of IFIs and neoclassical economists who, whilst acknowledging some of the potential risks of LCBMs, do not fundamentally question their developmental potential. This article takes a different approach. Building on recent work on IFS, we have explored the developmental benefits of LCBMs in Africa, considering these countries' distinct productive and financial structures shaped by their colonial past, and their subordinate position in international money, product and financial markets. We addressed this issue by critically engaging with the four main benefits of LCBM development put forward by the literature: their potential to mobilize resources for long-term structural change and development; their contribution to (and interaction with) financial sector development; their ability to reduce financial fragility and external vulnerability; and finally, their ability to create increased autonomy for macroeconomic and monetary policy making.

The article shows that while LCBMs may hold developmental *potential* in certain contexts, their promotion within economies shaped and constrained by IFS entails substantial risks. Our evidence suggests that LCBMs so far

have failed to raise significant financial resources, and in many cases have contributed to substantial interest rate payments which have weighed on social and productive expenditures. With regards to financial development, concentrated domestic financial structures with little diversity have meant that LCBM holdings are either dominated by domestic banks — which can have a negative effect on productive sector bank lending — or by non-resident investors. The latter, the article has shown, have potentially exacerbated, rather than reduced financial fragility and external vulnerability. This increased external vulnerability, in turn, has continued to constrain macroeconomic policy autonomy in the region, which is skewed towards 'de-risking' financial returns for non-resident investors (e.g. through reserve accumulation and foreign exchange interventions) at the expense of directing monetary policy towards domestic economic policy goals and using foreign exchange reserves to ease severe balance of payments constraints.

Moreover, the article showed that whilst in theory LCBMs might create more room for issuer countries to default, in practice domestic political economy and financial stability considerations (especially in concentrated financial structures), as well as the constraints imposed by IFS, might make policy makers reluctant to do this. In the current debt crisis, this means that rather than debt resolutions or reductions, we are likely to see protracted debt negotiations and attempts to ensure debt payments through austerity and reductions in social, and indeed productive, fiscal expenditures.

However, it is not all bad news. Our findings have also shown — particularly the example of Nigeria — how countries with a slightly more diversified financial and productive structure, including the presence of more long-term domestic financial institutions such as pension and insurance funds, as well as more active state interventions, can potentially harness the financing potential of LCBMs. This is important not only for financing productive structural change, but also to enable countries to pursue a more autonomous developmental path and mitigate the constraints imposed by IFS.

Finally, analysing LCBMs through an IFS lens allows us to see how constrained governments in the global South are by their subordinate position in the global economy, which ultimately hampers these economies' capacities to take full advantage of any potential benefits LCBMs may have. As such, policy lessons must go beyond simply acknowledging the need for diversified financial structures and the need to finance structural transformation, to also include identifying and challenging the conditions that constrain these possibilities. For example, economies most in need of capital controls to protect them from global financial cycles are also those least likely to be able to implement such controls because of their economic and political subordination in the global economy. Ultimately, the promotion of LCBMs for development must be accompanied by a rebalancing of global economic rules and norms to allow for more policy space within countries at the bottom of the global economic hierarchy.

ACKNOWLEDGEMENTS

We are grateful to the participants of the *Development and Change* workshop 'Debt Crisis in the Majority World', which took place in The Hague, The Netherlands (17–18 November 2022), particularly Anne Löscher, as well as to the anonymous reviewers and journal editors for their useful feedback and comments. Thanks also to Maria Eugenia Giraudo, Caroline Metz, Anjelo Okot and Jonathan Perraton who were co-investigators of the White Rose-funded project on African debt with Annina Kaltenbrunner and Ingrid Kvangraven, which allowed us to carry out interviews with development finance institutions in London in 2019–20. Finally, we also like to thank Jan Toporowski, Frauke Banse, Ugo Panizza, Daniela Gabor and Ian Harding for their valuable comments. All four authors contributed equally to this piece.

APPENDIX

Table A1. Interviews Conducted.

	Institution	Date	Type of Interview
Interview 1	Netherlands-based development finance institution (DFI)	December 2019	Face-to-face
Interview 2	Chief executive officer in UK-based DFI	December 2019	Face-to-face
Interview 3	Managing director in UK-based DFI	December 2019	Face-to-face
Interview 4	Ghana branch of a European development bank	January 2023	Online
Interview 5	Senior credit research analyst	January 2023	Online
Interview 6	International fund manager	January 2023	Online
Interview 7	Netherlands-based DFI	April 2020	Online
Interview 8	Ghanaian Bank	March 2020	Online
Interview 9	European aid institution based in Ghana	March 2020	Online
Interview 10	Debt management office Nigeria	9 December 2022	Online
Interview 11	Former policy official	January 2023	Online
Interview 12	International fund manager	November 2021	Online

REFERENCES

Abbas, S.M.A. and J. Christensen (2007) 'The Role of Domestic Debt Markets in Economic Growth: An Empirical Investigation for Low-income Countries and Emerging Markets'. IMF Working Paper No. 07/127. Washington, DC: International Monetary Fund.

Adam, C., E. Alberola-Ila and P.A. Tejada (2022) 'Covid-19 and the Monetary–Fiscal Policy Nexus in Africa'. BIS Papers. Basel: Bank for International Settlements.

Adegboyega, A. (2021) 'COVID-19: How Nigerian Pension Funds Increased Investment in Government Bonds', *Premium Times* 2 January. www.premiumtimesng.com/business/437824-covid-19-how-nigerian-pension-funds-increased-investment-in-govt-bonds.html?tztc=1 (accessed 23 May 2023).

Adelegan, O. and B. Radzewicz-Bak (2008) 'What Determines Bond Market Development in Sub-Saharan Africa?'. IMF Working Paper WP/09/213. Washington, DC: International Monetary Fund.

Akyüz, Y. (2017) *Playing with Fire: Deepened Financial Integration and Changing Vulnerabilities of the Global South*. Oxford: Oxford University Press.
Alami, I. et al. (2022) 'International Financial Subordination: A Critical Research Agenda', *Review of International Political Economy*. https://doi.org/10.1080/09692290.2022.2098359
Amin, S. (1974) *Accumulation on a World Scale: A Critique of the Theory of Underdevelopment*. New York: Monthly Review Press.
Amin, S. (1976) *Unequal Development: An Essay on the Social Formations of Peripheral Capitalism*. New York: Monthly Review Press.
Arestis, P. and M. Glickman (2002) 'Financial Crisis in Southeast Asia: Dispelling Illusion the Minskyan Way', *Cambridge Journal of Economics* 26(2): 237–60.
Arslan, Y., M. Drehmann and B. Hofmann (2020) 'Central Bank Bond Purchases in Emerging Market Economies'. BIS Bulletins No. 20. Basel: Bank for International Settlements.
Arslanalp, M.S. and M.T. Tsuda (2014) 'Tracking Global Demand for Emerging Market Sovereign Debt'. Washington, DC: International Monetary Fund.
Beaugrand, P., B. Loko and M. Mlachila (2002) 'The Choice between External and Domestic Debt in Financing Budget Deficits: The Case of Central and West African Countries'. IMF Working Paper No. 02/79. Washington, DC: International Monetary Fund.
Becker, J., J. Jäger, B. Leubolt and R. Weissenbacher (2010) 'Peripheral Financialization and Vulnerability to Crisis: A Regulationist Perspective', *Competition and Change* 14(3–4): 225–47.
Berensmann, K., F. Dafe and U. Volz (2015) 'Developing Local Currency Bond Markets for Long-term Development Financing in Sub-Saharan Africa', *Oxford Review of Economic Policy* 31(3–4): 350–78.
Bernards, N. (2020) 'How Do Colonial Legacies Shape the Contemporary Global Political Economy?'. Birmingham: British International Studies Association. www.bisa.ac.uk/articles/how-do-colonial-legacies-shape-contemporary-global-political-economy
BIS (2007) 'Financial Stability and Local Currency Bond Markets'. CGFS Papers No 28. Basel: Bank for International Settlements.
Bonizzi, B. (2017) '"Institutional Investors" Allocation to Emerging Markets: A Panel Approach to Asset Demand', *Journal of International Financial Markets, Institutions and Money* 47: 47–64.
Bonizzi, B., A. Kaltenbrunner and J. Powell (2020) 'Subordinate Financialization in Emerging Capitalist Economies', in P. Mader, D. Mertens and N. Van der Zwan (eds) *The Routledge International Handbook of Financialization*, pp. 177–87. London: Routledge.
Bonizzi, B., C. Laskaridis and J. Toporowski (2019) 'Global Liquidity, the Private Sector and Debt Sustainability in Sub-Saharan Africa', *Development and Change* 50(5): 1430–54.
Brooks, C., R. Cunha and L. Mosley (2015) 'Categories, Creditworthiness, and Contagion: How Investors' Shortcuts Affect Sovereign Debt Markets', *International Studies Quarterly* 59(3): 587–601.
Brownbridge, M. and C. Harvey (1998) *Banking in Africa: The Impact of Financial Sector Reform since Independence*. Oxford: James Currey.
Calderón, C. and L. Liu (2003) 'The Direction of Causality between Financial Development and Economic Growth', *Journal of Development Economics* 72(1): 321–34.
Cardoso, F.H. and E. Faletto (1979) *Dependency and Development in Latin America*. Berkeley and Los Angeles, CA: University of California Press.
Carrera, J., G. Montes-Rojas and F. Toledo (2023) 'Global Financial Cycle, Commodity Terms of Trade and Financial Spreads in Emerging Markets and Developing Economies', *Structural Change and Economic Dynamics* 64: 179–90.
Christensen, J. (2005) 'Domestic Debt Markets in Sub-Saharan Africa', *IMF Staff Papers* 52(3): 518–38.
Chuku, P. et al. (2023) 'Are We Heading for Another Debt Crisis in Low-income Countries? Debt Vulnerabilities: Today vs the Pre-HIPC Era'. IMF Working Paper No. 2023/079. Washington, DC: International Monetary Fund.

Claessens, S., D. Klingebiel and S.L. Schmukler (2007) 'Government Bonds in Domestic and Foreign Currency: The Role of Institutional and Macroeconomic Factors', *Review of International Economics* 15(2): 370–413.

Coulibaly, B.S., D. Gandhi and L.W. Senbet (2019) 'Is Sub-Saharan Africa Facing Another Systemic Sovereign Debt Crisis?', Africa Growth Initiative Policy Brief. Washington, DC: Brookings.

Dafe, F. (2020) 'Ambiguity in International Finance and the Spread of Financial Norms: The Localization of Financial Inclusion in Kenya and Nigeria', *Review of International Political Economy* 27(3): 500–524.

Dafe, F. and L. Rethel (2022) 'Domestic Bank Reform and the Contingent Nature of the Structural Power of Finance in Emerging Markets', *Politics and Society* 50(4): 571–98.

Dafe, F., D. Essers and U. Volz (2018) 'Localising Sovereign Debt: The Rise of Local Currency Bond Markets in Sub-Saharan Africa', *The World Economy* 41(12): 3317–44.

Desai, R. (2019) 'What Is to Be Done? The Importance of Samir Amin's Answer', *Globalizations* 16(7): 1053–61.

DFID (2018) 'International Development Secretary: "Financial Markets Open the Door to a Future Free from Aid Dependency"'. Press Release 17 April. London: Department for International Development, UK Government. www.gov.uk/government/news/international-development-secretary-financial-markets-open-the-door-to-a-future-free-from-aid-dependency

Dow, S. (1999) 'International Liquidity Preference and Endogenous Credit', in J. Deprez and J. Harvey (eds) *Foundations of International Economics: Post Keynesian Perspective*, pp. 153–70. London: Routledge.

Dutt, D. (2021) 'The Political Economy of the Cost of Foreign Exchange Intervention'. PhD dissertation, University of Massachusetts Amherst. https://doi.org/10.7275/23069867.

Eichengreen, B. and P. Luengnaruemitchai (2004) 'Why Doesn't Asia Have Bigger Bond Markets?'. NBER Working Paper No. 10576. Cambridge, MA: National Bureau of Economic Research.

Eichengreen, B. and P. Luengnaruemitchai (2008) 'Bond Markets as Conduits for Capital Flows: How Does Asia Compare?', in T. Ito and A.K. Rose (eds) *International Financial Issues in the Pacific Rim: Global Imbalances, Financial Liberalization, and Exchange Rate Policy*, pp. 267–313. Chicago, IL: University of Chicago Press.

Essers, D., H.J. Blommestein, D. Cassimon and P.I. Flores (2016) 'Local Currency Bond Market Development in Sub-Saharan Africa: A Stock-taking Exercise and Analysis of Key Drivers', *Emerging Markets Finance and Trade* 52(5): 1167–94.

Fabella, R. and S. Madhur (2003) 'Bond Market Development in East Asia: Issues and Challenges'. Economics and Research Department Working Paper No. 35. Tokyo: Asian Development Bank Institute.

Fischer, A.M. (2015) 'The End of Peripheries? On the Enduring Relevance of Structuralism for Understanding Contemporary Global Development', *Development and Change* 46(4): 700–732.

Fosu, A.K. (2009) 'The External Debt-servicing Constraint and Public-expenditure Composition in Sub-Saharan Africa'. Paper presented at the African Economic Conference 'Fostering Development in an Era of Financial and Economic Crises', Addis Ababa, Ethiopia (11–13 November).

Gabor, D. (2018a) 'Goodbye (Chinese) Shadow Banking, Hello Market-based Finance', *Development and Change* 49(2): 394–419.

Gabor, D. (2018b) 'Understanding the Financialisation of International Development through 11 FAQs'. Washington, DC: Heinrich Böll Stiftung North America.

Gevorkyan, A.V. and I.H. Kvangraven (2016) 'Assessing Recent Determinants of Borrowing Costs in Sub-Saharan Africa', *Review of Development Economics* 20(4): 721–38.

Goda, T., P. Lysandrou and C. Stewart (2013) 'The Contribution of US Bond Demand to the US Bond Yield Conundrum of 2004–2007: An Empirical Investigation', *Journal of International Financial Markets, Institutions and Money* 27: 113–36.

Guide, A.M. and C. Pattillo (2006) 'Financial Sector Reform in Sub-Saharan Africa', *The Journal of Social, Political, and Economic Studies* 31(2): 133–42.

Hardie, I. (2011) 'How Much Can Governments Borrow? Financialization and Emerging Markets Government Borrowing Capacity', *Review of International Political Economy* 18(2): 141–67.

Hardie, I. and L. Rethel (2018) 'Financial Structure and the Development of Domestic Bond Markets in Emerging Economies', *Business and Politics*: (21)1 86–112.

Hofmann, B., I. Shim and H.S. Shin (2020) 'Original Sin Redux and Policy Responses in Emerging Market Economies during the COVID-19 Pandemic', in S. Djankov and U. Panizza (eds) *COVID-19 in Developing Economies*, pp. 326–30. London: Centre for Economic Policy Research.

IMF et al. (2013) 'Local Currency Bond Markets: A Diagnostic Framework'. Washington, DC: International Monetary Fund.

Irving, J. (2020) 'How the COVID-19 Crisis is Impacting African Pension Fund Approaches to Portfolio Management'. Washington, DC: International Finance Corporation. www.ifc.org/content/dam/ifc/doc/mgrt/african-pension-funds-final-10-9-20.pdf (accessed 23 May 2023).

Jones, E. (ed.) (2020) *The Political Economy of Bank Regulation in Developing Countries: Risk and Reputation*. Oxford: Oxford University Press.

Kaltenbrunner, A. and J.P. Painceira (2015) 'Developing Countries' Changing Nature of Financial Integration and New Forms of External Vulnerability: The Brazilian Experience', *Cambridge Journal of Economics* 39(5): 1281–306.

Kaltenbrunner, A. and J.P. Painceira (2020) 'Challenges in Financial Markets and Central Banks Response to Covid-19'. Paper presented at the YSI Virtual Plenary, Challenges in Financial Markets and Central Banks Response to Covid-19, online (9 November).

Karwowski, E. (2022) 'The Regional Distinctiveness and Variegation of Financialisation in Emerging Economies', *Cambridge Journal of Economics* 46(5): 931–54.

Koddenbrock, K., I.H. Kvangraven and N.S. Sylla (2022) 'Beyond Financialisation: The Longue Durée of Finance and Production in the Global South', *Cambridge Journal of Economics* 46(4): 703–33.

Kregel, J.A. (1998) 'Yes, "It" Did Happen Again: A Minsky Crisis Happened in Asia'. Working Paper No. 234. Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.

Lampa, R. (2021) 'Capital Flows to Latin America (2003–17): A Critical Survey from Prebisch's Business Cycle Theory', *Review of Political Economy* 33(1): 103–25.

Levine, R. (2005) 'Finance and Growth: Theory and Evidence', in P. Aghion and S. Durlauf (eds) *Handbook of Economic Growth*, pp. 865–934. Amsterdam: Elsevier Science.

Levy-Orlik, N. (2022) 'The New Forms of Economic Dominance in Latin American Economies in the Globalised Era: A Glance at Mexico's Financial System', *Review of Political Economy*. https://doi.org/10.1080/09538259.2022.2111809

Lewis, P. and H. Stein (1997) 'Shifting Fortunes: The Political Economy of Financial Liberalization in Nigeria', *World Development* 25(1): 5–22.

Marini, R.M. (1973) *La Dialectica de la Dependencia* [*The Dialectics of Dependency*]. México: Ediciones Era.

Massoc, E.C. (2022) 'Having Banks "Play Along": State–Bank Coordination and State-guaranteed Credit Programs during the COVID-19 Crisis in France and Germany', *Journal of European Public Policy* 29(7): 1135–52.

Mehrotra, A.N., K. Miyajima and A. Villar (2012) 'Developments of Domestic Government Bond Markets in EMEs and their Implications'. BIS Paper No. 67c. Basel: Bank for International Settlements.

Mezui, C.M. (2017) 'Domestic Funding for Africa: New Ways to Bridge Infrastructure Gap'. Abidjan: African Development Bank Group.
Mkandawire, T. (1999) 'The Political Economy of Financial Reform in Africa', *Journal of International Development* 11: 321–42.
Mu, Y., P. Phelps and J. G. Stotsky (2013) 'Bond Markets in Africa'. IMF Working Paper WP/13/12. Washington, DC: International Monetary Fund.
Müller, J. (2016) *Harnessing Private Finance to Attain Public Policy Goals? How Governments Try to Involve the Private Sector in Times of Austerity and What Risks this Entails*. Brussels: Rosa-Luxemburg-Stiftung; Amsterdam: Centre for Research on Multinational Corporations. www.somo.nl/wp-content/uploads/2016/07/Harnessing-private-finance.pdf (accessed July 2016).
Musthaq, F. (2021a) 'Dependency in a Financialised Global Economy', *Review of African Political Economy* 48: 15–31.
Musthaq, F. (2021b) 'Development Finance or Financial Accumulation for Asset Managers? The Perils of the Global Shadow Banking System in Developing Countries', *New Political Economy* 26(4): 554–73.
Naqvi, N. (2019) 'Manias, Panics and Crashes in Emerging Markets: An Empirical Investigation of the Post-2008 Crisis Period', *New Political Economy* 24(6): 759–79.
Naqvi, N. (2021) 'Renationalizing Finance for Development: Policy Space and Public Economic Control in Bolivia', *Review of International Political Economy* 28(3): 447–78.
Nissanke, M.K. (2001) 'Financing Enterprise Development in Sub-Saharan Africa', *Cambridge Journal of Economics* 25(3): 343–68.
Nkrumah, K. (1965) *Neocolonialism: The Last Stage of Imperialism*. London: Thomas Nelson and Sons, Ltd.
OECD (2015) 'Social Impact Investment: Building the Evidence Base'. Paris: OECD Publishing.
Okot, A., A. Kaltenbrunner and D. Perez Ruiz (2022) 'Determinants of the Exchange Rate, its Volatility and Currency Crash Risk in Africa's Low and Lower Middle-income Countries'. EIB Working Paper No. 12. Luxembourg: European Investment Bank.
Olabisi, L. and H. Stein (2015) 'Sovereign Bond Issues: Do African Countries Pay More to Borrow?', *Journal of African Trade* 2(1–2): 87–109.
Ouma, S. (2016) 'From Financialization to Operations of Capital: Historicizing and Disentangling the Finance–farmland Nexus', *Geoforum* 72: 82–93.
Panizza, U. (2008) 'Domestic and External Public Debt in Developing Countries'. UNCTAD Discussion Paper No. 188. Geneva: United Nations Conference on Trade and Development.
Park, Y-C. and D. Park (2003) 'Creating Regional Bond Markets in East Asia: Rationale and Strategy'. Paper presented at the Second Annual Conference of PECC Finance Forum, Hua Hin, Thailand (20–21 June).
Patnaik, P. and U. Patnaik (2021) *Capital and Imperialism*. New York: Monthly Review Press.
Pérez, F. (2021) 'East Asia Has Delinked: Can Ethiopia Delink Too?' *Review of African Political Economy* 48(167): 102–18.
Polychronopoulos, A. and J. Binstock (2013) 'An Emerging Asset Class: The Case for Emerging Markets Local Currency Debt'. White Paper. Research Affiliates. London: Mondrian Investment Partners.
Prates, D.M. and R. Andrade (2013) 'Exchange Rate Dynamics in a Peripheral Monetary Economy', *Journal of Post Keynesian Economics* 35(3): 399–416.
Prebisch, R. (1939) 'El Ciclo Económico y la Política Monetaria' ['The Economic Cycle and Monetary Policy'], in E. Garcia Vasquey (ed.) *Obras de Raul Prebisch* [*Works by Raul Prebisch*], pp. 647–57. Buenos Aires: Fundación Raul Prebisch.
Reis, N. and F. Antunes de Oliveira (2023) 'Peripheral Financialization and the Transformation of Dependency: A View from Latin America', *Review of International Political Economy* 30(2): 511–34.

Rentsendoru, B. and J. Schellhase (2020) 'The Initial Policy Response to COVID-19 from African Central Banks'. Santa Monica, CA: Milken Institute.
Schanz, J. (2019) 'Foreign Exchange Reserves in Africa: Benefits, Costs and Political Economy Considerations'. BIS Paper No. 105. Basel: Bank for International Settlements.
Shousha, S. (2019) 'The Dollar and Emerging Market Economies: Financial Vulnerabilities Meet the International Trade System'. International Finance Discussion Papers No. 1258. Washington, DC: Board of Governors of the Federal Reserve System.
SOMO (2019) 'The Risky Interconnectedness between Investment Funds and Developing Country Debt'. SOMO Discussion Paper. Amsterdam: Centre for Research on Multinational Corporations.
Stein, H. (2010) 'Financial Liberalisation, Institutional Transformation and Credit Allocation on Developing Countries: The World Bank and the Internationalisation of Banking', *Cambridge Journal of Economics* 34(2): 257–73.
Sundaram, J.K. and M.L. Mah Hui (2019) 'Developing Economies' Subordinate Financialization'. International Development Economics Associates blog 18 September. www.networkideas.org/news-analysis/2019/09/developing-economies/ (accessed 3 March 2023).
Tavares, M. (1985) 'A Retomada da Hegemonia Americana' ['The Return of American Hegemony'], *Revista De Economía Política* 5(2): 5–16.
UNCTAD (2012) 'The Rise of the South and New Paths of Development in the 21st Century'. UNCTAD Background Paper No. 4. Geneva: South Centre.
Vajs, S. (2014) 'Government Debt Issuance: Issues for Central Banks'. BIS Paper No. 76. Basel: Bank for International Settlements.
World Bank (2007) 'G8 Action Plan for Developing Local Bond Markets in Emerging Markets Economics and Developing Countries'. Washington, DC: World Bank Group.
Zeitz, A. (2022) 'Global Capital Cycles and Market Discipline: Perceptions of Developing Country Borrowers', *British Journal of Political Science* 52(4): 1944–53.

Florence Dafe (florence.dafe@hfp.tum.de) is a political economist at the TUM School of Governance at the Technical University of Munich, Germany. Her research, which focuses on the political economy of finance and of development, has been published in journals such as *New Political Economy*, *The Review of International Political Economy* and *Regulation and Governance*.

Annina Kaltenbrunner (A.Kaltenbrunner@leeds.ac.uk) is a Professor of Global Economics at Leeds University Business School, UK. Her research focuses on financial processes and relations in emerging capitalist economies.

Ingrid Harvold Kvangraven (ingrid.kvangraven@kcl.ac.uk) is a Lecturer in International Development at King's College London, UK. Her research is broadly concerned with the role of finance in development, debates about uneven development, dependency and imperialism and critically assessing the economics field itself, in particular from an anti-colonial perspective.

Iván Weigandi (bniw@leeds.ac.uk; corresponding author) is an Economics PhD candidate at Leeds University Business School, UK. His research focuses on financial institutions and international finance.