

INTEREST RATE MODEL FOR SHORT-TERM CONSUMER CREDIT IN ZAMBIA

BY

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of the requirements for the award of Degree of Doctor of Philosophy
in Business and Management in Finance**

**THE UNIVERSITY OF ZAMBIA
LUSAKA**

2024

DECLARATION

I, **Henry Lukama Chikweti** do here by declare that this work is my original work achieved through personal reading and research. This work has never been submitted to the University of Zambia or any other universities. All sources of data used and literature on related works previously done by others, used in the production of this thesis have been dully acknowledged. If any omission has been made, it is not by choice but by error.

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APPROVAL

This thesis by Henry Lukama Chikweti is approved as a fulfilment of the requirements for the award of the degree of Doctor of Philosophy in Business and Management Finance.

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ABSTRACT

In a bid to change the principal design of short term consumer credit pricing to address the adverse effects of high interest rates while promoting the positive attributes that continued to drive demand, this concurrent mixed methods study weaves together a multidisciplinary theoretical Interest Rate Model which addresses the asymmetry of information problem as the major cost driver. The study focuses on establishing the suitability, acceptability and feasibility of the aforementioned theoretical model considering that previous studies have not satisfactorily addressed the high cost nature of short term consumer credit such as payday loans. Previous studies have either only highlighted the matter or proposed rigid regulatory measures which lenders and borrowers conspire to avoid, suggesting inappropriate suitability, acceptability and feasibility considerations with regards to key stakeholders. The study using the Detailed Action Research Model and a population of more than eight thousand (8000) consumers, employers and merchants as key stakeholders conducted hypothesis testing based on the suppositions developed from the personal reputation conceptual framework and short term consumer credit literature. A sample size of 367 was gotten based on a 50% response distribution. Content analysis based on meaning units from in-depth interviews were used for the qualitative part. Analysis was conducted using Google Forms Analytics, Advanced Microsoft Excel Statistics Analysis Package (AMESAP) and N vivo. The hypothesis tests amongst individual consumers was about 87.5% on the suitability centric hypothesis and 100% on both acceptability and feasibility centric hypothesis. The semantic and thematic analysis from in-depth interviews with more than 40 merchants and employers as key stakeholders indicated an average 80% suitability and acceptability, and up to 90% for feasibility. The results suggest that the theoretical model would be suitable, acceptable and feasible. Therefore, the study advances a way to address the adverse effects on society of high cost short term consumer credit such as perpetual household financial distress, poor productivity from a financially stressed workforce for employers and liquidity constraints for merchant.

Key words: High Interest Rate, Short term consumer Credit, Interest Rate Model, Asymmetry of information, Moral Hazard, Adverse Selection.

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In my literature review I have cited quite a lot of scholarly publication from earlier research findings from projects done by other researchers. I have used scholarly papers from the wider academia. These are works without which I could not have had a scholarly insight into this research.

Finally, I would like to thank my family for their unwavering support and encouragement throughout the period I was conducting this research.

DEDICATION

I would like to dedicate this research project to my father Mr. Teddy Chiyokolu Chikweti, my Uncle Mr. Christopher Kaswamu Katota, my wife Naomi Nchepeshi Chikweti and my two (02) daughters, Jessica Chikweti and Nyachizungu Womba Chikweti. They have been a great source of motivation and inspiration, especially in regard to ensuring that I never give up on my dreams and aspirations. I thank them for every sacrifice they have made to enable me reach this far.

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LIST OF ABBREVIATIONS

Advanced Microsoft Excel Statistics Analysis Package (AMESAP)
Association of Certified Chartered Accountants (ACCA)
Annual Percentage Rate (APR)
Annual Percentage Yield (APY)
Bankers Association of Zambia (BAZ)
Bank of Zambia (BoZ)
Chartered Institute of Management Accountants (CIMA)
Consumer Financial Protection Bureau (CFPB)
General Equilibrium (GE)
Government of the Republic of Zambia (GRZ)
International Monetary Fund (IMF)
Monetary Policy Rate (MPR)
Non-Performing Loans (NPLs)
Organization for Economic Co-operation and Development (OECD)
PricewaterhouseCoopers (PwC)
Standing Lending Facility (SLF)

CHAPTER 1

BACKGROUND

1.1. INTRODUCTION TO THE STUDY

The advent of short term consumer credit facilities such as Payday loans have generated a lot of debate in the credit markets due to arguably being high cost and exploitative to consumers (Government of the Republic of Zambia [GRZ], 2021; Malone & Skiba, 2020). Credit has existed from as far back as civilized man can be traced in different forms (Hudson, 2004; Fisher, 1930). Hudson contends that the modern credit market as an industry became prominent post Sumerian and neo-Babylonian epoch during the advent of the industrial revolution hence the blueprint of modern credit facilities pricing or Interest Rate Model being premised on investment. The original premise for credit facilities was such that a borrower would get credit, invest the borrowed funds into production to create value at a rate of return higher than that of the interest required to pay back the borrowed amount, (Marx, 1978; Fisher, 1930). This Model was credible mostly owing to the fact that this was at a time when commercial consumer credit was not as prominent (O’Connell, 2009; Scott, 2007). According to O’Connell, widespread commercial consumer credit brought about developments where credit was obtained and had to be paid back not from return on investment but from the future income of the borrower not related to investment. Therefore, O’Connell contended that the rise to prominence of commercial consumer credit in the mid-20th century became the genesis of the problems associated with consumer credit in its various forms though most prominently through its short term versions, as the original premise of credit facilities was now mostly not suitable for consumer credit.

O’Connell advanced that although there was short term consumer credit as we know it today as early as the 19th Century, until the mid-20th century, consumer credit was negligible relative to other types of credit on a global basis (Hudson, 2004). Therefore, the Model of an interest being required when paying back all kinds of credit remained appropriate (Miller, 2013). However, after the mid-20th century when consumer credit became more prominent due to the rise of the middle class, a new model for Credit facilities that would have principally taken into consideration as to whether or not the borrowed amount was to be used for consumption or investment and the

respective duration was necessitated. This was because the original Model of credit facilities pricing no longer remained appropriated for all credit facilities as it was originally created on the premise of credit being obtained for investment and yet consumer credit is usually never obtained for investment, especially the short term consumer credit type (O’Connell, 2009; Scott, 2007). Therefore, the problems associated with consumer credit, especially short term consumer credit such as being high cost and exploitative could be attributed to the aforementioned consumer credit pricing model mismatch of a model originally made for investment borrowing being used for consumptive borrowing (Miller, 2013; Hudson, 2004; Marx, 1978; Fisher, 1930). This is where what was originally crafted for investment borrowing was being used for consumer borrowing without adjustment since the two have different risk profiles (Miller, 2013; O’Connell, 2009; Scott, 2007). This development can be seen from both developed, developing countries such as Zambia and poor countries (OECD, 2019). This is because the problem could have little to do with level of development but the credit pricing model hence this having an equally adverse effect on Zambia as much as it does on other countries in the world.

What seems obvious is that short term consumer credit does save some need in society as can be inferred from the continuous uptake of short-term consumer credit products which indicates market demand (GRZ, 2021; Bank of Zambia [BoZ], 2020; Malone & Skiba, 2020; BoZ, 2000). However, there is also a lot of evidence suggesting that short term consumer credit facilities can lead to poor consumer outcomes due to being associated with high interest rates (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). This is why this study is anchored on attributing this dichotomy to the possible inherent flaw in the Interest Rate Model of modern short-term consumer credit facilities of an interest being demanded when paying back credit borrowed for consumption in a similar manner as that borrowed for investment (Hudson, 2003; Fisher, 1930).

1.2. STATEMENT OF THE PROBLEM

The continuous uptake of short-term consumer credit products indicates market demand (GRZ, 2021; Malone & Skiba, 2020). However, there is also a lot of evidence suggesting that short term consumer credit facilities can lead to poor consumer outcomes due to being associated with high interest rates (GRZ, 2021; Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018;

Servon, 2017; Skiba, 2012). This dichotomy has since brought about antagonistic reactions from proponents of short term consumer credit and those who oppose it leading to a continuous rift between key stakeholders much to the detriment of all stakeholders (BAZ, 2021; Malone & Skiba, 2020; OECD, 2019). The source of this conflict seems to originate from an inherent flaw in the Interest Rate Model of modern short-term consumer credit (Hudson, 2004; Fisher, 1930). This is the interest aspect in the modern credit pricing blueprint which principally mirrors Fishers' interest rate theory which works well when borrowing for investment. This is because investments arguably create value and preferably at higher rate than the rate of return of the interest to be paid on the borrowed funds. Nonetheless, this model is flawed when borrowing for short term consumption because credit facilities gotten for short term consumption seldom directly lead to the creation of tangible value that can be used to pay back the borrowed amount with interest hence having a higher risk relative to other credit facilities consequently priced higher. Therefore, Fisher's model by default makes short term consumer credit high cost due to the higher risk as a result of depending on a less defined source of income to settle the loan relative to that borrowed for investment.

Despite studies having been done over short term consumer credit facilities (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012), there has not been a study that has been focused at resolving the high cost nature issue of modern short term consumer credit from the core, which is, the principal design of short term consumer credit facilities by addressing the interest rate cost drivers while taking into consideration consumers (borrowers), employers of borrowers and merchants (providers of goods/services to borrowers) as key stakeholders (Njoroge, 2021; Malone & Skiba, 2020; OECD, 2019; CFPB, 2019; PwC, 2018; CFSI, 2016; National Consumer Law Center, 2015; Adegbaju & Oloko-Oba, 2016; Fayolle, Liñán, & Moriano, 2014; Karlan & Zinman, 2011; Kim & Garman, 2003). Previous studies have either just highlighted the problem or proposed more and more policy regulatory responses through supervision and interest rate caps as the ultimate remedy (Fekrazad, 2020; OECD, 2019; Yin, 2018; Bhutta, Skiba & Tobacman, 2015; Skiba & Tabacam, 2011). However, inasmuch as regulation can be a source of some good developments (Bernier & Plouffe, 2019), basing the whole solution entirely on regulation could also lead to stifling of innovation in the short term consumer credit market and other adverse developments such as leading lenders to modify their loans to evade

regulations on interest rates, loan lengths, loan sizes, and repayment procedures by allowing loans to roll over (Malone & Skiba, 2020; He & Tian, 2020). Regulation also has implementation shortcomings based on jurisdiction and complexity of short term debt consumer risk drivers such as general economic context, life events and behavioral biases (OECD, 2019; Li, Mumford & Tobias, 2012).

It is against the preceding background that a study that aims at developing a framework that maintains the positive aspects of short term consumer credit facilities which continue to drive demand whilst negating the adverse aspects which lead to poor consumer outcomes such as high indebtedness is necessitated. Such a study could achieve the foregoing by engaging short term consumer credit stakeholders subject to lender learning precepts. This is premised on the consideration that much of the high cost nature of short term consumer credit facilities can be attributed to asymmetry of information between and amongst lenders and borrowers, accentuated by moral hazard and adverse selection amongst stakeholders (Omede, 2019; Beecher, Fildmen & Lobel, 2019; Dobbie & Skiba, 2013).

The study is therefore very important to stakeholders such as policy makers, producers of goods and services, consumers, merchants, financial institutions and academia as it basically aims to address the downside of short term consumer credit which causes high interest rates while promoting its upside. This is because the current position is not sustainable for stakeholders consequently detrimental of all economic players. Therefore, this is to address the adverse effects of high cost short term consumer credit which leads to undesirable developments such as perpetual household financial distress, poor productivity due to having a stressed workforce, liquidity constraints and several other adverse developments for stakeholders, consequently unpleasantly affecting the general financial welfare (Vlaev, Seymour, Dolan & Chater, 2019; PwC, 2018; Kusumawardhani & Dharmmesta, 2017; CFSI, 2016; Brown & Taylor, 2014).

1.3. AIM OF THE STUDY

The intent of this concurrent mixed methods study is to develop an Interest Rate Model or principal design of short term consumer credit facilities pricing to address the aspect of short term consumer credit being high cost while promoting its positives that have continued driving its demand.

1.4. RESEARCH OBJECTIVES

- i. To explore the short term consumer credit problem and its effects on short term consumer credit key stakeholders (Consumers, Employers and Merchants) in Zambia.
- ii. To explain the short term consumer credit problem subject to the lender-borrower relationship
- iii. To understand the constructs of short term consumer credit from the perspective of merchants and employers
- iv. To construct a composite interest rate model for short term consumer credit

1.5. RESEARCH QUESTIONS

- i. What is the current status of consumers, employers and merchants as a result of the supposed inherent flaw in the principal design of short term consumer credit facilities? (Realist ontology and induction)
- ii. What are the constructs of short term consumer credit from the perspective of merchants and employers? (Nominalist ontology and deduction)
- iii. Why is the inherent flaw in short term consumer credit facilities detrimental to key economic stakeholders such as consumers, employers and merchants? (Realist ontology and induction, Nominalist ontology and deduction)
- iv. How could the principal design of short term consumer credit facilities be changed to mitigate the adverse aspects of being high cost relative to other debt facilities? (Pragmatic)

1.6. SIGNIFICANCE OF THE STUDY

The study through the creating of a new Interest Rate Model is hoped to address an inherent flaw in an internationally used blueprint for the pricing of short term consumer credit facilities to alleviate the constraint of this facility being related with high interest much to the detriment of stakeholders such as consumers, employers and merchants. This is because the current flaw in the principal design of short term consumer credit facilities of an interest being demanded on all borrowed amounts regardless of use and duration has led to a lot of adverse developments such as

high household indebtedness, financial distress, moral hazard and adverse selection for consumers (OECD, 2019). The foregoing has since had a trickle-down effect of poor production for employers of financially distressed consumers and poor sales for merchants who rely on consumers with reduced purchasing power due to servicing high cost consumer credit. Meanwhile, the results have been published as a book chapter in Springer for the 1st Australian Industrial Engineering Operations Management Conference.

The study is also posed to set a new direction of scholarly research and literature as it redefines the perception of the time value of money in the short term context. This is because the development of an interest rate model for short term consumer credit upon which the study is anchored shall redefine the valuation of money centered on the Lender/Borrower relationship in consideration of asymmetry of information as a basis for the new definition. The study shall also enable policy makers and experts to focus less on reactive remedies to adverse developments in the short term consumer credit market such as too much regulation which mostly stifles innovation and lead to evasive activities by stakeholders, to a partnership kind of relationship for the benefit of all stakeholders at no other stakeholder's expense for the ultimate benefit of society as a whole (Malone & Skiba, 2020).

1.7. SCOPE OF THE STUDY

This is a study within the bounds of Business and Management with particular focus on short term consumer finance. It takes a concurrent mixed methods approach and is applicable in any economic establishment where short term credit facilities are designed under the general principle of an interest being demanded when paying back the borrowed amount regardless of whether or not the debt facility is obtained for consumption, investment and the duration (Fisher, 1930). Meanwhile, the study shall be restricted to Whence Financial Services short term consumer credit clients, employers of such clients and merchants who supply essential goods and services to such consumers in Zambia.

1.8. THESIS OUTLINE

Chapter One (01) introduces the main theme of the thesis by providing a description of the statement of the problem, the study objective, outlining the research questions and rationale of the study. In addition, the chapter also highlights observations made by previous assessments of the

short term consumer credit sector. These issues serve as a basis for the general direction of the thesis.

Chapter Two (02) puts the study in a policy and historical context, highlighting the developments of the short term consumer credit industry as known in the contemporary. This is done subject to the influence of the General Equilibrium (GE) and the information theoretic approach to banking theories as influenced by the Political approach to banking theory (Marx, 1978). This foregoing is looked at from a historical and social context subject to the developed and developing countries context, and then the Zambia context, consequently making the case for the entire study. These considerations form a basis for the empirical analysis in later chapters.

Chapter Three (03) is about the theoretical framework as conceptualized from the analysis of chapter two (02). Therefore, chapter three (03) starts by highlighting the philosophical underpinnings of the study, this is basically where the worldview adopted by the study is advanced to understand the theory of reality (Ontology) under consideration and the justifications for such a theory (epistemology). Then from this worldview, a theoretical framework for the study is conceptualized.

Chapter Four (04) is basically introduces the conceptual framework adopted by the study based on the study basis in chapter two (02) and the theoretical framework developed in chapter three (03). Therefore, chapter four (04) according to the structure of the study introduces the constructs of a community in which the theoretical framework in chapter three (03) would be expected to yield the desired outcomes. In view of this, chapter four (04) advances the Reputation theory as a basis for developing a conducive environment for the effectiveness of the theory developed in chapter three (03). In doing so, it even brings out the hypothesis upon which the quantitative part of this concurrent mixed methods study is based.

Chapter Five (05) is all about the research design and how it is formulated in order to demonstrate the methods or techniques used in the study. This is basically the weaving up of the methodology model for the study. This chapter introduces the research design matrix which essentially is a tool to guide the thought process during the study in order to enhance effectiveness of the methods and techniques used to increase efficiency consequently the results obtained. This tool is arranged in rows and columns informed by the philosophical research assumptions based on the type of reality sought (Methodology, 2015; Harding, 1987) - intertwined with the philosophical considerations

of ontology (the nature of reality), and epistemology (Lincoln & Guba, 2011; Greene, 2006; Guba & Lincoln, 1994).

Chapter Six (06) this is where the data from inquiry shall be presented. This chapter presents the data that was collected through a survey and interviews. The presentations start with data on the profile of the respondents for the quantitative part of the study. This was basically composed of closed ended questions administered to individual consumers of short term consumer credit, prospective consumers or individuals interested in the sector. In view of the foregoing, the first part essentially covers the quantitative part of the concurrent mixed methods study. Therefore, the second part which is biased towards the qualitative part of the concurrent mixed methods study presents data collected from mainly open ended questions.

Chapter Seven (07) this is where the data from inquiry shall be analyzed. This chapter builds on the preceding chapter 6 in which data that was collected through a survey and interviews is presented. The analysis follows the layout in which the data was presented in Chapter six (06) and then integrating between and amongst different data or data components to change the principal design of short term consumer credit facilities pricing to address the aspect of short term consumer credit being high cost while promoting its positives that have continued driving its demand.

Chapter Eight (08) this is where the conclusions and recommendations of the study shall be done. The Chapter concludes the study by summarizing the key research findings in relation to the intent of the study and the research questions, as well as the value and contribution thereof. It also reviews the limitations of the study and propose opportunities for future research.

1.9. CHAPTER SUMMARY

This Chapter highlights the background of short term consumer credit while establishing supposed gaps that culminate into the statement of the problem. The study aim, research objectives, research questions, the significance of the study, the scope and the general outline of the entire thesis are then stated.

CHAPTER 2

LITERATURE REVIEW

2.0. INTRODUCTION

This Chapter builds a case for the concurrent mixed methods study on short term consumer credit. It relates the study to the larger ongoing discourse in the financial services industry, amongst policy makers and academia with regard to short term consumer credit in three (03) phases (Marshall & Rossman, 2006; Cooper, 1984). This chapter tackles the first two (02) phases of the study to highlight gaps in the current literature and establishes a basis for the third (3rd) phase which shall be covered in the theoretical framework and conceptual framework. The general idea is to extend prior studies guided by the study's research questions.

In view of the foregoing, it is worth appreciating that the first (1st) phase shall be tailored to establishing what the problem looks like, the severity of the problem as guided by what is happening or not happening, subject to the study agents/stakeholders in the problem. The second (2nd) phase is tailored to developing a case for why it is vital to solve the problem based on the severity of the problem, the impact of what is happening or not happening to the research subjects/agents. In the last and third (3rd) phase which shall be covered in chapters three (03) and four (04), the elements causing the problem are evaluated and the resultant information used to formulate or conceptualize what could be done to cause what is happening to be made to stop or at least significantly slowed down. Therefore, what shall start in this chapter which covers the 1st and 2nd phases of the study shall then 3rd phase be embedded into a prospective interest rate model for short term consumer credit subject to the conceptual framework which the study has rationalize through suitability, acceptability and feasibility assessment (Johnson, Schools & Whittington, 2016).

2.1. INTEREST RATES

The Interest rate concept has been an area of interest amongst policy makers, academia and other stakeholders of disciplines anchored in finance from as far back as human civilization can be traced (CIMA, 2021; Miller, 2013; Gorder, 2009; Hudson, 2003; Marx, 1978; Fisher, 1930). From as far back as the Sumerian and neo-Babylonian epoch, all through the industrial revolution period as known in the modern era, interest rates have been an area of great interest. This can be attributed to the ability of interest rates to influence means and measures of value exchange in respective societies (Hudson, 2003; Marx, 1978). Having this influence has since made interest rates a topical area of study as they affect the socio-economic intricate of most, if not all aspects of society directly or indirectly (Gorder, 2009; Fisher, 1930). It is from this understanding that the basic premise upon which the generally accepted theory that Interest rates facilitate the flow of funds from lenders to borrowers for initially prominently production and now in the contemporary even consumption is affixed on.

The complexity of Interest rates can first be attributed to the fact that its historical origins are still topics of much debate. This is because most historical information is from ancient textual and material records from the Sumerian and neo-Babylonian eon, and yet these thus far do not contain much direct evidence to provide an overall context to explain all the intricate at work (Hudson, 2003). This development has since led to several schools of thought which are discipline specific (Accounting, banking, economics, etc) over interest rates. This then has given rise to several theories and hypothesis which influence value, and the means and measures of exchange of this value in the modern era. The complexity is further compounded by the fact that the blueprint for the interest rate as known in the modern times was developed during a time things like consumer credit was not as prominent despite now being of great influence on interest rates (O'Connell, 2009; Hudson, 2003; Fisher, 1930).

It is against the foregoing background that this review of interest rates is focused on dissecting the interest rate blueprint in view of contemporary developments such as short term consumer credit. This is because until the late 19th and early 20th century, consumer credit was relatively low hence its overall effect on the interest rates rationale might not have been as profound as they now are (O'Connell, 2009). It is in this vein that the study is of the view that there was need to rethink or

conceptualize the measures and means of exchange of value, especially in view of short term consumer credit. Of course all this would still be guided by existing theories and concepts across disciplines but with the core purpose of pragmatically sorting out the adverse developments now synonymous with lenders and borrowers of short term consumer credit such as high interest rates, leading to household financial distress much to the detriment of society as a whole (Government of the Republic of Zambia [GRZ], 2021; Malone & Skiba, 2020).

The study is of the view that getting back to the basics or the foundational thinking behind interest rates and re-conceptualizing it in light of new developments such as the advent of short term consumer credit would yield much better results. This is in consideration that most interventions such as more regulation by authorities have not conclusively resolved the adverse effects of high interest rates as providers end up developing new ways of going round the regulation and the vicious cycle continues (Malone & Skiba 2020; OECD, 2019).

Below are some definitions and influential basic conceptions of interest rates which shall be defined and/or described to lay ground for the dissecting of the interest rate blueprint.

2.1.0. DEFINITIONS OF INTEREST RATES

Interest rate is the amount charged on borrowed money, expressed as a percentage of the principal, by a lender to a borrower for the use of money (Belongia & Ireland, 2014; Mashkin, 2013; Gorder, 2009; Trainer, 1987; Fisher, 1930). As described by Hudson, interest rates are often expressed as a percentage of the amount borrowed (principal) over a period agreed upon by the lender and borrower at the time of contracting the loan (Hudson, 2003). Other profound economic scholars specifically describe interest rates as being a percentage of the principal that is paid as a fee over a specified period of time (Marx, 1978). Ingram describes interest rates as the rental payments for the use of credit by borrowers and return for parting with liquidity by lenders over time (Ingram, 2011).

2.1.0.1. Nominal versus Real Interest Rates

Interest rates are expressed in either nominal or real terms depending on whether or not the change of value of money over a certain period is taken into consideration [Inflation or deflation] (Trainer, 1987). According to Trainer, this change in value over a certain period consideration is considered

as an adjustment for the changes in the price level and if there is no such adjustment, the interest rate is said to be expressed in nominal terms. Therefore, a nominal interest rate is that which does not take inflation into account. Nominal rates are practically the most basic, they are the type that are quoted/stated by banks and other financial institutions for a given bond or loan. Another example of a nominal rate would be the coupon rate on fixed income investments and the interest rate paid on saving accounts. However, as earlier stated, nominal interest rate do not capture the whole story, because inflation during the tenor of the loan/investment reduces the lender's or investor's purchasing power. Therefore they do not show the true benefit forgone during the period under consideration as the parties such as the lender would not be able to buy the same amount of goods or services with the money realized at maturity of the loan or investment relative to the time they were secured (Mashkin, 2013).

On the other hand, Real interest rate is the rate that is adjusted for changes in the price level (Trainer, 1987; Fisher, 1930). According to Fisher, the adjustment is done by subtracting changes in the price level from the nominal interest rate in order to make it accurately reflect the true cost of the transaction. Fisher and Trainer both further apprise that such changes in the price level can be “expected” or “actual”. Meanwhile, according to Trainer, when the adjustment is made using the expected change in the price level, the resulting real interest rate is called ex-ante real interest rate. This is important in finance because in instances where the adjustment is done using the actual change in the price level, the real interest rate becomes ex-post real interest rate. In general, the lower the real interest rate, the greater the incentive to borrow and lower the incentive to lend and vice versa.

It is also worth appreciating that both scholars [Fisher and Trainer] state that the real interest rate can even be positive (negative) if the changes in the price level are lower (higher) than the nominal interest rate.

2.1.1. Types of Interest Rate

There are various types of interest rates which basically can be categorized into policy, deposit, and lending rates (Mashkin, 2013). **Policy rate** is the rate used by central banks or monetary authorities to determine the cost, availability and quantity of money in a respective economy in a

bid to achieving desired macroeconomic objectives. In the case of **Deposit rates**, they are rates that are paid on savings and time deposits of different maturities such as one month and fixed deposits in financial institutions. As for **Lending rates**, Mashkin advances that they are rates charged by money lenders, banks, etc. for meeting the short and medium-term financing needs of borrowers (Mashkin, 2013). Lending rates are usually differentiated according to risk assessment of borrowers and the objectives of the respective financing.

Despite all three (03) categories being intertwined based on the trickledown effect of one category on the other, the study focuses more on the lending rates. This is because they are the category which can somewhat be reasonably influenced by the interactions between and amongst the key stakeholders (Employers, Individuals and Merchants) of the study.

2.1.1.1. Monetary Policy Rate (MPR)

Monetary policy rate is the rate at which central banks lend to Deposit Taking Financial Institutions as lender of last resort. It is usually set at a level that is consistent with the objectives of price stability of central banks. The basic premise is that the MPR is expected to communicate the stance of monetary policy and acts as a guide for all other market interest rates (Trainer, 1987). Trainer advances that the MPR is usually set with a corridor in which the upper bound represents the central bank's lending rate to Deposit Taking Financial Institutions under the Standing Lending Facility (SLF), and the lower bound represents the deposit rate at which the central bank accepts deposits from Deposit Taking Financial Institutions under the Standing Deposit Facility (SDF).

2.1.1.2. Lending Rates

Theoretically, this is the rate at which Deposit Taking Financial Institutions charge their customers on loans extended to them. Conventionally, two of these rates have been most prevalent – the Prime and Maximum Lending Rates.

Prime Lending rate is simply defined as the interest rate which Deposit Taking Financial Institutions charge their most credit-worthy customers; which are usually large organizations. For most financial institutions, this rate also represents the minimum rate. It could also form the basis for other lending rates on mortgages, personal loans, and loans to small businesses. The maximum

Lending Rate, on the other hand, is the rate charged for lending to customers with low credit rating (Trainer, 1987).

2.1.1.3. Treasury Bills Rate

Treasury bills are basically government own and guaranteed debt instruments issued by the monetary authority or central bank of a respective country, usually to control money supply. Therefore, the Treasury bills rate is the interest rate paid by government to investors who purchase government bills or monetary authorities. It is also worth noting that Treasury bills are discount instruments hence rather than making interest, they are issued at a discount to the face value and mature at face value. The interest rate is a function of the purchase price, the face value, and the time remaining till maturity (Mashkin, 2013).

2.1.1.4. Interbank Rate

Interbank rate is the rate charged on short-term loans usually made between and amongst Deposit Taking Financial institutions. The institutions borrow and lend money amongst themselves in the interbank market in order to manage liquidity and meet requirements placed on them. The interest rate charged depends on the availability of money in the market, on prevailing rates and on the specific terms of the contract, such as term length (Mashkin, 2013).

2.1.1.5. Credit Card Rate

The credit card rate is essentially the rates financial institutions charge card holders for using their card for payments at point of sale (Point of Sale). The charged is usually for short-term financing that commonly begins one month after a purchase is made and the borrowing limits is set according to the individual's credit rating. Credit cards have higher interest rates than most consumer loans and credits. These are mostly used in developed economies to payment for goods and services due to being widely accepted (Mashkin, 2013).

2.1.2. Other Interest Rates

Other rates common in banks include (Mashkin, 2013, Fisher, 1930):

Current Account Rates: These are rates paid by banks to current account holders. They are conventionally low because monies in the account can ideally be accessed at any time.

Savings Account Rates: are rates paid to saving account holders by banks based on the balances in the account at the due date. They tend to be higher as banks are ideally willing to pay higher interest rates because they are less likely to have frequent deposit withdrawals.

Mortgage Rates: are rates charged by banks on mortgage loans. They are lower than rates on personal loans but closer to central bank rate. They are seen as very safe to the borrowers since the title deeds to the landed properties are tendered as securities.

Treasury Bond Rate (Coupon Rate) is the rate on bonds that do not mature within one year, and in most cases are of longer duration of 10 to 30 years. The interest rates on these bonds vary depending on their maturity.

2.1.3. Measuring Interest Rate

There are several means of measuring interest rates but the most common are the simple and compound interest rates, discount method, annual percentage rate (APR), and the annual percentage yield (APY).

2.1.3.1. Simple Interest

Simple interest is interest paid only on the "principal" or the amount originally borrowed, and not on the interest owed on the loan. A major feature of simple interest rate, therefore, is that interests are not calculated on the amount due (Fisher, 1930).

Simple interest is normally specified as a percentage rate of increase, rather than an absolute amount.

Simple interest (Si) is given by the following formula

$$Si = P \times T \times R/100$$

Where:

P = the principal

T = Number of years for the loan to mature / repayment period

R = Rate (%)

2.1.3.2. Compound Interest

Compound Interest is that which is calculated based on the sum of the principal and the interest previously received. Under this method, interest is paid on the initial amount deposited, as well as additional interest outlays during the tenure of the loan. The compounding period represents the period over which the interest is calculated. Compound rates are normally higher than simple rates. The period over which interest is calculated is called the compounding period. The standard period for compounding is one year (Fisher, 1930).

2.1.3.3. Annual Percentage Rate (APR)

The Annual Percentage Rate (APR) is the yearly costs of credit expressed as a percentage of the loan amount (Belongia & Ireland, 2014). The APR is usually higher than the normal interest rate payable on a loan, because it includes additional cost or fees for providing the loan, such as lender's administrative fees, and other costs as well as the annual interest rate. In practice, APR gives a more precise representation of the actual cost of borrowing rather than using the simple interest rate only. Therefore, the APR provides a useful gauge for comparing the total cost of funds for any

loan. In practical terms, different lenders will have different APRs, thus their calculations may differ. Typically, APR is usually used for credit cards, vehicle financing, and personal loan, amongst others.

2.1.3.3. The Discount Rate

The discount rate is the interest rate used to discount a stream of future income to its present value. The discount rate measures the opportunity cost of capital. It indicates how much interest could be earned on funds if the money was put away (Gorder, 2009).

Discount rate is given by:

$$Dr = 1/(1 + \text{interest rate})$$

For example, an interest rate of 7.0 per cent would attract a discount rate of $1/1.07 =$ approximately 0.934.

The Annual Percentage Yield (APY)

The interest rate measure that includes the effect of compounding is called the annual percentage yield (APY). It is considered a superior measure of annualized interest rates (Trainer, 1987; Fisher, 1930). The APY is computed by compounding or multiplying the per-period rates over the year to arrive at the effective annual rate. The APY is the effective interest rate from a lender's perspective.

2.1.4. Factors Affecting Interest Rate

2.1.4.1. Demand and Supply of Loanable Funds

Traditionally, interest rate is determined by the interplay of the supply of and demand for loanable funds. Savings is a major source (supply) of loanable funds while borrowing (investment) constitutes demand for loanable funds. If the supply exceeds the demand for loanable funds,

interest rate is bound to fall while the opposite holds if the supply falls short of demand for loanable funds (Trainer, 1987).

2.1.4.2. Inflation

Inflation is another factor that affects interest rate (Fisher, 1930). The higher the expected inflation rate, the higher the interest rate is likely to be because of the need to keep real interest rate positive to encourage further savings. If expected inflation falls, other things being equal, interest rate would also fall.

2.1.4.3. Monetary Policy

Monetary policy actions affect interest rates. Central banks and monetary authorities change their monetary policy stance to influence the level of money supply as they try to manage the economy and control inflation (Mashkin, 2013). For example, if monetary authorities decide to ease monetary policy, then money supply in the economy will increase. Given the demand for money, interest rates would fall as more money is now available to lenders. On the other hand, if the supply of money in the economy is reduced, interest rates would rise.

2.1.4.4. Government/Fiscal Policies

Government also borrows if its expenditure is more than the revenue generated from all sources to finance its programs. Generally, high government spending fuels money supply in the economy thereby putting downward pressure on nominal interest rate. The reverse holds when government refuses to borrow and operates a balance or surplus budget (Mashkin, 2013).

2.1.5. Relationship between Interest Rate and Other Macroeconomic Variables

2.1.5.1. Inflation

Rising prices and expectations of escalating inflation would tend to increase interest rates, whereas low levels of inflation and improvement in the expected inflation would usually lead to lower levels of interest rates. Thus, there exist a positive relationship between inflation and interest rate. Interest rates that are higher than the inflation rate would shield savers from the adverse effects of

inflation, conversely when the inflation rate exceeds the interest rate, borrowers tend to gain at the expense of savers (Belongia & Ireland, 2014).

2.1.5.2. Exchange Rate

The relationship between the interest rate and exchange rate could be viewed through the demand and supply of foreign exchange in the foreign exchange market (Fisher, 1930). Speculators normally leverage on higher interest rates in other countries to trade in foreign currencies to benefit from higher earnings. For instance, investors from South Africa would be attracted by higher interest rate in Zambia by buying the Zambian Kwacha based securities in a bid to earn higher income. This would also lead to an appreciation of the Kwacha. Thus, a rise in the interest rate is expected to appreciate the value of a currency, in this case the Zambian Kwacha against the South African Rand. In contrast, a fall in the interest rate would lead to depreciation in the value of Zambian Kwacha.

2.1.5.3. Savings

Higher interest rates usually serve as incentive for people to save more, knowing fully well that their savings would earn them more income. Individuals are normally faced with the decision to either consume at the present or defer current consumption to a future date. The interest rate is a very important impact in making this decision. Receiving higher reward on savings means that more can be consumed in the future. Also, economic agents might choose to save less if the interest rate is low, i.e. they would choose current consumption in place of savings, *ceteris paribus*

2.1.5.4. Investment

High interest rate makes the cost of borrowing funds expensive thereby impacting negatively on the level of investment. This is because households, firms, and governments often borrow money from banks and other lending institutions to finance investment. Similarly, high level of interest rate serves as signal for economic agents to save more money in return for better rewards. Also, low interest rates means funds would be cheaper to borrow, and signals increasing investment.

Firms usually source for funds to venture into investments in new factories, more efficient machines, raw materials, etc. expecting to earn more income from their investments. However, if

the interest rate (cost of the loan) is greater than the expected return on investment, then it would not be economically plausible to undertake such investment and vice versa. Thus, when interest rates are lower, firms are more likely to make investment.

2.1.6. INTEREST RATE THEORIES

There are theories that have been developed and now widely accepted in finance over the determination and other critical aspects of interest rates. In order to appreciate the background upon which the study builds its case, these propositions are explored. The premise shall be to empirically examine such theories to ascertain their significance and impact on the determination of prevailing interest rate schools of thought in respective economies. It is also worth noting that despite most of these theories being related to banks, they can and are conventionally applied to other financial institutions with minor adjustments subject to the setup of the respective institutions.

2.1.6.1. Bank Dealership Model - Ho and Saunders (1981)

The bank dealership model and its extensions is one of the main theories that explain interest rates and others aspects such rate spreads. The model was developed by Ho and Saunders in 1981, to essentially explain interest rate margins. The model is founded on the premise that banks undertake intermediation between demanders of finance and providers of finance in an economy. The duo advanced that high spreads were a result of uncertainty as banks are subjected to interest rate risk.

The general argument advanced was that loans and deposits arrive at different times and hence the bank has to take short or long position to manage this disparity. The Dealership model indicates that banks are supposed to be risk-averse when undertaking their intermediation roles. The model also indicates the existence of an optimum interest rate spread which entirely depends on bank specific factors, competition in the market and macroeconomic factors.

2.1.6.2. Loanable Funds Theory

Loanable funds theory was developed by Swedish economist Knut Wicksell (1851-1926). It assumes that interest rates are determined by supply of loanable funds and demand for credit and that there exists an inverse relationship between the loanable funds and the interest rates. It

basically explains how real interest rates are determined based on the notion that individuals decide between consuming now and consuming in the future.

The theory advances that real interest rates will be the rate that can persuade individuals to forgo present consumption. Therefore, if both the demand and Supply of loanable funds change, the resultant rate would depend on the magnitude of movement of the demand and supply of the loanable funds. In this theory the demand of loanable funds originates from domestic business, consumers, governments and foreign borrowers. While the supply is generated by domestic savings, dispersion of money balances money creation in the banking system and foreign lending. With these factors determining long-term interest rates, short term interest rates are decided by financial and monetary conditions in the economy (Trainer, 1987).

2.1.6.3. Lack of Information and Liquidity Preference

The Liquidity preference theory asserts that economic units have a preference for liquidity over investing. Applying this theory explains the premium offered in forward rates in comparison to expected future spot rates. This premium is used as payment for the use of scarce liquid resources. The preference for liquidity can be accounted for by the fact that economic units need to hold certain levels of liquid assets for purchase of goods and services and the fact that these near term future expenditures can be difficult to predict. Therefore, since individuals or economic units do not possess high levels of awareness for future transactions, liquidity preference helps in determining how much cash they are willing to keep with them at a particular time. Liquidity theory is limited by its short-term nature, the assumptions that income remains stable, and, like classical theory, only supply and demand for money are considered (Trainer, 1987).

2.1.6.4. Loanable Funds and Liquidity Preference

The Loanable funds theory and liquidity preference theories can be blended together to explain determination of interest rates in an economy (Trainer, 1987). In this case the liquidity preference theory is a short-run or disequilibrium theory while the loanable funds theory usually relates to the long-run. The loanable funds theory operates in equilibrium when individuals' expectations are correct. Having adopted this ideology the world of certainty is assumed and now individuals have the ability to make future planning and can assume fulfillment of the plans. The blending of the

theories will justify the level of interest rates spreads in the economy reflecting level of loanable funds and liquidity preference levels in the economy.

2.1.6.5. Relative Rates of Interest - Risk Premiums

The model on risk premiums is anchored on the rationale of adjustment for risk when determining interest rates. The whole concept of risk premiums is based on consideration of different degrees of risk linked to different uses of funds. Therefore, the risk premium essentially reflects the degree of risk associated with holding money and is used to justify the spread between deposit and lending rates (Mashkin, 2013).

2.1.6.6. Relative Rates of Interest - Term Premiums

The Term premium concept is based on the compensation for suspension of immediate consumption hence rewarding for the time dimension and this influences the interest rates charged by financial institutions. This is in line with what the Loanable Funds theory advances, that individuals who save need to be rewarded for not consuming in the present time by interest payment on their savings. It is against this background that the interest rate demanded by savers on longer term loans should be higher than that on shorter loans. Therefore, Term premium refers to that extra return that investors demand for forgoing present consumption for a long period instead of forgoing present consumption over a short period of time or over a series of short periods (Mashkin, 2013).

2.1.6.7. Market Segmentation and Preferred Habitat

The market segmentation concept is mainly based on the behavior of various group of individuals in an economy. The concept indicates that people possess certain characteristics which makes them have a certain group identify hence rates to such groups can be attributed to such characteristics. In the case of the Preferred Habitat theory, it is based on the understanding that economic agents develop certain financial transacting habits which influence their consumption of financial services. This means that no matter what differences in interest rates offered by various institutions, some individuals habitually prefer to deal with those institutions they have history with. This leads to certain investors being attached to certain institutions and will never be pushed by other offers in the market hence affecting the demand and supply aspects of liquidity. Therefore any changes in relative interest rates will not attract the habitual savers, as their attachment for a fund market is strong (Mashkin, 2013)

2.1.6.8. Expectations Theory

The expectation of consumers, banks and other businesses have pronounced effects on supply and demand in financial markets (Weth, 20002). An example would be how bank's portfolio of assets and liabilities depends in part on the expected return to various assets and the expected cost of various liabilities (Cukierman & Hercowitz, 1990). Expectations theory is somewhat anchored on the idea that interest rates are determined by supply of loanable funds and demand for credit (Fry, 1995).

2.1.6.9. Classical Theory and Neo-Classical Theories

These two (02) theories are basically the two (02) schools of thought around which the study of interest rates revolves. Notably, the study of interest rates has always been a subject of intense debate and controversy mainly owing to it being studied across several finance disciplines such as accounting, economics, banking and the like. However, all these controversies either inmate or ends back at the proposals embedded in these theories.

The Classical theorists regarded an interest rate as the factor which brings equilibrium between investment demand and the willingness to save into equilibrium with one another. The idea is that investment represents the demand for investable resources and saving represents the supply, whilst the rate of interest is the price of investable resources at which the two are equated. Therefore, the classical scholars believe that the interest rate is determined by savings and investments. These scholars basically postulate a negative correlation between the rate of interest and the overall volume of aggregate investment (Kurz, 2012).

On the other hand, Neo-classical theorists believe that saving and investment cannot actually be equal. Neo-classical economist strongly believes that the rate of interest is determined by supply and demand. These scholars assert that the more savings there are, the lower the interest rate. This is consistent with Keynesian scholars whose view is that the supply of money is instrumental in determining the interest rate. According to the Keynesian the equilibrium interest rate is reached when the money supply is equal to the money demanded (Hoff and Stieglitz, 1990). Hoff and Stieglitz advanced that that "the equilibrium rate of interest is determined by factors affecting the supply of money and money demanded".

They concluded by saying that “the modern view of interest rate is based on the imperfect information paradigm or simply information asymmetry.

2.2. INTEREST RATE MODELS

2.2.1. DEFINATIONS OF INTEREST RATE MODELS

A model is essentially a set of concepts that describe the intricate of an ideology. Therefore, considering that there are several concepts upon which different interest rate ideologies are based, there are several models which can be associated with each interest rate theory described above. However, it is worth appreciating that this study is anchored on re-conceptualizing the interest rate blueprint rationale in a bid to solve the adverse effects of the current model which is appropriate on borrowings for investment and not consumption. Therefore, the only model that is worth dissecting to achieve the object of the study is the foundation model from which all theories and/or contemporary models are derived. This is the model expounded by Miller and other scholars such as Beck, Fuchs, Demirguc-Kunt and Huizinga. This model essentially looks at an interest rate as an aggregate of a number of cost driving constituents (Miller, 2013; Beck & Fuchs, 2004; Demirguc-Kunt & Huizinga, 1999).

2.2.2. VARIOUS MODELS

As earlier indicated, there are several interest rate models but due to the interests of this study, the most important is to look at the basic interest rate model upon which all theories that led to various models are developed. This model is based on the constituents of an interest rate hence covers all aspects on interests rates across all finance disciplines which look at the rate from different aspects albeit subject to the same constituents. The interest rate charged on loans is essentially the sum of five components: costs of funds, overhead costs (e.g. administrative costs of the bank as well as costs of processing the loan), risk premium, profits and taxes (Miller, 2013; Beck & Fuchs, 2004; Demirguc-Kunt & Huizinga, 1999)

The constituents of an interest rate are as depicted in the illustration below:

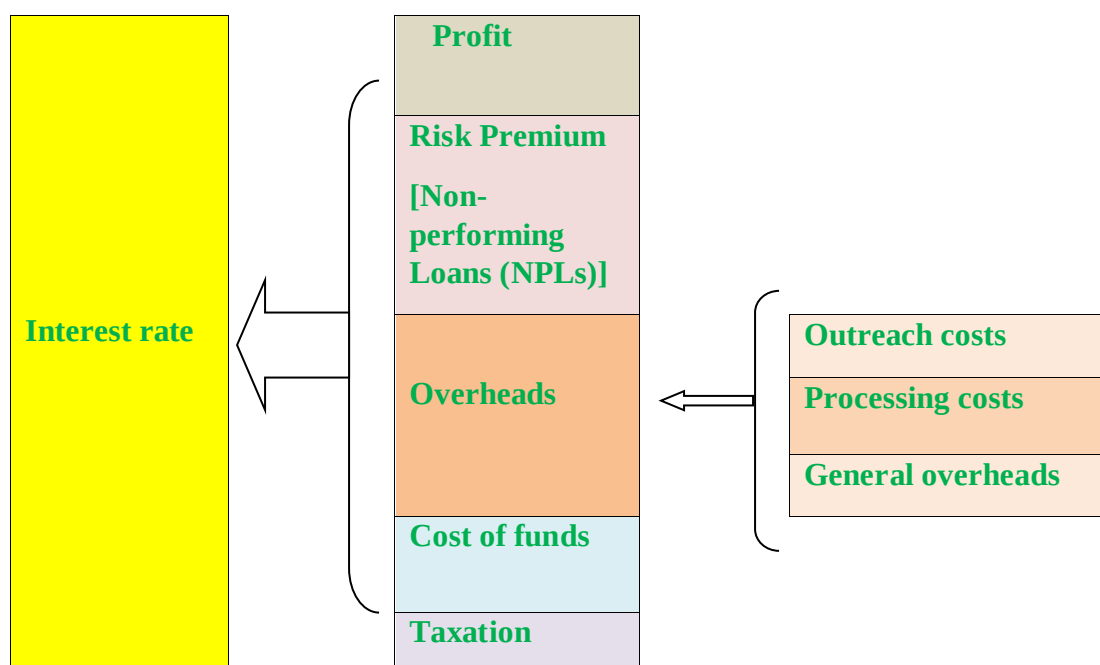


Figure 2. 1: Breakdown of interest rate

(Source: World Bank Group 2018 Paper on Finance Adapted from Miller, 2013)

For more details see Miller (2013), Beck and Fuchs (2004) or Demircuc-Kunt and Huizinga (1999).

Profit: Profit is just a component of an interest rate hence it is possible for a financial institution to have a very small profit margin and yet still have a high interest rate. This can happen subject to its setup and how well the other components are managed. This school of thought which is popular amongst consumers of financial services is usually due to failure to appreciate the constituents of an interest rate (World Bank Group, 2018). According to the 2018 World Bank Group Working Paper on Finance, Competitiveness and Innovation Global Practice, it is this line of thinking which has even led to regulatory measures such as caps on interest rates. The World Bank paper advances that such regulatory measures are often justified by the perception that high lending rates are driven by banks' ability to generate excessive profits from their lending activities. The paper further states that that this ability to earn high profits is especially large when monopolistic or oligopolistic structures together with high barriers to entry result in limited

competition in the financial system and give incumbents the power to set prices. Therefore, the foregoing is used as a basis for regulation arguably to protect the public interest by guaranteeing a fair and reasonable interest rate.

Risk perceptions: In order to continue existing into the foreseeable future (Going Concern), lenders must also absorb the cost of bad debts that must be written off in the rate that they charge. This allowance for non-performing loans (NPLs) means that lenders with effective credit screening processes should be able to bring down rates in future periods, while reckless lenders will be penalised (Miller, 2013). Therefore, this risk consideration can also lead to high interest rates driven by substantial risk premium on loans. This is because lenders calculate the risk premium based on the probability that a borrower repays the loan and the loss given default. In particular, for micro and small firms or households with no or little credit history and collateral, it is difficult to accurately assess these parameters and the lack of information might result in high risk premia (World Bank Group, 2018). The World Bank further advances that the foregoing can since give rise to adverse selection and moral hazard problems. The paper argues that unable to identify a borrower's potential for repayment, financial institutions will charge an aggregated interest rate which will be more attractive to the higher risk client because lower risk clients are likely to have access to alternative and cheaper sources of credit.

The paper then mentions how this ends up creating a vicious cycle as all this propels a higher risk of default and feeds back into higher risk premia and lending rates. The World Bank paper also contends that the problem is especially pronounced in less sophisticated financial systems where banks lack proper tools to price and manage risks efficiently. Also that Moral hazard occurs when clients borrowing at this elevated rate are required to make riskier investments to cover their borrowing costs.

The conclusion on this matter is that the foregoing also increases default probabilities and risk premia as stated by earlier scholars (Miller, 2013; Beck & Fuchs, 2004; Demirguc-Kunt & Huizinga, 1999). This then leads to the justification that caps on interest rates in this case might alleviate this vicious cycle by altering the aggregate interest rates, making them also attractive for more credit worthy borrowers and reducing the pressure to engage in high risk projects to cover the borrowing costs. This is supported by the findings a year later of the Joint report by the G20 OECD Task Force on Financial Consumer Protection, FinCoNet and the OECD International Network on Financial Education (OECD, 2019). However, these findings are disputed on grounds

of sustainability as lenders modifying their loans to evade regulations on interest rates, loan lengths, loan sizes, and repayment procedures such as allowing loans to roll over (Malone & Skiba, 2020; He & Tian, 2020). Further that regulation also has implementation shortcomings based on jurisdiction and complexity of certain types of credit such as short term debt as the consumer risk drivers such as general economic context, life events and behavioral biases are more complex than most authorities care to acknowledge (OECD, 2019; Li, Mumford & Tobias, 2012).

Overhead costs: This looks at auxiliary costs embedded into an interest rate which have an effect on the overall rate consequently leading to a high rate. According to the World Bank report under consideration, high lending rates can also be due to structural reasons such as high overhead costs that reflect the general administrative costs of the lender as well as the costs of processing the loan application. Further that such overhead costs are not only determined by lenders' productivity but also reflect the nature of their business models. Also that Processing costs are, for example, generally higher for small loan volumes or microcredit transactions that require face-to-face interactions and where lenders use personal contacts as a substitute for formal collateral or computerized scoring (Helms and Reille, 2004). Therefore, the paper also states that proponents of regulation argue that ceilings on interest rates put pressure on banks to reduce administrative expenses and increase operational efficiency. But this raises questions on other financial institutions ability to effectively implement this suggestion (Malone & Skiba, 2020).

Cost of Funds: This looks at the cost that financial institutions pay to borrow the funds they then lend out. At the macro level these funding costs, either the interest rate on deposits or the cost of wholesale funds, are a function of the prevailing "risk free rate" in the economy and a premium reflecting the default risk of the institution. According to the 2018 World Bank Group Working Paper on Finance, Competitiveness and Innovation Global Practice, the "risk-free rate" reflects the fundamental equilibrium between savings and investment and is higher the scarcer the supply of capital in the economy is. Further that, Nominal rates are further influenced by expectations of future inflation (World Bank Group, 2018).

Taxation: The final constituent of the whole interest rate that is quoted is subject to the influence from explicit and implicit taxation. Explicit taxation consists of the prevailing corporate tax rate in the jurisdiction that the financial institution operates in. Additionally, lending rates are impacted by implicit taxation, i.e. the opportunity costs of holding required reserves at the central bank and the reserve requirements for those institutions required to do so are an implicit tax on them,

especially if, as is usual, official reserves are remunerated at less-than-market rates (Demirguc-Kunt and Huizinga, 1999).

2.2.3. General Observation from Interest Rates

The observation from Figure 2.1, which maps respective interest rate theories to the constituents of the general interest rate blueprint indicates that eight nine percent (89%) of these theories influence the interest rate blueprint by at least sixty percent (60%). What is worth appreciating is that all the nine (09) interest rate theories under consideration are conceptualized based on an industrialist rationale. This basically means they were crafted on the premise that one would borrow money, invest that money into something with the hope that the end product would be valued at a higher amount when sold to make a profit. Then after a profit is made, a component of those profits would be used to pay back the money that was borrowed and the interest for the use of the money/risk involved in the whole transaction.

In view of the foregoing, the interest rate blueprint is very appropriate and creates a sustainable relationship between and amongst all stakeholders involved. However, the moment money is borrowed for consumption, the study argues that an inherent flaw is created in the interest rate blueprint. This is because then a situation is created in which the money would now have to be paid from future income, usually not related to a return on investment. It is worth appreciating that the original interest rate blueprint was credible for consumer credit overly, mostly owing to the fact that it was conceptualized at a time when commercial consumer credit was not as prominent and diversified as known in the contemporary (O'Connell, 2009; Scott, 2007).

According to O'Connell, widespread commercial consumer credit brought about developments where credit was obtained and had to be paid back not from return on investment but from the future income of the borrower not related to investment. Therefore, O'Connell contended that the rise to prominence of commercial consumer credit in the mid-20th century became the genesis of the problems associated with consumer credit in its various forms though most prominently through its short term versions, as the original premise of credit facilities was now mostly not suitable for consumer credit.

To understand the matter properly, it is also vital to consider the type of consumption under consideration to appreciate the argument over the appropriateness of the original interest rate blueprint. For example, there are types of borrowing such as to buy a house to live in or a car.

Despite these being consumptive in the main sense, one could argue that such could lead to say, a savings from rentals if one buys a house or transport costs if one buys a car.

Therefore, inasmuch as these are consumptive in the main sense, it can be argued that such savings could be used to pay off the interest charges and the actual money. Hence, these types of consumer loans could still be appropriate with regards to the interest rate blueprint but for the other types of consumer loans such as those gotten to settle unforeseen budget shortfalls such as short term medical bills or just paying for goods and services, the interest blueprint falls short.

It is against the foregoing that the study advocates for an adjustment to the interest rate blueprint in order to deal with the adverse effects of short term consumer credit to deal with adverse developments which lead to undesirable outcomes such as high household indebtedness.

Table 2 1: Theory to Interest Rate Constituent mapping

DISCRIPTION	PROFIT	RISK PREMIUM	OVERHEADS	COST OF FUNDS	TAX	TOTAL	%
Bank Dealership Model	0	✓	0	✓	✓	3	60
Loanable Funds Theory	✓	✓	0	✓	✓	4	80
Lack of Information and Liquidity Preference	0	✓	0	✓	✓	3	60
Loanable funds and Liquidity Preference	✓	0	0	✓	✓	3	60
Relative Interest Rates-Risk Premium	0	✓	0	✓	✓	3	60
Relative Interest Rates-Term Premium	0	✓	0	✓	✓	3	60
Market Segmentation and Preferred Habitat	0	✓	0	✓	✓	3	60
Expectations Theory	✓	✓	0	✓	✓	4	80
Classical Theories and Non-Classical Theories	0	✓	0	✓	✓	3	60

(Source: Author, adapted from Miller, 2013)

Note: The tick (s) indicate the incidence of a respective theory subject to the constituents of the interest rate as presented Miller and other proponents of the interest rate breakdown (Miller, 2013; Beck & Fuchs, 2004; Demircuc-Kunt & Huizinga, 1999)

2.3. CONSUMER CREDIT/DEBT

Debt or Credit has existed in different forms from as far back as civilized man can be traced (Hudson, 2004). Hudson advances that the modern credit/debt market as an industry became prominent post Sumerian and neo-Babylonian epoch, and all through the industrial revolution to give form to the contemporary credit/debt markets. However, consumer credit specifically became an area of much interest and debate, first towards the end of the 19th and early 20th century when it started becoming a mainstream phenomenon due to the growth of the middle class, mostly in now developed economies (O'Connell, 2009; Scott, 2007).

The second wave of debates and interest on consumer credit can be traced from the early 1990s in developed countries and in the 2000s in developing countries due to changes in the banking sector (Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). The drive of the second wave was compounded by the rapid increase of short term consumer credit such as payday loans as evidenced by a strong demand and arguably being high cost relative to other types of credit (Malone & Skiba, 2020; Bertrand, Morse & Vittas, 2018; Stephens & Sigurdsson, 2018; Karlan & Zinman, 2011). Therefore, in order to address the adverse developments that have resulted from consumer credit, astute examination of the debt or credit foundational concepts is cardinal. It is against such a background that the study is of the view that adverse developments such as high household financial distress due to high interest rates on consumer credit could be addressed by pragmatically dissecting the interest rate blueprint and its appropriateness in the contemporary.

In view of the foregoing, this section shall look at all aspects relevant to the quest under consideration, starting with the establishment of the origin of Credit and its various forms as known in the modern era (Matovu & Twimukye, 2018; Kondo, 2014; Boccanfuso, 2013; Hudson, 2004). It is in view of this, that matters concerning banking and finance shall dominant the section, starting with the General Equilibrium (GE) framework and the Information Theoretic Approach to Banking, which have been of great influence to the credit industry as known in the modern eon (Fine & Milonakis, 2009; Arrow & Debreu, 1954).

2.3.1. Definitions

Credit represents an agreement to receive goods, services or money now and pay for them in the future (Preston & Prochaska, 2007). This future can either be long term (More than one year) or short term (Less than one year). This credit can be used for investment so that the repayment in

the future is paid from the return on investment or can be used for consumption so that the payment is from future income that is not directly related to return on whatever the borrowed funds were spent on (Marx, 1978). Therefore, Consumer Credit is an agreement to receive goods, services or money now and pay for them later from future income that is not directly from a return from what the goods, services or money borrowed was spent on.

2.3.2. Types of Consumer Credit

There are several types of consumer credit and this is because the types are usually with regard to what the credit in question is used for. However, Preston and Prochaska consolidated a number of uses and came up with representative clusters which make a good basis to describing types of consumer credit (Preston & Prochaska, 2007). According to Preston and Prochaska, common kinds of consumer credit include service credit, closed-end or installment credit, and open-end or non-installment credit (Preston & Prochaska, 2007). The duo further adds two (02) special kinds of credit to conclude their list or types of consumer credit, these are, debt consolidation loans and leasing.

2.3.2.1. Service credit

Preston and Prochaska describing from a developed world perspective stated that this type of credit includes credit for utility bills for telephones, gas, and electricity. They further assert that health providers give credit for health care and such service usually must be paid in seven (07) to thirty (30) days or late fees are added. Also that future service may not be given if debt is not paid or is paid late. This description might not be very representative from the developing world perspective despite the rationale being the same as from the developing world context, actual money would have to be gotten to settle the aforementioned utility bills (Government for the Republic of Zambia [GRZ], 2021). In view of this, Service credit is generally credit obtained to settle utility bills in either goods and services or actual money form. This is the form of consumer credit that has generated a lot of debate amongst several stakeholders such as policy makers, academia, employers, individuals and merchants as payday loans fall under this type (GRZ, 2021; Malone & Skiba, 2020).

2.3.2.2. Closed-end or installment credit

According to Preston and Prochaska, this is credit where you repay the amount owed in a specific number of equal payments (usually monthly). The duo further asserts that some closed end credit

contracts involve a single payment due on a set date. Car loans, mortgage loans, and installment loans for appliances or other large purchases are examples. Also that Installment credit usually involves some form of collateral and they give an example that under such facility, if you don't repay your car loan, you can lose the car since it is the collateral for the loan.

2.3.2.3. Open-end or non-installment credit

On Open-end or non-installment credit, Preston and Prochaska advance that it occurs when credit is given before any transaction occurs (Preston & Prochaska, 2007) . Further that for this type, collateral is not required and one can charge up to the limit on their account. Credit cards and open-end lines of credit are examples.

The other types are an extension of the three (03) types but packaged differently as elaborated below;

2.3.2.4. Debt Consolidation Loans

A debt consolidation loan is where a borrower exchanges several smaller debts with varying due dates and interest rates for a single large loan with one interest rate and one monthly payment (Preston & Prochaska, 2007). Preston & Prochaska advance that the monthly payment is usually a lower amount than the total amount of the monthly payments for the original debts. Further that the interest rate may be lower than the rate you were paying on at least some of the original debts, but the time period for repaying your debts with a consolidation loan is now longer so more interest will be paid. The duo further state that while a debt consolidation loan offers relief from debt payments in the short run, it extends the repayment further into the future.

2.3.2.5. Leasing

Preston & Prochaska advance that in recent years, leasing, especially for vehicles, had become a more acceptable form of credit (Preston & Prochaska, 2007). With leasing you are essentially renting whatever you lease since ownership remains with the lease grantor. Conventionally, this type is not seen as a form of credit but from the aforementioned definition of credit, they do fall under credit. Some components can be associated with other types of credit such as borrowing for investment but aspects such as car leasing can fall under consumer credit hence being added to this list.

To ensure the matter is appreciated, Preston & Prochaska define five (05) leasing terms as indicated below:

- **Capitalized cost** includes the price the dealer pays for the car plus what is paid to finance the purchase. This is the figure to use when comparing leases from different dealers.
- **Capitalized cost reduction** is all money paid on the lease when it begins including down payment or value of trade-in. The money factor of the lease measures the interest rate used in calculating lease payments.
- The **annual lease rate** can be used to compare the annual percentage rate (APR) on a car loan.
- The **residual value** is the projected value of the car at the end of the lease.
- Leases commonly include other charges such as an **acquisition fee, disposition fee or a termination fee**. Always include all fees when making any cost comparisons.

In light of the foregoing clusters of consumer credit, it is worth appreciating that this study is focused on the Service credit type as this is the type that has generated a lot of debate and controversy in its payday loans form. This is because of arguably being high cost consequently leading to undesirable developments such as high household indebtedness (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). The study focus on this type based on the understanding that the controversy is as a result of an inherent flaw in the blueprint used in the pricing of such facilities hence the pursuance of a new more appropriate model. However, in order to properly inform the quest, the evolution of credit from a developed and developing world is necessary hence the forthcoming sections

2.3.3. Evolution and Developed World perspective of Credit

The basic cause for concern in the credit market or industry in its various forms is a default. A default is a risk usually synonymous with the industry, where a credit facility is not honored by the maturity date of the facility for whatever reason(s). This is the background against which the credit market has since been influenced by several theories or concepts across finance disciplines. As would be supposed from the aforementioned default risk consideration, most of the theories or concepts have at core bordered on risk management, some explicitly while others implicitly. One

of the most influential such theories is the Information Theoretic Approach to Banking theory. The Information Theoretic Approach to Banking developed from the General Equilibrium (GE) framework which was introduced by Walras and further developed by Arrow and Debreu. These theories have since gone to have significant influence on credit markets or the industry as a whole (Arrow & Debreu, 1954).

The two (02) key fundamental assumptions of the Arrow–Debreu model of General Equilibrium (GE) are perfect information and complete markets. According to the duo, perfect information (sometimes referred to as "no hidden information") is a feature of perfect competition. With perfect information in a market, all consumers and producers have perfect and instantaneous knowledge of all market prices, their own utility and own cost functions. On the part of a complete market (Arrow-Debreu market or complete system of markets), Arrow–Debreu advance that it is a market with two conditions: Negligible transaction costs and therefore also perfect information, there is a price for every asset in every possible state of the world. Based on these two (02) assumptions, the duo advances that with perfect information, there is no need for financial institutions because lenders and borrowers would interact with each other in a costless way at optimal prices.

Based on this line of reasoning of negligible transaction costs and negligible risk , financial intermediaries are, at best, tolerated as temporary institutions (Scholtens & Wensveen, 2003). Scholtens and Wensveen advance that as markets reached equilibrium, they would be perfect and complete, leaving no room or need for financial institutions. Therefore, lenders and borrowers would know how and where to find each other with this perfect information.

Nevertheless, due to developments in finance and its role in a respective economy, new ideas in the 1970s and 1980s began to emerge. These ideas were drawn from the information theoretic paradigm and contended that banks as financial intermediaries needed to reduce transaction costs and information asymmetries. Therefore, the information theoretic approach was developed by abandoning the perfect information and complete markets assumptions of the typical General Equilibrium theory (Fine & Milonakis, 2009). By acknowledging the existence of asymmetric, costly information and the absence of full markets, the premises of the Arrow–Debreu model were broken down.

The foregoing led proponents of the information theoretic approach to employ a principal agent framework and reexamined markets under the existence of pervasive asymmetric information between principal and agent. The principal and agent hypothesis is a description of a situation in which one party in a transaction has more information than another. It was against such a background that scholars such as Stiglitz and Weiss extended the analysis to credit markets by examining credit market behavior in the context of asymmetric information between lender and borrower (Stiglitz & Weiss, 1981). The resultant argument advanced was that due to adverse selection and moral hazard, information asymmetry leads to inefficiency (Mishkin & Strahan, 1999).

The “*Adverse Selection*” phenomenon is best described using an example and the commonly used in academia is that of (Akerlof, 1970). Akerlof began his study of adverse selection with the automobile market. He selected the automobile market because of its tangible nature and ease of understanding than because of its importance or realism. In Akerlof’s illustration, information asymmetry is developed as of the moment at which a car owner is acquainted with all qualities of the car put up for sale, while all likely buyers are not. In this case it would not be possible for buyers to detect whether it is a quality automobile or not. As a result, in this market buyers will usually pay average prices based on the perception of the percentage of good and bad cars in the market (and not really on quality as this is a latent characteristic). When a person decides to try and sell a bad car, this affects the perception of buyers on the average quality of cars in the market, with the resulting decrease in the price of such goods. This external feature drives off the sellers of good cars (who expect to receive a fair price for their goods), causing a fault in the market, this is what is known as adverse selection (Varian, 2000).

In the case of “*Moral Hazard*” it is best described by giving a background of a development in the market place. When trade was mostly confined to small localities, it was possible for merchants to know details about their customers such that they were usually equipped with up to date information over the creditworthiness of most of their customers. However, as communities expanded with civilization, commerce became more complex and it was very difficult for merchants to have adequate information over their customers consequently making credit

transactions more complex. This was mainly due to the fact that since it was either very difficult or not cost effective for merchants to get appropriate creditworthiness information on customers, customers tended to exaggerate their ability to qualify for credit facilities. In some cases, they tended to withhold information that would be vital for a merchant to decide whether or not to extend credit facilities to a prospective consumer (Akerlof 1970, Varian 2000, Eaton 1999). According to Akerlof, Varian and Eaton, such a development is what is referred to as “Moral Hazard” in the market place.

The both situations, Adverse Selection and Moral Hazard, acquiring relevant information might be costly hence transactions might not be realized. This led to the convenient placement of financial intermediaries risk managers which reduce information problems, transaction costs for the creditors and the debtors and enabling transactions (Leland and Pyle, 1977). Leland and Pyle advanced that financial intermediaries emerged to resolve information asymmetries through the signaling effect. According to their argument, since the entrepreneurs know more about the quality of their investment than the lenders, entrepreneurs can “signal” the quality of their projects by investing more or less into these projects. However, as markets read higher entrepreneurial ownership as a signal of more favorable projects, entrepreneurs might need to invest beyond the optimal level. In this case, signaling would be costly. It is against this background that Leland and Pyle suggested “financial intermediation, which is difficult to explain in traditional models of financial equilibrium, can be viewed as a natural response to asymmetric information”. The idea is that once borrowers form a coalition, which is interpreted as a financial intermediary, they could reduce the cost of signaling if there are some economies of scale.

Building on the signaling model of intermediation, Diamond demonstrated the importance of portfolio diversification in financial intermediation theories (Diamond, 1984). Diamond advanced that economies of scale were present in the monitoring of firms because the cost of monitoring declines as the intermediary deals with increasing number of borrowers. The general idea was that diversification across many projects enabled an intermediary to decrease the variability of return in the portfolio. Further that such a development would then decrease lenders’ need to monitor the performance of the portfolio. Therefore, Diamond concluded that “the intermediary's signaling

costs are lower than an entrepreneur's, because the intermediary's costs are equivalent to the signaling costs of an entrepreneur with a smaller variance of specific risk” (Diamond, 1984).

Other significant contributions to the assessment of informational asymmetries as the foundation for intermediation were from Boyd and Prescott. Boyd and Prescott argued that agents face adverse selection problems prior to contracting and investing hence the quality of each investment project is usually different and the information about it is private to each agent. Therefore, the task becomes to identify weak agents with low- quality projects to avoid providing funds to them before giving funds to stronger agents (Boyd and Prescott, 1986). The duo stated that assuming that each agent is endowed with the technology to evaluate projects, the agent could provide information for all prospective borrowers. Boyd and Prescott advanced that the foregoing could be done in one of two ways. In the first, an individual agent evaluates their project and issue securities to other agents in order to fund the project. In the second, a coalition of agents produces information about investments and they issue claims. To Boyd and Prescott, financial intermediaries are coalitions of agents who evaluate projects, produce information, and use it to allocate loans and set terms.

In view of the above studies, the general argument was that financial intermediation can provide more efficient information-gathering through various ways. However, the accounts of the information theoretic approach to banking have been criticized based on their inability to explain the perpetual rise in the banking sector’s activities and profits against the background of developments in the technology and decline in the cost of information (Allen and Santomero, 1998). Allen and Santomero argued that financial systems in many countries had constantly been changing and the change was not in tandem with the Information Theoretic Approach hence eroding their placement as financial intermediaries.

The duo advanced that traditional financial markets had continued to expand and new markets developed into existence based on falling transaction costs, and more available and cheaper information. However, the aforementioned changes had not coincided with a reduction in intermediation. Boyd and Prescott contend that quite the reverse had happened because the supposed information asymmetry intermediaries had become more important in traditional markets. They based this on the observation that they now accounted for a very large majority of the trading in new markets, such as those for various types of derivatives. Therefore, the duo

concluded that the standard theories of intermediation based on transaction costs and asymmetric information proved to be difficult to reconcile with the changes that had and continued to take place.

Based on the foregoing observation over the inconsistency between theory and practice with regards to the Information Theoretic Approach to banking, Allen and Santomero advanced that banks' existence could not be explained only by the presence of asymmetric information. The duo argued that the rise of risk instruments like warrants, asset-backed securities and off balance sheet activities should be analyzed by focusing on the role of banks in assessing risk, not just by focusing on their role in reducing information asymmetries. Further that logic would suppose that as banks gained new management techniques through financial innovations, they should become better able to assess risk (Scholtens & Wensveen, 2003; Allen & Santomero, 1998). However, as demonstrated by the financial crisis triggered in the U.S. economy in 2007, financial innovations and institutional changes have proved to be inadequate in managing information asymmetries between lenders and borrowers, and banks have failed to evaluate risk correctly.

The critique of the Information Theoretic Approach to Banking by Allen and Santomero based on disparities between theory and practice gave rise to other pertinent considerations against the theory by scholars such as Karacimen. According to Karacimen, technical analyses of the banking sector subject to the Information Theoretic Approach could be insightful. However, they are reductionist in the sense that they give an account of banking only from a microeconomic perspective (Karacimen, 2013). Karacimen argued that although the information theoretic approach abandoned some of the questionable assumptions of the General Equilibrium theory, such as complete markets and perfect information, it did not on methodological individualism. Karacimen explained that methodological individualism enabled formal modeling, was at the heart of mainstream economics and it referred to the notion that social reality could be explained in terms of cost-benefit calculations of individuals. The argument was that based on the idea of rational individual behavior, meaning individuals act to maximize their utilities. Such an understanding allows application of mathematical methods in economics by expressing different economic dynamics in terms of mathematical formulations. This is done via aggregating rational

choices of representative agents in an economy. Karacimen argued that there were two (02) major problems with reductionism in terms of methodological individualism.

In the first place, deducing macro-analysis from the aggregation of individual actions is problematic because such an analysis assumes independent individual actions. In reality there is no such “individual” whose demand function is representative of the demand function of the whole society (Ackerman, 1999). The foregoing is based on the understanding that socioeconomic and institutional environments have significant effects on individual behavior. This is not to say that individual choices are entirely determined by socioeconomic and institutional contexts. As Hodgson stated, “our individuality and capacity to be free is formed by our socio-economic environment. The basic element in society is not the abstract individual, but the social individual, one who is both constructive within and constructed through society” (Hodgson, 1986). Therefore, the argument is that while individuals have real choices, they are also influenced by their environment. Consequently, they should not be treated as “asocial, ahistorical, a rational individual of standard economic theory, but a social individual situated within a proper social and historical context” (Fine & Milonakis, 2009).

In the second place, Karacimen argues that even if one accepts that there exists a heuristic “representative individual” form of human behavior from which societal behavior could be derived, there still exists the problem of aggregation and this is the second major flaw of methodological individualism. As advanced by Fine, “not surprisingly, the leap from aggregation over individuals to the social is one of faith, and neither conceptual nor mathematical logic” (Fine, 2007). Fine based this on the understanding that individuals are interdependent and social interactions may result in complex outcomes that cannot be estimated by summing up their individual actions. Furthermore, macroeconomics has distinctive characteristics of its own (Hodgson, 1998). Habits, customs, and routines are socio-culturally and historically determined and have an impact on the aggregate level as well as on individual actions. Therefore, analysis of macro-level phenomena should not start from microeconomic postulates.

Earlier studies by Fine contended that the information theoretic approach was flawed not only in its reductionist approach in methodological individualism but also in its treatment of market

imperfections based on informational imperfections (Fine, 2001). Fine argued that under the information theoretic approach, the economy is seen as a construct of aggregated individuals that tries to maximize utility, and any departure from the equilibrium state is seen as an outcome of the interactions of imperfectly informed individuals. Further that the information theoretic approach aims to explain market imperfections with an exclusive focus on information asymmetries. Fine advances that from the foregoing, there seems to a strong emphasis on the heterogeneity of individual knowledge states, but there is no inquiry into the character of the knowledge-acquisition process. Therefore, the information theoretic approach not only ignores the context-specific and socially constructed nature of knowledge, it takes it as exogenously given. Such an analysis can only offer limited insights into the complex nature of economic relations.

In view of the foregoing over the information theoretic approach, banks and other financial institutions are seen as solutions to deviations from perfectly competitive markets and their role is assumed to reduce information asymmetries between agents. This approach has dominated mainstream analyses of all aspects of financial affairs and provided the basis for the theoretical justification for financial liberalization initiatives in developing countries, a development that has significantly affected the credit market as shall be further expounded below.

This study argues that an accurate understanding of the essence of financial behavior, relations, institutions, and so on, which have a great influence on the price of money through interest rates, should go far beyond the framework offered by the information theoretic approach. In criticising this mainstream banking theory which has greatly influenced contemporary interest rate models, Erturk and Solari contended that the role of banks could neither be examined as financial intermediaries nor as risk managers (Erturk and Solari, 2007). They gave a broader account of banking based on the changing balance sheet structure and revenue sources of banks, especially in developed countries. Their analysis showed that while bank lending to the corporate sector decreased, banks found other revenue sources by extending loans and selling investment instruments to households, and transacting between themselves through new financial instruments.

The duo further claimed that the complexity of the banking sector activities necessitate an elaboration of the sector that goes beyond the mainstream analysis. In this framework, banks

should be analyzed as industrialist and their banker decisions are determined by their intent on earning profits. Therefore, having this in mind should motivate the reconceptualization of the pricing of money, especially for products which might have not been that much in the picture when the pricing blueprint (Interest rate rationale) was developed such as short term consumer credit. As such, specific political, historical and social factors that shape the relationship between the financial system and industrial sector are of critical importance to an analysis of the banking sector and the most appropriate model for pricing products which might not be offered by banks such as short term consumer credit like payday loans (Aybar & Lapavistas, 2001).

2.3.3.1. Consumer Credit in Mainstream Theory

As with banking in general, aspects which influence consumer credit have been dominated by the information theoretic approach. Imperfect information and the resulting adverse selection and moral hazard flaws are since major concepts in consumer credit markets (Bertola et al., 2006). In mainstream theory, Consumer credit is explained from a microeconomic perspective by taking utility maximization behavior as the starting point. However, according to Bertola et al, this is an inadequate understanding of consumer credit were household borrowing is perceived as optimal and normal. Bertola et al bases this argument of the hypothesis that without considering the specific social and historical circumstances under which things takes place, a full picture of things is not given. Bertola et al further asserts that the theory's failure to capture the aforementioned aspect makes it to fail to recognize the problematic aspects of the consumer credit phenomenon and this could be responsible for the adverse effects related to consumer credit such as high interest rates, especially in forms such as payday loans.

The theoretical foundation of the neoclassical approach to consumer credit is based on both the permanent income and life cycle consumption hypotheses which were developed in the 1950s when consumer debt had not yet profoundly exhibited adverse traits (O'Connell, 2009; Scott, 2007). Therefore, under such circumstances, linear optimization techniques were used to analyze consumer debt. Scott advances that in order to model consumer debt mathematically, several assumptions were made regarding individual behavior, such as rational choice, perfect information, and well-defined preferences. Scot further asserts that according to such approaches,

individuals were assumed to be the only responsible agents for the issues that arose in the credit markets.

The basic premise of the permanent income hypothesis is that people's consumption decisions are determined not by their current income but by their expectations regarding their future income (Milton Friedman, 1957). Thus, small changes in current income would not have a big impact on the consumption decisions of individuals. Milton Friedman further advances that a similar idea can also be found in the life cycle hypothesis which presents a linkage between consumption patterns of individuals and their income and income expectations. According to the hypothesis, individuals smooth out fluctuations in income over their lives. This implies that they would save when there is an unexpected increase in income or during their most productive working days and borrow when income is lower than expected. It is even such schools of thought that give legitimacy to arguments such as young individuals, anticipating that their income will grow, borrow more while older people save for retirement.

Permanent income and life cycle consumption hypotheses were questioned when they proved to have flawed empirical findings; the findings presented little evidence for differences in savings according to changes in the income levels during a life cycle (Bertola et al., 2006). Based on the foregoing, Bertola et al advanced that considering the shortcomings in relation to the empirical evidence, the conventional models of consumption behavior had been extended to include uncertainty and precautionary saving. Therefore, the amounts borrowed may depend on uncertainty as well as on the relationship between households' impatience and lifetime income patterns. Bertola et al further asserted that expanding the basic model to account for the role of uncertainty makes it possible to explain why young households, for instance, borrow less than one might expect, and why individuals in risky occupations (such as the self-employed) may wish to borrow less than those in occupations with highly reliable income streams as is the case in many countries with those in the public sector.

According to Cynamon and Fazzari, despite modifications made to life cycle models, they still emphasize the idea that consumers attempt a consistent standard of living across their lifetimes (Cynamon & Fazzari, 2008). Therefore, borrowing is seen as a response to temporary changes in

income. The foregoing implies that when exposed to an adverse shock, utility-maximizing individuals borrow in order to help with consumption. Hence, individuals who borrow today expect to improve their economic situation in the future. Cynamon and Fazzari advance that such a line of reasoning is based on the assumption that “economic agents predict future states of the world—or at least that they understand the true probability distributions from which those states are drawn”. However, in reality, choices are complex and context-specific, so it is not reasonable to assume that they can be expressed in terms of mathematical formulations.

Apart from drawing attention to the importance of including precautionary behavior and uncertainty over the rise in consumer debt and its related problems, there has been a rise in mainstream studies placing concepts of asymmetric information and market failures in the center of their analyses of consumer credit (Bertola et al., 2006). Bertola et al asserts that the idea is that not only demand-side but also supply-side factors matter. Bertola et al further argues that “lenders to consumption smoothing households face many of the same problems as lenders to producers”. Like credit offered to firms, credit offered to consumers is also restricted by moral hazard and adverse selection. In the consumer case, adverse selection might be due to standard project risk, since there may be entrepreneurial activity financed with “Consumption” loans, and/or it could be due to employment or household instability (e.g., higher likelihood to incur shocks to job, marital, and health status), relatively poor access to family or community resources, or general dishonesty (Karlan & Zinman, 2005).

Karlan and Zinman further advance that for consumer credit, the moral hazard problem related to the consumers’ ability to pay off credit might be “the borrower’s effort to retain or obtain employment, to tap alternative sources of cash in the event of a bad shock, or to manage consumption in order to retain sufficient funds for loan repayment”. However, moral hazard might also arise due to the consumers’ unwillingness to repay (Bertola et al., 2006). Bertola et al further extends that in that case, weighing the gains and losses, a borrower might decide to default on debt even though having the ability to repay. Hence, there are several factors that lenders need to consider regarding credit repayment, which may lead them to restrict credit.

In line with the foregoing school of thought, the life cycle model implies that individuals could smooth their lifetime consumption even when facing temporary budget constraints, provided that they do not become credit constrained (Karacimen, 2013). However, the potential problems of asymmetric information in the financial markets may lead to market failures such as credit rationing. Karacimen advances that under these conditions, liquidity constraints prevent individuals from following an optimal plan of debt and consumption. In view of the foregoing according to Karacimen, financial liberalization had been used to ease individual budgetary constraints and allowed individuals to smooth their consumption over their life cycle as the theory suggests.

In regard to financial liberalization and consumer credit, Barba & Pivetti explain that the financial liberalization of the 1980s emerged as an explanation of both the rising household debt and the economic rationality of that rise. Further that the increase in debt was consistent and cannot be considered excessive, being motivated by previously precluded utility maximizing choices (Barba & Pivetti, 2008). The duo concluded that, according to the foregoing view, household indebtedness and the factors favorable to fostering its actual growth should be seen as sources of a maximum satisfaction of household needs and hence of possible advantage to society. Barba & Pivetti further asserted that along similar lines, technological developments also contribute to the easing of credit constraints. The premise is that as new credit reporting technologies enable lenders to distinguish between good and bad borrowers, they decide to finance borrowers at different rates according to their capability to repay.

Cynamon & Fazzari argue that whenever lenders can distinguish between borrowers, they would finance those they identify as good risks at low interest rates and the bad ones at high interest rates. Therefore, if new credit reporting technologies make distinguishing between good and bad credit risks easier at the micro level, credit should have become more accessible (Cynamon & Fazzari, 2010). It is against such an analysis of consumer credit that led to an understanding of the phenomenon as autonomous from broader social relations. Fine & Milonakis advance that even if extensions to the theory acknowledge the social dimensions of consumer behavior, they do so by sticking on the assumption of rational choice (Fine & Milonakis, 2009). However, Fine & Milonakis contend that an accurate understanding of consumer behavior needs to consider that

preferences are socially constructed (Cynamon & Fazzarri, 2010). Therefore, easy availability of credit cannot be seen simply as a relaxation of constraints on rational borrowers who want to borrow more based on their cost benefit calculations.

It is also vital to consider how the new institutional environment encourages people to borrow more as they observe that others borrow more. As advanced by Cynamon and Fazzari, “changing social norms made it seem *normal* to consume more (as opposed to *desirable* to spend more—which is always the case) as well as *normal* to borrow in order to finance that consumption (which was certainly not always the case)” (Cynamon & Fazzarri, 2010). Further that the preferences of individuals are not only based on economic calculations of the self-interest agents as the neoclassical theory puts forward. Therefore, it is inaccurate to assume that economic agents can predict the future by assigning identifiable and measurable probabilities. Crotty joins the conversation by factoring in that an accurate understanding of the theory of choice needs to consider the dialectic relation between people and their institutional environment (Crotty, 1994).

All the foregoing consolidates and brings us back to the earlier observation that mainstream theory not only ignores social content of consumer credit but also fails to account for the socioeconomic and historical contexts that condition borrowing decisions. Therefore, the argument of this study, which will continue to establish in the forthcoming sections is that household debt or consumer credit needs to be analyzed against the background of the real and financial sector developments. In view of this, the study pays particular attention to the systemic macroeconomic conditions of the contemporary era. These include developments such as changes in wages (whether they stagnate, decrease, or increase) which have not kept pace with increases in productivity (Barba & Pivetti, 2009; Glyn, 2007). This also speaks to developments in the labor market conditions in terms of increased flexibility and precariousness have increased the uncertainty that wage earners face. As opposed to the life cycle theory, wage earners continue to be faced with persistent changes in their income based on several developments which at times are intangible such as through the loss of value of money, especially in developing countries which are susceptible to inflation.

In light of the foregoing, the general grounds on contention is that when the underlying structure is flawed as can be observed from the foregoing submissions, it is not possible to analyze

borrowing as a choice made to smooth consumption in response to temporary changes in income. As advanced by Cynamon and Fazzari, “in a world of uncertainty, borrowing did not necessarily correspond to a careful plan for repayment consistent with forward-looking intertemporal budget constraints and a full understanding of the systemic implications of the new modes of behaviour” (Cynamon & Fazzari, 2010). Therefore, the causes and implications of borrowing decisions are complex and depend heavily on changing socioeconomic contexts. This is the background against which the next sections endeavor to review consumer credit on the socioeconomic and historical premise informed by the Political Economy Approach to Banking and Consumer Credit hypothesis.

2.3.3.2. A Political Economy Approach to Banking and Consumer Credit

2.3.3.2.1. Marxian Theory of Finance

Marx hypothesized an industrialist perspective to banking in which it was advanced that the banking sector emerged in response to the needs of industrialist production. Unlike the core ideology of the General Equilibrium and Information Theoretic Approach to Banking ideas, the Marxist framework analyses banks in the context of credit relations. This perspective is best contextualized by reviewing the notion of money in relation to the value of labor theory. Such an analysis provides a foundation for the social relationships inherent to money, credit, and banking. Enabling accumulation and becoming capital, money plays a particular role in the reproduction of industrialist relations.

2.3.3.2.1.1. Money

The basic premise in Marx’s analysis of finance is that money is neither a “veil” nor a “real material content” contained in commodity relations, but rather a form essential to the value relations (Arthur, 2005). This understanding of money as a form of value is central to Marx’s theory of money and is grounded in the theory of labour value. According to Marx, the emergence of money was a mystery that could be resolved by examining the form of value in which value appeared (Meek, 1973).

Marx advanced that it was only when the value relations between commodities were analyzed that the mystery of money can be solved (Marx, 1976). Marx’s argument starts with the acknowledgement that commodity has dual characteristics, as use value and exchange value.

Therefore, Marx advances that it is the contradiction between these values which necessitates money, and the introduction of money could be seen as an attempt to mediate between two forms of values. Marx further states that Use values are means for the satisfaction of particular human needs and wants. Use value has qualitative aspects, and it appears as independent of the amount of labor required to produce that value. Nevertheless Marx contends that, “they are also the material bearers of exchange value”. Also that Exchange value “appears first of all as the quantitative relation, the proportion, in which use-values of one kind exchange for use-values of another kind, a relationship which constantly changes in accordance with time and space” (Marx, 1976). Commodity cannot be exchanged unless it has a use value because no one will exchange a product that has no use or which does not satisfy a human want or need.

Lapavitsas advances that the contradiction between use and exchange values arises from the fact that a product can only be exchanged if its use value, or qualitative nature, does not matter to the seller. This is because commodities as use values are particular. They are “heterogeneous, imperfectly divisible and complex” (Lapavitsas, 2003). Lapavitsas further asserts that in view of the foregoing it is also worth appreciating that commodity as values are general and “homogenous, perfectly divisible and simple”. Thus in order to be exchanged, use and exchange values of a commodity appear as two different aspects even though they are inherent in the same product.

In view of the foregoing, Foley advances that the exchange process embraces the solution to this contradiction but it can only be realized if the exchange value of a commodity is represented by another commodity that is money (Foley, 1983). Foley asserts that according to this line of reasoning and subject to Marx’s analysis, money is a general expression of exchangeability, disconnected from the “particularity of any use value”. De Brunhoff and Foley advance that its use value demonstrates a specific social status and takes an independent form (De Brunhoff & Foley, 2006). In order to conceptualize the school of thought under consideration, it should be noted that Marx’s main concern was to analyze the industrialist mode of production and that he situated his theory of money within this framework. As Weeks notes, while money appears before industrialization, seeking a general theory of money applicable to all modes of production ignore the social relations of production that determine the exchange (Weeks, 1981). Therefore, the distinction that Marx makes between the “form” and “substance” of value is important in

understanding his conceptualization of money within the industrialist system (Itoh & Lapavistas, 1999). Itoh & Lapavistas advance that the substance of value is abstract human labor crystallized in commodities. Further that to Marx, abstract labor reflects “the characteristic they [different kinds of labor] have in common that of being the expenditure of human labor power, of human labor in abstract” (Marx, 1976). Marx differentiates it from concrete labor which is heterogeneous. In agreement, Week contends that Use values are produced by qualitatively different kinds of concrete labor. Further that the labor expended in production is concrete labor, which is converted to abstract labor in the process of exchange (Weeks, 1990).

Therefore, Week states that Abstract labor is a “substance” (of divisible and homogeneous labor) that takes “form” in the process of exchange. Further that in a commodities-producing society, there needs to be a commodity which represents the substance (abstract labor). That commodity is money. In light of the foregoing, Mandel advances that the uniqueness of Marx’s analysis of money is that he situated money in his theory of abstract labor and social relations of production. This approach enabled one to see the social nature of money as related to the social relations of production, exploitation, and appropriation of surplus value synonymous with industrialization (Mandel, 1976). It is also against this background that a further review of money can further give a more informed premise for consumer credit and the interest rate model currently being used which seems not to be appropriate for some short term consumer credit.

2.3.3.2.1.2. The Functions of Money

The functions of money are a good basis upon which to contextualize credit and the interest rates rationale. Marx outlines different functions of money in an industrialist society as; (1) the measure of value, (2) the means of exchange, and (3) money as money.

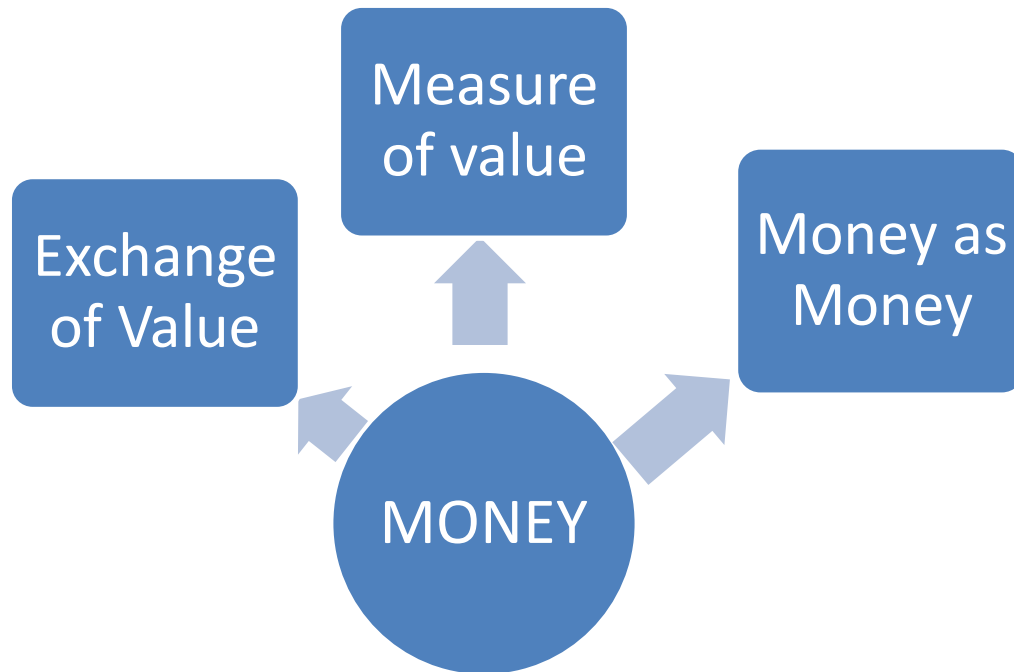


Figure 2. 2: Interconnected Functions of Money

(Source: Author, adapted from Marx, 1976)

Marx's explanation of the functions of money highlights the role money plays in the organization of social relations in the industrialist mode of production. According to Marx, the functions of money represent the different stages in production relations: "If we go on to consider money, its existence implies that a definite stage in the development of commodity exchange has been reached. Therefore, the various forms of money which are expressed as functions indicate very different levels of the process of social production, according to the extent and relative preponderance of one function or the other" (Marx, 1976).

Modeling money to how it is dealt with in a developed industrialist system, Marx identified different functions of money in various ways. Marx contends that in the first function, money as a measure of value serves as the measurement value of a commodity against the value of all other commodities. This function is related to the previous discussion on the relation between abstract labour and money. On this point, Marx (1976) argued:

“Because all commodities, as values, are objectified human labor, and therefore in themselves commensurable, their values can be communally measured in one and the same specific commodity, and this commodity can be converted into the common measure of their values, that is, into money”.

The foregoing function of money enables the setting of prices for commodities. Marx then advances that the second function of money, as a medium of exchange, serves to facilitate the exchange of commodities. In view of this, Harvey asserts that conventional economic theories mainly emphasize this role of money, regarding it as simply a facilitator of exchange. However, money is more than that as it possesses some peculiar properties (Harvey, 2006). Harvey advances that this can be understood by analyzing the last function of money which is “money as money”. This reveals money’s peculiar characteristics by implying the social relations that money involves: as a means of payment, as world money, and as a store of value (de Brunhoff & Foley, 2006).

The basic premise that entails looking at money as a means of payment implies that money is used to pay the settlements of promises. Therefore, money is said to provide a basis for the foundation of the capitalist credit system. Money as world money facilitates international payments as it is independent of the characteristics of national economies. Also money as a store of value (hoard) implies social power. As argued by Itoh and Lapavitsas, hoards of money emerged spontaneously during the course of industrialist accumulation for a variety of reasons, which are essential to understanding the industrialist credit system and the circuit of capital, as shall be elaborated below (Itoh & Lapavitsas, 1999)

2.3.3.2.1.3. Transformation of Money into Capital and the Credit System

A Marxist analysis of money is crucial to understanding capital. de Brunhoff and Foley argue that though money itself cannot create industrialist social relations, it is impossible to have capital without money (de Brunhoff & Foley, 2006). Therefore, how money is transferred into capital can be understood through an analysis of Marx’s illustration of the circuit of money capital. The formula is:

*Industrialist with Money (M) --- Capital (C) [Labor Power (LP) –Means of Production (MP)] ---
Production (P) --- Commodities (C') --Commodities Sold in the market (M') [M + ΔM]*

$$M-C (LP \& MP) \dots P \dots C' - M' (M + \Delta M)$$

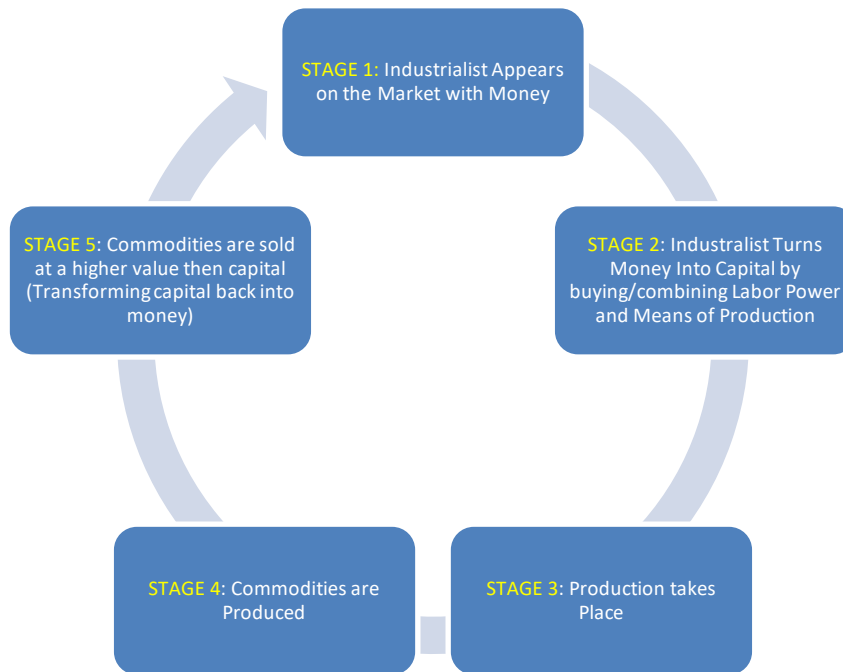


Figure 2. 3: Money - Capital cycle

(Source: Author, adapted from Marx, 1978)

This circuit principally consists of Five (05) stages as indicated in Figure 2.2 (Marx, 1978). In the first (1st) instance, the industrialist (M) appears on the market as a buyer of Labor Power (LP) and Means of Production (MP). In the second (2nd) stage, the industrialists' buys Labor Power and Means of Production the production stage occurs. This leads to the third (3rd) stage in which Productions (P) happens aided by the Labor Power and Means of Production. This then leads to the Forth (4th) stage in which Commodities (C') that have greater value than the combined value of labor power and means of production are brought into existence. In fifth (5th) and last stage, the produced commodities are sold in the market hence transformed back into money: M' (M+ΔM). According to Marx, throughout the process, plain money becomes money capital. The distinctiveness of Marx's analysis lies in its showing how the self-expansion of money in this process represents the extraction of surplus value produced in the operation of capital (Marx,

1978). Marx also states that it is important to highlight that this process is not related to the nature of money but to the existence of the class relation that can transform money into capital.

Marx argues that in view of the Money-Capital Cycle in Figure 2.2, it means money can only be spent in this form because labor power is found in a state of separation from its means of production (including the means of subsistence as means of production of labor-power itself). Marx advances that this is because this separation is abolished only through the sale of labor-power to the owner of the means of production, a sale which signifies that the buyer is now in control of the continuous flow of labor power, a flow which by no means has to stop when the amount of labor necessary to reproduce the price of labor-power has been performed. Therefore, the capital relation arises only in the production process because it exists implicitly in the act of circulation, in the basically different economic conditions in which buyer and seller confront one another, in their class relation. (Marx, 1978)

Historically, Harvey asserts that primitive accumulation set the conditions for the emergence of the industrialist mode of production (Harvey, 2006). Harvey put forth that the formation of the proletariat class, which was constrained to sell its labor for subsistence, is a crucial aspect of the process. Further that in the absence of wage labor, money could not be converted into capital. However, it should be added that although wage labor is necessary, it is not a sufficient condition for the process. Therefore, Industrialist must advance a certain amount of money to buy labor power as well as means of production. Hence, industrialist must hoard enough money to enter into production. Itoh and Lapavistas advance that the formation of hoards is a process that occurs throughout turnover of capital (Itoh & Lapavistas, 1999). The duo contends that idle funds emerge throughout the process for several reasons. These include the maintenance of precautionary funds to meet unforeseen expenditures and for the depreciation of fixed capital, and reserves to keep production and circulation at the same time.

According to Marx, money hoards emerge regularly in the course of the turnover of capital, and they form the basis for the industrialist credit system. de Brunhoff & Foley attribute this on the argument that individual industrialist do not always have sufficient funds to start a circuit of capital (de Brunhoff & Foley, 2006). Therefore, an industrialist may acquire the necessary funds by

borrowing. The emergence of hoards during the capital circuit which can be lent out creates the necessity of a credit system. In view of the foregoing, Lapavitsas advances that the credit system mobilizes the pools of idle money, transforming them into interest-bearing capital and redirecting them into capital accumulation (Lapavitsas, 1997). Consequently, interest-bearing capital became an essential form of the industrialist mode of production (Marx, 1981). Therefore, in the industrialist mode of production, credit is expanded with the expectation that a borrower will act as an industrialist and use the borrowed money to appropriate unpaid labor. Marx further stated that in view of the foregoing, the determination of the rate of interest was ultimately based on the social relations between borrowing and lending industrialists.

2.3.3.2.2. Merchant capital and Banks

According to Marx, banks are a type of merchant capital which operates in the sphere of money circulation (Lapavitsas, 2003). Lapavitsas advanced that Merchant capital does not have a direct role in the labor process, so it does not generate surplus value as with industrial capital (Money given to producers who produce goods and services of a higher value than labor and means of production combined hence making a profit after selling these products). Given that unlike industrial capital, merchant capital does not generate profit directly, Lapavitsas advances that merchant capital profit is driven by the lending of money with interest rates or by engaging in its exchange.

In analyzing merchant capital, Marx further made a distinction between two (02) forms of merchant capital, which is, commercial and money-dealing capital (Fine, 1985-1986). Marx advanced that while commercial capital mediates the exchange of commodities, money capital handles the flow and hoards of money. These two forms of merchants' capital became specialized activities of particular industrialists with the development of industrialist production hence creating a division of labor among them (Fine, 1985-1986).

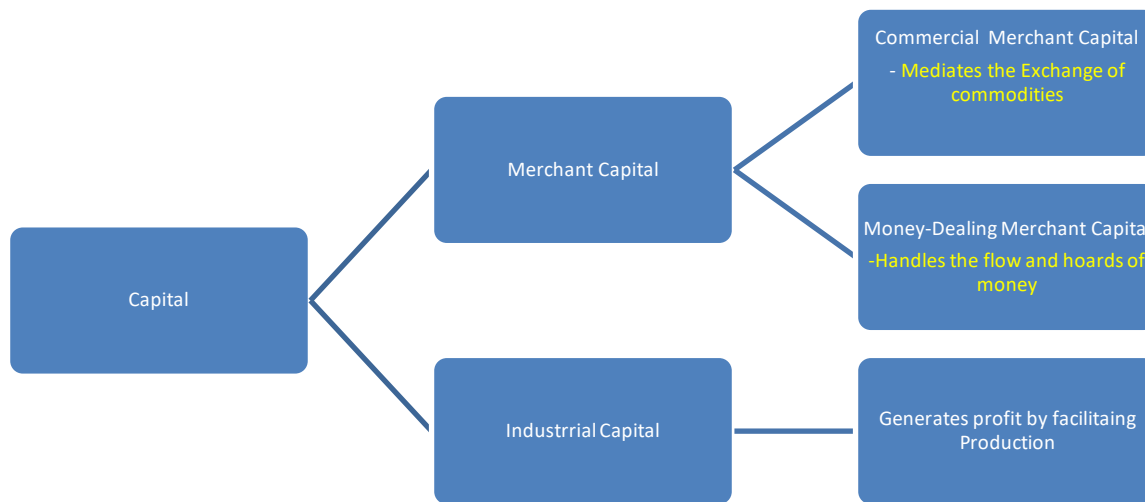


Figure 2. 4: Types of Capital

(Source: Author, adapted from Marx, 1981)

In this context, money dealers specialize in activities such as paying and receiving money, settling balances, keeping current accounts, storing money, and so on (Marx, 1981). Marx further asserted that such specialization requires certain futures which make money dealers more likely to undertake banking activities.

The money dealers' normal business thus affords them knowledge of the relations of trust and power that sustain several particular commercial bills. This is because they acquire information about the regularity of payments, the attitude toward commercial obligations, the frequency of transactions and access to money of many other capitalists, despite having no direct connection with the bill issuer's productive activities. Thus according to Lapavitsas, money-dealers have relative advantages in assessing the creditworthiness of particular bills offered for sale (Lapavitsas, 2003). Such an analysis into the emergence of bank industrialists enables the building of a comprehensive analysis of banks from a Marxist approach. This helps in having more insights into the functioning of banks as money-dealing enterprises, as opposed to treating them only as financial intermediaries, as is the case with neoclassical analyses (Lapavitsas & Dos Santos, 2009).

The historical background of money dealers is that they expanded as they acquired greater specialization in transacting interest-bearing capital and became banking industrialists in the modern sense. Lapavitsas examined credit relations in an industrialist society by comparing two forms of it, namely, commercial and banking credit (Lapavitsas, 2003). Lapavitsas advanced that the borrower–lender relationship inherent in bank credit is different from the one that characterizes commercial credit. Lapavitsas asserted that commercial credit spontaneously emerges among industrialists as commodities are sold against promises to pay. However, bank credit involves advancing money capital to start an industrial circuit. Fine further added that in view of the foregoing, banks do not only rely on their own capital but centralize hoards of money which are idle, from other capitalists and classes (Fine, 1985-1986).

According to Fine, banks transform these idle hoards of money into interest-bearing capital and lend it to industrial capitalists to start or expand operations of capital. In view of this, interest bearing capital does not appear as a form of total capital of the individual agents that own it but as a social form. Therefore, industrialists as borrowers not only receive the banker's own capital for use in production but also the idle money of others. So the idea is that in this way, banks accelerate the turnover of capital and then claim a part of the profit of industrial capitalists in the form of interest. The functioning of such a mechanism necessitates determining the creditworthiness of the prospective borrowers. This is because on the one hand, there are industrialists who engage in production and seek others' funds for investment. On the other hand, there are banks which advance loanable money capital. The conventional understanding is that the former arguably lacks the skills to check the quality of promises made by a variety of enterprises in different sectors. However, banks arguably have specialist skills in collecting and evaluating information regarding the promises to pay across different enterprises.

The argument that arises is that the relationships established between borrowers and lenders in such transactions can be described politically, socially and economically (Marx, 1981). Therefore, bank relations go beyond the information theoretic approach, which particularly focuses on the information asymmetry between borrower and lender. Consequently, Marx advances that such underlines the importance of broader socioeconomic factors inherent in lender–borrower relations. Lapavitsas adds that while the confidence of one enterprise's ability to pay depends on its capacity

to generate surplus value and its access to money, the banks' ability to pay promises is a more complex issue (Lapavitsas, 2003). Lapavitsas contended that this is related to banks' dependence on promises made by a broad scope of industrial enterprises and on the quality of their assets. Lapavitsas specifically stated that, by constructing a set of assets a bank can bring together a variety of fields of trust and power across several industrial sectors that act as a foundation for trust in the bank's promises to pay. The particular and private trust between capitalists across a broad swathe of industry is subsumed under the bank's own promise to pay. Thus the trust between a bank and a capitalist who accept the banks liabilities rests on broader and more strongly social foundations than trust between two industrial capitalists.

What we get from Lapavitsas is that establishing confidence in assessing prospective borrowers' ability to pay is conditioned on the political, social, and economic positions of both banking and industrial capitalists in the division of labor. Lapavitsas advances that non-economic factors such as property links, political and social connections, and familial relations are also determinants of the credit relations between lender and borrower. Further that these factors play an important role for both industrial and banks in forming credit relations. While for the former, these noneconomic factors could imply a guarantee of the promise of payment, for the latter they might build confidence in the eyes of borrowers in assessing the creditworthiness of the bank operations (Lapavitsas, 2003). This perspective of looking at things can be used to understand the increase in consumer lending in the contemporary era. This is because the noneconomic, as well as economic factors have an impact on the relationship between consumers and banks, affecting the availability and terms of credit, as elaborated in the next section.

2.3.3.2.3. Consumer Credit in daily lives

This part draws attention to consumer credit as a complex area of inquiry and that an analysis of how it is integrated into the daily lives of individuals necessitates taking several factors into account (Karacimen, 2013). Karacimen advances that to have an accurate understanding of the consumer credit phenomenon, one needs to move beyond the neoclassical understanding of consumer preference based on aggregated rational individual behavior. Karacimen asserts that consumer behavior needs to be analyzed by considering factors which influence both lender and borrower behaviors such as economic and political conditions, social norms, cultural trends, and institutional structures. Only by drawing these different aspects together can insights be gained

into the social content of consumer credit. Further that only such a comprehensive consideration can provide the foundation for an understanding of how borrowing has become integral to the daily lives.

As already established, consumer credit is a claim on future income and its repayment depends on the potential of labor to produce future value. To understand this, Karacimen asserts that one needs to review the contradictory relationship between capital and labor in a industrialist economy. In view of the foregoing, Karacimen advances that an Industrialist society is basically based on class setup, this is where one class—capitalists—owns the means of production and another class—workers lacking these means. Therefore, the class lacking the means of production, which is described as the workers' class, is consequently obliged to sell their labor power in return for wages. The foregoing brings us to a profound Marxist argument which contends that there is a unique role of labor power because it is the only commodity that can produce more than what is required to produce and reproduce it (Marx, 1981). This perspective is then viewed subject to the hypothesis that appropriation of surplus value is the key feature of the industrialist system which provides entrepreneurs with the opportunity of expanding capital to better understand the phenomenon.

In light of the foregoing Marxist perspective on the industrialist system and appropriation of surplus, it is prudent to assert that what labor produces in the process of production is divided between surplus value and the value that paid for the labor power. However, the determination of the value of labor power is a complex area and it is the view of this study that this is the grey area that needs proper reviews in a bit to properly price consumer loans through a more appropriate interest rate model. The key point in analyzing the value of labor power within the scope of this study is to show that the production and reproduction of labor power is not determined by purely industrialist relations. There is the role of the state, civil society, and, particularly, households in the reproduction of labor power, and the contributions of each historically change (Karacimen, 2013). Karacimen further asserts that the important thing is that the non-capitalistic dimensions of the reproduction of labor power create room for the partial appropriation of wages.

Karacimen brought up an argument which is helpful in dealing with the labor valuation, the argument starts by acknowledging and highlighting the short come in Marx's perspective of labor.

Karacimen advances that in Marx's view, labor power is treated like any other commodity that is bought and sold in the market. Therefore, the value of labor power is assumed to be determined in the same manner as all other commodities: "by the labor-time necessary for the production and consequently also the reproduction, of this specific article" (Marx, 1976). Under this hypothesis, the value of labor power is determined by the value of a bundle of goods required for its reproduction. However, there are difficulties in "the application of the labor theory of value to commodity labor power" (Meek, 1973) because labor power has some peculiar characteristics.

In the first place, as contended by Marx, unlike in the case of other commodities, there enters "a historical and moral element" into the determination of the value of labor power (Marx, 1976). In this sense, a laborer's means of sustenance varies according to "the climatic and other physical peculiarities of his country" and depends on "the level of civilization attained by a country; in particular, they depend on the conditions in which, and consequently on the habits and expectations with which, the class of free workers has been formed" (Marx, 1976). It is against such a background that the value of labor power can only be understood in relation to its specific historical and social conditions. However, Marx also said that, "in a given country at a given period, the average amount of the means of sustenance necessary for the worker is known datum".

In the second place, Karacimen argues that there are unpaid resources which enter into the value of labor power, something that is not considered in Marx's analysis. Karacimen advances that in Marx's analysis, the reproduction of labor is presumed simply to be dependent on the purchase of commodities such as bread and cloth. Harvey in view of this perspective advances that a link can be made between the value of labor power (bundle of use values for the survivor of labor) and wages (exchange value of commodities within that bundle), as the former would be equal to the latter (Harvey, 2006). However, Fine argues that this analysis does not shed light on the complex relationship between the value of labor power and the social reproduction of the labor force (Fine, 1998).

Fine asserted that there is the fact that not all of the use values necessary for the reproduction of the labor force are provided as commodities. Specifically, Fine stated that, the value of labor power as such, only provides one necessary condition for the reproduction of laborer—the payment of

wage. In principle, this secures, at least in part, the material reproduction of the work-force through the consumption that it allows. But even this primarily takes place outside the direct control for the capitalist employer in social relations which are separate, if not detached, from the accumulation and circulation of capital. In short, even if the value of labor power does support the reproduction of the laborer, there are other social relations which are essential for this to occur which are not directly or primarily economic—those through civil society, the state and the household.

A lot can be said on the valuation of labor power but of great relevance to this study is the distinction made between productive and individual consumption Marx (1976). According to Marx, the former includes consumption of means of production and capitalists' consumption of use value of labor power. The latter refers to the consumptions of the worker for himself. Therefore, individual consumption under capitalism lies outside the process of production hence is not tied to the internal logic of capital. As such, Karacimen advances that the separation of workers' labor from the final product and the increased commodification of goods paradoxically provide workers with the freedom to choose among available consumption goods (Karacimen, 2013).

In light of the foregoing, Fine puts forward that under capitalism consumption has “a simple and undifferentiated relation to economic agents as purchasers”, although this does not mean that such class relations in their broader context are irrelevant to consumption (Fine, 2002). Essentially, what Fine advances in this regard is that consumption ultimately depends on income level. However, there are no given consumption patterns attached to class positions. This point has become more apparent with the rise of mass consumerism, starting in the 19th century (Karacimen, 2013). Karacimen further asserts that with greater consumerism, the necessary base for the social reproduction of labor has widened as the consumption of goods and services become more available, conditioned by the different socio-cultural and economic processes that create these goods and services.

According to Marx, another distinguishing characteristic of labor power is that unlike other commodities, labor power is not produced first and exchanged later. Marx advances that, “In order to be sold as a commodity in the market, labor must at all events exist before it is sold” (Marx,

1976). Therefore, Marx asserts that it is not reasonable to assume that labor power will be bought and sold at its value, like other commodities. Based on the foregoing analysis of the value of labor power, it can be argued that consumer credit has an influence on the standard of living hence such is important in the conceptualization of the interest payment on consumer credit. As Bryan et al. (2009, p. 463) advanced that, “interest commitment occurs independent of the receipt of wages, [and] the household’s standard of living is determined by the extent of the wage residual”. Workers can buy in excess of their means by using credit (Bryan et al, 2009).

Bryan et al further states that the nature of credit means future wages must then be used to make interest payments. Further that, the interest charged on consumer credit lent to workers thus represents partial appropriation of the wages paid to the labor power.

The analysis of the value of labor power allows us to see how it is possible to appropriate a part of wages even if the wages are equal to the value of labor power [related to the forces which drive wages down] (Dunn, 2011). Dune further asserts that it is the existence of non-commodified goods and services entering into the value of labor power that makes this possible. Dune further advances that if workers take care of their own and their families’ reproduction to some extent, there is room for wages to become lower than the value of labor power. In other words, workers and their families can compensate for a reduction in the value of wages by working harder at home.

Dos Santos advances that the interest on the money borrowed by wage earners is not as easily followed as the interest on the money borrowed by industrialists (Dos Santos, 2009). Dos Santos argues that the source of interest owed on wage earners’ consumer credit can be understood by considering the nature of the relationship between lenders and wage earners, which is fundamentally different than between lenders and industrialists. Dos Santos puts forward that borrowing enables industrialists to shorten the turnover of capital and gives them access to money for expanding production. Therefore, industrialists borrow money and put it to use as capital. They then recover the money by selling the commodities produced and pay interest out of the value that is generated during the course of production. However, in the case of borrowing by wage earners, the borrowed money is used for consumption hence, not used in a way that generates value that can easily be quantified and interest paid from. Dos Santos asserts that in this case, the debt accumulated is on future income and the interest on it comes from wages, not surplus value.

It is also worth appreciation the rationale of the pre-industrialist economy on lending to get a better understanding. According to Marx, in pre-industrialist societies, moneylenders lent money with interest to small-scale producers, including peasants and artisans who had access to means of production and used their own labor (Marx, 1981). Marx stated that these moneylenders were called usurers and a usurer's capital is a form of interest-bearing capital and used as a means of payment, not as capital. Therefore, Marx argues that the proper, principal and specific terrain of usury is still the function of money as a means of payment. Marx based this argument on the observation that any monetary obligation — rent, interest, tribute, tax, etc. — that falls due at a certain date brings with it the need for a payment. Usurer's capital was associated with high interest rates, this led to the deprivation of the means necessary for reproduction hence it is argued that usurers played a role in impoverishing the pre-industrialist mode of production and destroying productive forces. Marx based the foregoing on the assertion that usury separated the producers from the means of production, it stimulated the creation of a class of proletariat with nothing to sell but its labor power.

Marx put forth that the modern credit systems had emerged as a reaction to usury (Marx, 1981). Marx advanced that with the rise of industrialist production, the credit systems became subordinated to the needs of industrialist. Therefore, as industrialist modes of production become dominant in a society, the conditions under which capital functions changed, as did the characteristics of the borrower. Marx advanced that under such a setup, "Even where a man without means obtains credit as an industrialist or merchant, as it is given in the expectation that he will function as an industrialist and will use the capital borrowed to appropriate unpaid labor. Marx states that in this case, the borrower is given credit as a potential industrialist". Thus, Marx draws attention to an important argument by noting that interest-bearing capital retained the form of usurer's capital in certain circumstances.

According to Marx, in the modern credit system, interest-bearing capital becomes adapted on the whole to the conditions of industrialist production. Therefore, interest-bearing capital retains the form of usurer's capital vis-à-vis persons and classes, or in conditions where borrowing in the sense appropriate to the industrialist mode of production does not and cannot occur where

borrowing results from individual need. Therefore, Marx argues that, lending to wage earners in the modern era serves as a means of exploitation independent from production as it puts pressure on workers to lower their living standards. This is because consumer loans are used for consumption, not production hence they do not help to produce surplus from which interest can be paid.

2.3.4. Developing World Perspective of Consumer Credit

The developing world perspective of consumer credit is best reviewed by considering the changes that have occurred in finance with regard to the world economy from the perspective of the developed world. This is because the developed world sets the tone for what happens in the other parts of the world. Then it is also worth appreciating that of much importance to consumer credit with regard to this study are the changes in finance which happened from late 19th century to somewhere mid-20th century when short term consumer credit became mainstream in most developed countries due to the rise of the middle class as known in the contemporary (O'Connell, 2009; Scott, 2007) . As earlier indicated, finance has always played an important role in the circulation and accumulation of capital. However, in the current phase of industrialization, its role has deepened and broadened, the distinctive characteristics of the post 19th century and mid-20th century era in relation to finance have been captured by the notion of financialisation (Karacimen, 2013). Epstein asserted that despite there being a range of approaches to the concept of financialisation, in a broad sense, the term can be defined as the dominance of financial markets, transactions, and institutions in domestic and international spheres (Epstein, 2005).

This study will not go into the details of financialisation but just provide enough details to establish its dominant role in finance in the contemporary world. In view of the foregoing, the study will focus on the origins of the concept of financialisation to understand how and why finance has increasingly penetrated into the daily lives of individuals. This study is of the view that financialisation offers insights into the experiences of developing countries when considering the specific social, historical, and political factors that shape their financial systems. One of the most important aspects of this approach is that it helps in understanding developing world context subject to how they are integrated into the world economy as influenced by developed countries.

According to Paineira, the beginning of the financialisation in developing countries can be attributed to the 1989 Brady Plan because it had influenced financial liberalization (Paineira,

2009). Paineira advanced that the 1989 Brady Plan is closely linked to the introduction of financial reforms, creation of sovereign debt markets, and removal of controls on capital markets. In view of this, the Brady Plan played a crucial role in shaping developing countries' financial systems and their integration into the global market. Paineira further asserted that from 1989 banks and other financial institutions had increased their economic power as they acquired high profits by lending developing countries' governments the funds obtained from domestic and international markets. The foregoing changes as a result of the Brady Plan led to changes in developing countries which later resulted into consumer credit growth in the 2000s as shall be further expended on. The rapid build-up of consumer credit in the 2000s has added a new dimension to the financialisation process of developing countries, in which banks remain the key actors (Karacimen, 2013).

2.3.4.1. Consumer Credit and Financialisation in the Developing World

Financialisation though not called as such at the time is said to have been propagated by Magdoff and Sweezy in the 1970s. The duo advanced the underlying reasons behind the increased dominance of finance beginning in the 1970s which are synonymous to what later came to be coined as financialization. Magdoff and Sweezy's main argument was that the origins of financial expansion should be traced to the rise of "monopoly capitalism", which is a concept used widely among Marxist economists to refer to the stage of capitalism that emerged at the beginning of the 20th century (Karacimen, 2013). This basically denotes the replacement of a competitive economy with the proliferation of monopolistic firms. According to Baran and Sweezy, the tendency emerged because monopolies generated more surpluses, and as a result they began to face difficulties in finding new investment opportunities (Baran & Sweezy, 1966).

Further that less investment resulted in lower economic growth. In view of the foregoing, Baran and Sweezy claimed that some measures taken to overcome the stagnation included huge military spending, investments in real estate, and mass production of automobiles. However, these measures only proved to be successful in the short-run and they did not eliminate the deep-rooted reasons of slowdowns inherent in the economy. Therefore, according to Magdoff and Sweezy, stagnation reemerged in the U.S. economy in the 1970s. In view of this, the duo asserted that expansion of finance provided the means to grow the U.S. economy (Magdoff & Sweezy, 1972, 1987). Magdoff and Sweezy called this expansion a "financial explosion" and more of it [fresh

pool of fresh savings] was flowing into purely financial channels, giving rise to a vast expansion of the financial superstructure of the economy and an unparalleled explosion of speculative activities of all kinds.

Based on the foregoing observation, Magdoff and Sweezy argued that capitalism during this period was undergoing a transformation in which finance had become the dominant activity. The duo advanced that under this new phase, capital increasingly relied on circulation and this was later supported by Foster and Magdoff. Foster and Magdoff stated that in Marx's formulation, financialisation denotes a shift from the "general formula for capital" $M(\text{oney})-C(\text{ommodity})-M\text{C}$ (original money plus surplus value), in which commodities were central to the production of profits—to a system increasingly geared to the circuit of money capital alone, $M-M\text{C}$, in which money simply begets more money with no relation to production. (Foster & Magdoff, 2008). According to Foster and Magdoff, financialisation stems from the problems in capital accumulation, the same as identified by Baran and Sweezy in their early studies. Foster and Magdoff argued that the new stage of capitalism is characterized by "monopoly-finance capital" under which the role of mega-financial institutions has increased and an ever-increasing concentration of capital has been witnessed.

In similar accounts, Brenner and Arrighi advanced that financialisation was a sign of problems in the real economy (Brenner, 2004, 2006; Arrighi, 1994). Brenner used the term "long downturn" to describe the stagnation of the world economy since 1973 (Brenner, 2004). Brenner mainly focused on the intercapitalist competition, especially the one between the United States, Germany, and Japan as the source of the crisis that started in the 1960s (Brenner, 2006). The general premise was that the competition from Japanese and German exports in the mid-1960s led to overcapacity and overproduction in the market for manufacturing sector in the United States. According to Brenner, this is the main reason for the fall in profits in the U.S. economy between 1965 and 1973, as opposed to the increased upward pressure on costs resulting from the exercise of increased power from workers, as often argued (Brenner, 2006).

Brenner earlier advanced that capital investment and profitability are the primary determinants of economic dynamism in general and productivity growth in particular (Brenner, 2002). According

to Brenner, the dramatic fall in profits of the manufacturing sector and its influence on the overall profitability of the U.S. economy triggered events of the global crisis. Further that the repression of wages and slowdown in investment resulted in contraction of demand. Therefore, demand management policies only temporarily offset the decline in profit rates for nearly two decades and during that time, debt levels surged, and a series of financial activities served for the continuation of the system. Brenner in further explaining that phenomenon under review described the plan that the United States of America Federal Reserve embarked on to deal with the pervasive stagnation (Brenner, 2009). Brenner asserted that corporations and households, rather than the government, would henceforth propel the economy forward through borrowing and deficit spending, made possible by historic increases in their on-paper wealth, themselves enabled by record run-ups in asset prices, the latter animated by low costs of borrowing. Further that under this development, private deficits, corporate and household, would thus replace public ones. Brenner advanced that the key to the whole process would be an unceasing supply of cheap credit to fuel the asset markets, ultimately insured by the Federal Reserve. Brenner's analysis stimulated many debates in the literature but important, for the purpose of this study, is the account for the rise in financial activities as a response to the stagnation and problems in the real economy since the late 1970s.

Arrighi is also an initial contributor to the financialisation literature. However, unlike Sweezy and Magdoff, Arrighi focused on post-war developments. There is also Brenner, whose argument centred on post-1973. A lot can be discussed over these contributors but the common ground of all these studies is that they all stress the stagnation of the late capitalism rather than the new dynamics it represents (Karacimen, 2013). Karacimen advances that although it is important to build an analysis on the problems in the real economy related to the lack of investment opportunities in the productive sector, one should not ignore the dialectic relation between the real economy and finance. Further that while transformations in the real sector have led to an expansion of finance, "many innovations in finance have in fact facilitated this restructuring in systems of production and spread them through the internationalization of capital" (Albo et al., 2010). Lapavistas in view of this asserts that in Marxist analysis, finance is not something simply positioned on production and there is a causal relation between real accumulation and finance even if real accumulation set the principles for the latter (Lapavistas, 2010). It is against this background

that it is vital to appreciate that understanding the expansion in finance is only possible by including a multidimensional analysis of the many transformations that industrialism had been undergoing. It is against the foregoing background that this study contextualises the rise in consumer credits and household indebtedness as important aspects of financialisation.

2.3.4.2. The Rise in Consumer Credit and Household Indebtedness

Financialisation emerged as a structural transformation in developed countries. However, it has since become a global process that has taken developing countries under its influence as well. The developments in technology that have made the world to essentially operate as a global village hence integrating developing countries more into the global economy have further facilitated financialisation in developing countries. Therefore, just like in the developed countries, this has since led to the rise in consumer credit and household indebtedness as shall be elaborated below starting with transformations in the banking sector.

2.3.4.3. Transformation of the Banking Sector Activities

As stated earlier, developments in the financial sector created room for the expansion of consumer credits and paved the way for integrating individuals into finance through changes in their saving and borrowing patterns (Karacimen, 2013). Karacimen advances that understanding trends in banking sector activities requires an extension of the existing analysis into the banking system. As aforementioned, the major limitation of the mainstream view to the banking sector is its analysis of banks as financial intermediaries and ignoring their role in relation to the dynamics of industrialism. In view of this, Karacimen puts forth that the political economy approach to the banking sector overcomes the financial intermediaries' limitations of banking by analyzing the banking sector in historical and social contexts. It is from such a background that this section examines the recent diversification of banking activities towards household finance by drawing on the political economy literature on banking.

Traditional banking activity is all about taking deposits from customers and providing loans to enterprises. Under this framework, the main income of the banking sector comes from the interest difference between deposits and loans. However, in the age of financialisation, banks turned towards individual income as a source of profit by increasingly engaging in consumption, mortgage, and auto loans provision (Dos Santos 2009; Lapavitsas, 2009). Dos Santos and

Lapavitsas asserted that this change took place first and foremost in developed countries but later banks in developing countries followed a similar pattern.

Lapavitsas advanced that the transformation of traditional banking sector activities had mainly been driven by the changing relationships between banks and industrial capital. According to Lapavitsas, as the size of corporations grew, they managed to create their own funding opportunities (e.g. dependence on retained profits and funding from capital markets) in the late 20th century. Therefore, this development allowed for a decrease in their reliance on bank loans as a source of funding for investments projects. Consequently, such a transformation forced banks to seek alternative sources of income. Essentially, this is what led banks to seek out for new money making activities. In addition, technological advances and the development of other financial initiatives in realm of finance such as securitisation have enabled the extension of consumer credit to broader segments of the society. According to Dymski, with securitisation banks can regularly bundle the debt from credit users and sell it to investors in the securitisation market (Dymski, 2009).

Based on Dymski's theory on the changes in finance in developed countries, the case for developing countries becomes anchored on the developments related to their integration into the world economy. This integration increased corporation's access to foreign funding opportunities. Apart from this increase in access to foreign funding opportunities, the use of domestic capital markets in corporate financing starting in the 1990s relatively increased in developing countries, though their role remained limited in comparison to advanced economies (Karacimen, 2013). Karacimen advanced that there were three (03) essential factors that affected banking sector activities in developing countries in relation to their further integration into the world economy in the 2000s.

First, the integration process paved the way for increased borrowing opportunities from abroad by firms in developing country. According to the World Bank's report, *Global Development Finance 2007*, corporate sector borrowing from international markets became a major characteristic of the global integration of developing countries in the 2000s (World Bank, 2007). The World Bank advanced that lower international interest rates along with excess to global liquidity conditions reduced the cost of external financing for developing-country corporations leading to the raising of funds from international markets. According to the World Bank report under consideration,

firms in developing country mainly borrowed from global corporate bond markets such as Eurobond and U.S. dollar bond markets. In addition, corporations also started to borrow from foreign banks and foreign branches of domestic banks. Therefore, all these developments led to the availability of alternative funding opportunities and this reduced corporate sectors' reliance on domestic bank loans. As a result, the share of corporate loans in relation to total bank loans declined (Mihaljek, 2006; Turner, 2006). Mihaljek and Turner attributed the foregoing to the promotion of the diversification of banking sector activities in developing countries with a focus on lending to households, like in developed countries.

Second, the banks of developing countries found greater access to foreign funding, which also contributed to the rise in consumer credit prior to the 2008 global crisis (Guo & Stepanyan, 2011). As earlier mentioned, the basic premise is that deposits are used to fund credit expansion. Nevertheless, Guo and Stepanyan advanced that the growth of deposits decreased in many developing countries during the period under review even as there was a rapid rise in foreign funding opportunities as these countries increasingly integrated into the world economy. This created an opportunity for domestic banks to fund the rapid expansion of consumer credit. Mihaljek puts forth that these trends had been witnessed especially in Central Europe, Eastern Europe and in some parts of Latin America, South Africa, and Korea (Mihaljek, 2010).

The third reason is based on the direct or indirect entry of foreign banks into developing countries. This was an agenda that was advocated for by the World Bank and other international stakeholders. Stein gave a detailed account of the role of the World Bank in promoting foreign ownerships of banks in developing countries on the premise of it being a basis for stability (Stein, 2010). In the 1999/2000 *World Development Report*, it was asserted that if carefully timed and if the economy could withstand the short-term disruptions, foreign banks had the potential to bring considerable long-term benefits, namely, transferring skills and technology, stimulating competition, lessening the effect of a macroeconomic shock in the host country, and reducing the need for local regulations (World Bank, 2000). This development came with different perspectives but the general idea is that it greatly influenced the matter under discussion.

Just to appreciate the topic further, Karacimen argued that from a political economy perspective, such mainstream explanations offered little to no insights into the peculiar ways in which developing countries were affected by the entry of foreign banks (Karacimen, 2013). Karacimen based the argument on that the whole development ignored specific institutional financial

structures, socioeconomic and political circumstances of these countries. Furthermore, despite the increased presence of foreign banks in developing countries, there is no consensus on whether the foreign banks had brought the proposed benefits to host countries.

In view of the foregoing, what is cardinal is the role foreign banks played in the rapid expansion of consumer lending as such lending to individuals became a major activity for many international banks (Lapavitsas & Dos Santos, 2008). , Lapavitsas and Dos Santos assert that there was growing evidence of the foreign banks' focus on the consumer lending and mortgage credit in developing countries as was the case in the Philippines, Mexico, and Brazil. Similarly, Dymski advanced how Citibank in Brazil established a network of nonbank offices to sell high-risk and high-return credits to working people and retirees (Dymski, 2009). Also that Citibank also played a major role in issuing credit cards in East Asia (for example, in Indonesia) (Hanson, 2005). Rona- Tas analyzed the rise of consumer credit in transition economies, (Poland, the Czech Republic, Hungary, Bulgaria, Ukraine, Russia, China, and Vietnam), arguing that the entry of foreign banks increased competition in the banking sector and paved the way for the growth of consumer credit markets (Rona- Tas, 2009). Rona- Tas also stated that the reluctance of elite customers to move from old banks they were accustomed with to new ones led banks to target less affluent customers and increased competition in the sector.

In light of the foregoing, it is prudent to conclude that foreign banks and their influence accelerated the banking sectors' involvement in consumer lending in developing countries. This influence was either directly by targeting consumers themselves or indirectly by triggering competition in the respective banking sector as a whole. Easy availability of consumer credit as a result of the banking sectors' orientation towards personal lending is an important phenomenon in understanding the rise in consumer credit and debt. However, as Karacimen argues it does not account for another important aspect of the phenomenon, which is addressing why consumers took advantage of this available consumer credit (Karacimen, 2013). Therefore, an overall understanding behind the dynamics of the rise in consumer finance necessitates considering both supply- and demand-side dynamics. The foregoing way of looking at things is vital and shall dominate the following section aided by developments in the labour markets and public provision system consideration.

2.3.4.4. Consumer Credit and welfare

Despite consumer loans being commended to theoretically increase welfare and facilitate budget management by releasing constraints on a budget at a given time, Karacimen argues that an

analysis of the implications of consumer credit necessitates considering a broader socioeconomic context (Karacimen, 2013). Karacimen advances that under different socioeconomic conditions, consumer credit may be used for several reasons with various results. The mainstream approach mainly stresses the importance of low inflation and low-interest rate environments, higher income levels, and higher asset prices as contributing factors in the rising demand for household credit both in developed and developing countries (IMF, 2006; Mohanty et al., 2006).

Against the foregoing, Karacimen argues that households simply react to the economic stimuli by increasing their demand for consumer credits. Further that there have been profound changes in the macroeconomic policies of developing countries, contributing to the rise in demand for consumer credit. Meanwhile, all these arguments are consciously made subject to the observation that developing countries are a heterogeneous group and it is difficult to make generalizations for these countries.

2.3.4.5. Implications of Rising Personal Indebtedness

Prominent contributors to consumer credit studies such as Marx blatantly refer to consumer credit in the modern industrialist system as “secondary exploitation” (Marx, 1976). Others in an effort of being diplomatic described consumer credit as being a form financial expropriation (Lapavitsas, 2009). Lapavitsas stated that financial expropriation is a form of partial appropriation of wages by financial institutions and the development had since become more prominent during the financialisation. Bryan et al., conceptualized interest payment on consumer credit from a similar perspective stating that living standard of households is determined by what remains from wages after the interest payments are made (Bryan et al., 2009).

On the other hand, Fine argued that the interest payment on consumer credit did not represent a deduction from wages (Fine, 2009). Fine based the argument on value of labor power hypothesis and supports it by drawing an analogy between taxes and interest on consumer credit. According to Fine, in both cases the value of labor is determined by what is left to wage earner after these payments are deducted from the wages. Therefore, even if there was an ex post deduction from

wages as in the case of interest payments, this is related to the moral and historical element of value of labor power in relation to the changes in the consumption pattern, and also the changes in the way which consumption goods are acquired. In view of this, if housing and other needs of wage earners are now met by purchases through credit then this implies that there has been a shift in the form taken by the moral and historical elements that influence the value of labor power. Fine in light of the foregoing states that financial expropriation cannot be generalized and conceptualized in terms of deductions from the value of labor power because there are workers and others who take advantage of credit offers. To this view, cost of buying something on credit would be implicit in wages.

According to Karacimen the important point to consider is that financial expropriation is very much related to the way in which the relationships between these borrowers and financial institutions, and banks in particular, have changed (Karacimen, 2013). Karacimen asserts that if one uses loans instead of earned money to buy a house, for instance, then this will have a price. However, Karacimen advances that what makes this exploitative is the unequal relationship between banks and wage earners as aforementioned in the previous sections. According to Dos Santos and Lapavitsas, this already unequal relationship has deepened in the age of financialisation and it has become systematic (Dos Santos, 2009; Lapavitsas, 2009). The duo advance that in the age of financialised capitalism, banks have increasingly turned towards personal revenue of workers as a source of profit in both developed and developing countries. Further that this development has been facilitated by technological innovations and advanced technologies. Therefore, these developments in the new information technology and advances in risk management techniques, it has made it easier for banks to obtain information about the creditworthiness of prospective borrowers consequently having an advantageous position over their customers.

It is against the foregoing background that Montgomerie advances that in such a framework, extending credit to vulnerable consumer groups, who are not able to repay in full outstanding balances and therefore must roll-over their debt, has become highly profitable (Montgomerie, 2008). Further that this has since resulted into consumer credit consumers increasingly becoming disadvantaged with banks or financial institutions as a result of their increased dependency on

credit for consumption. This is because in trying to cope with the deterioration in their financial situation and income instability, wage earners have increasingly been driven towards borrowing, which has become a primary way to meet their consumption needs as well as their demand for houses, cars, and so on. Montgomerie further assert that these developments between lenders and borrowers have led to the deepening unequal relationship between the two stakeholders. Montgomerie arguably advance that the situation has created room for financial institutions to determine the rules of the financial transactions according to their own interests.

Bryan et al. in the same vain advances that the rise in workers' indebtedness in the current era also paves the way for an increased dependency of labor on capital (Bryan et al., 2009). Bryan et al puts forth that as finance has developed as a means of paying for basic needs, new dimensions are added to the relations between capital and labor. Therefore, according to Bryan et al, workers have become more dependent on capital with the rise of indebtedness, while debt has restrained the chance to implement social, economic, and political power. According to Bonefeld on the matter under consideration, debt creates opportunities for the imposition of discipline and control (Bonefeld (1995). Bonefeld advances that the politics of debt amounts to an attempt at disciplining social relations to monetary scarcity and a life of hard and unrewarding labor to sustain basic needs. Further that the incentive not to endanger the bases of life, such as housing, education, health, clothing, heating, and so forth, helped to undermine resistance to wage reductions and the introduction of new working practice.

In view of the foregoing, Barba and Pivetti concluded that debt contributes to the persistence of low wages and labor costs (Barba & Pivetti, 2009). The duo argued that the burden of servicing debt forces workers to accept longer work hours and harder working conditions as such debt can only be paid from future income and not from return on investment.

2.3.5. Zambian Perspective of Consumer Credit

All through this chapter on consumer credit, it can be seen that whatever developments that have taken place in this area have been relative to developments in the banking sector. (Karacimen, 2013; World Bank, 2007; IMF, 2006; Mohanty et al., 2006). These developments start from developed economies and then their trickledown effects influences developments in developing

countries like Zambia. It is against this background that the review of consumer credit in Zambia shall be done by first considering the banking sector, how it has evolved over time, its integration into the global economy, how all that led to the advent of consumer credit and other related matters.

2.3.5.1. Financial Policies and Performance of the Banking Sector in Zambia

The Zambian banking sector has been crafted subject to the Zambian political landscape post and pre-independence era. It can also be looked at as having emerged from the constraints imposed by financial repression policies to the current open policy with no explicit entry barriers, save for the mandatory minimum paid up capital for setting up a bank (Simpasa, 2010). This basically entails looking at the Zambian banking sector from the interventionist regime and in the post-reform period. As earlier stated, this is important in order to properly contextualize short term consumer credit from the Zambian perspective.

2.3.5.1.1. Financial repression policies and the banking Sector

Zambia got independence in 1964 and just like most African countries which got independence during this period, Zambia adopted the Import Substitution Industrialization policy as a development strategy. In line with this strategy, the Zambian Government between 1968 and 1969 in a bid to have influence on finance to support the new policy, adopted the Nationalization of financial institutions, except foreign commercial bank (Harvey, 1973; Brownbridge, 1998). After this development, foreign banks in Zambia operated as subsidiaries of foreign banks under the Zambian banking law. Meanwhile, this law also stipulated that half the directors of foreign banks had to be resident in the Zambia. As a reaction to this development, foreign banks differentiated themselves by focusing on mostly servicing the expatriate community and foreign owned companies. It was against this background that in order to service the interest of indigenous businesses and parastatal companies not serviced by the existing foreign owned commercial banks, the Zambian government established state banks (Brownbridge, 1998).

In line with the aforementioned strategy and in a bid to provide long-term credit to strategic sectors of the economy such as mining, and agricultural industries, the Zambian government created agricultural and development banks. The Zambian government then consolidated its position using tools of credit control. Under this, it imposed controls on interest and exchange rates, transactions,

allocation of foreign exchange and applied stringent reserve requirements. In addition, banks were required to seek permission from the central bank before they could extend credit to foreign companies or engage in bank-to-bank refinancing (Simpasa, 2010). In this regard, Simpasa advanced that state enterprises were given preferential treatment in accessing foreign exchange while foreign companies were mandated to surrender foreign exchange to the central bank. Therefore, the central bank maintained monopoly on the allocation of foreign exchange and this was used as a credit rationing tool.

The other control mechanism employed was that of a mandatory minimum paid up capital requirements for both domestic and foreign banks. At the beginning this was an effective control but it became less effective due to failure of being revised as economic fundamentals such as inflation changed over time. This can be noticed as by 1991 before reforms were undertaken, inflation had reduced the real value of the minimum capital requirement to around US\$0.3 million (Brownbridge, 1998). According to Brownbridge, at the time reforms were being initiated in Zambia in 1992, the unrevised minimum capital had been eroded to just more than US\$50,000 in real terms. Therefore, Brownbridge asserted that the reduction in paid up capital severely undermined safety and soundness of the financial system. During the interventionist period, regulatory rules governing the operations of the banking system were outdated leading to delinquent lending practices (Simpasa, 2010). Simpasa advanced that the poor state of banking supervision and prudential regulatory framework was the main cause of severe undercapitalization of the banking sector.

The foregoing developments brought about adverse developments in the Zambian banking sector as the capital-to-assets ratio for local banks ended up falling below the internationally recommended threshold. This poor capital-to-asset ratio coupled with interest rate controls meant that banks could not adequately manage the risk in their transactions. According to Brownbridge, prudence was undermined during the interventionist period and by the early 1980s, banks had accumulated huge non-performing assets as a result of non-repayment of loans by state enterprises, mainly because most investments were made in commercially unsuccessful ventures (Brownbridge, 1998). However, unlike public banks, foreign owned banks successfully resisted political pressure to support unviable projects and their lending practices were guided by strict commercial criteria. Based on this, it could be argued that the low quality of assets was not a major

problem and the limited international competition arising from tight restrictions on current and capital account transactions, their scope of operations remaining rudimentary and undiversified could have been the major problem. It is also worth appreciating that there is not much information on the microeconomic performance of the banking sector during the interventionist period and this makes it difficult to have a thorough assessment of the performance of the banking sector under the financially repressive regime. However, the above narrative suggests that the Zambian government's involvement in the financial system coupled with numerous administrative controls had a harmful effect on the performance of the banking system, the quality and quantity of the bank's assets (Simpasa, 2010).

Simpasa is also advanced that the interventions during the interventionist period undermined financial expansion and intermediation because its policies produced different forms of distortions which negated efficient functioning of a larger section of the economy. An example of such interventions are ceilings on interest rates, subsidies and directed lending which were intended to promote economic growth but ended up constraining the expansion of credit thereby starving the economy of much needed development finance. The flaw was that with such interventions, whenever lending occurred, banks charged interest rates that were not commensurate with perceived risk. Meanwhile, the subsidies and other incentives granted to the public sector banks only helped perpetuate uncompetitive behavior in the sector.

At a macro level, available statistics indicate that the spread between the lending and deposit rate averaged 5 percent between 1980 and 1989 while both these rates were negative in real terms due to the high level of inflation (Brownbridge, 1998). Further Brownbridge advanced that as a measure of financial depth, broad money to GDP ratio was less than 30 percent on average over the same period. On the other hand, credit to government as a share of GDP averaged 12.4 percent over the same period against 12.0 percent lending to the private sector, also expressed as a proportion of GDP. Brownbridge then asserted that the foregoing statistics suggest financial disintermediation which was induced by financial repression policies and crowding out effects of government borrowing.

2.3.5.1.2. Financial liberalization and the changing landscape of the Zambian banking industry

The Financial sector reforms in Zambia began in 1992 after the change of government from the United National Independence Party (UNIP) to the Movement for Multi-Party Development (MMD) government. These reforms which changed the entire financial landscape in Zambia were implemented in the context of a broader adjustment and stabilization program under the auspices of the International Monetary Fund (IMF) and the World Bank (Simpasa, 2010). This change of government from UNIP to MMD brought about a new aura in which the reforms progressed unhindered in the early years, spurred mainly by the need to redress the structural imbalances that characterized the previous regime. The major policy changes as result of the reforms included;

- Liberalization of interest rates,
- Removal of restrictions on foreign exchange transactions and allocation mechanisms,
- Easing of banking restrictions,
- Improvement in the regulatory and Supervisory framework with concomitant efforts to improve the efficiency of the existing banks.

The MMD government's general premise was that deregulation of interest rates and removal of restrictions on credit advances would force banks to adopt more competitive practices in the pricing of bank products while allowing them to cut operating costs in order to stem inefficiency. The reforms also facilitated the restructuring of the banking system by emphasizing recapitalization of banks which had such problems as a means of improving the financial sector in Zambia.

In order to formalize all the foregoing developments, changes were made to the regulatory framework mainly through amendments to the Banking and Financial Services Act (BFSA) and the Bank of Zambia Act. These changes granted the central bank greater authority over the financial services sector in Zambia. It was also under these reforms that the licensing of commercial banks also shifted from the Ministry of Finance to the central bank as a means to consolidate supervision or oversight. These amendments helped realign regulation by function rather than by type of bank as was previously the case when public sector banks received

preferential regulatory treatment compared to those imposed on foreign owned banks (Brownbridge, 1998).

In order to adopt international best practices with regard to banking and finance, the Bank of Zambia now as the regulatory authority introduced a set of reporting requirements for commercial banks, guidelines for asset valuation and loan-loss provisions. According to Brownbridge, the reforms also redefined the central bank's responsibilities to principally focusing on price stability rather than on multiple roles as was the case in the UNIP government system of control. Brownbridge further stated that complementary to the foregoing developments was the lifting of restrictions on capital flows following the liberalization of the capital account in 1994. The MMD government authorities also reformed the reserve requirements regime and allowed banks to operate foreign currency accounts. A year later in 1995, the central bank granted licenses to bureau de changes, allowing them to trade in foreign currency.

The dynamics at play in the Zambian financial services sector are that prior to 1992, there were only three (03) local private banks existing alongside foreign and state owned banks. Therefore, these banks operated on the peripheral of the market and accounted for a relatively small share of the industry assets. These were the results of the banking sector being subjected to state interventionist policies which included restrictions on branching and other unfavorable licensing requirements, which prevented acted as strong barriers to entry into the sector. It was against this background that private foreign and state owned banks took up much of the market share and accounted for over seventy percent (70%) of total assets (Simpasa, 2010). Consequently, the removal of implicit and explicit barriers to entry into the banking industry beginning from 1992 led to an increase in branching activity, most notably by the foreign and public sector banks. It was also because of such developments that the number of local private banks started to increase hence significantly influencing the landscape of the Zambian banking industry. According to Simpasa, the foregoing development resulted in twelve (12) new commercial banks being registered between 1992 and 1996, bringing the total to 26 banks.

According to Brownbridge, by mid-1996, there were 13 local private sector banks operating in Zambia (Brownbridge, 1998). Brownbridge further asserted that the majority of these banks

sprung up before reforms to the regulatory and prudential system were implemented. This was attributed to high inflation making the entry requirements low. Therefore, the low real paid up capital served as an entry stimulus for these banks. The period between 1992 and 1996 was also marked by a credit boom, with private sector credit as share of GDP increasing from 4.7 percent to 8.8 percent. Nonetheless, the majority of these banks engaged in foreign exchange transactions and government securities trading.

Brownbridge also highlighted the income aspect during the period under consideration in which it was pronounced the extent to which the local banks relied on Treasury bills (Tbs) for their income. This was done relative to the proportion of Treasury Bills to total assets. Brownbridge puts forward that just in two years (1992-1993), Treasury bill holdings accounted for 28 percent (%) of total assets while the share of bank credit was only 15 percent (%). International players in the finance sector such as the International Monetary Fund (IMF) and the World Bank also advanced that foreign exchange trading had traditionally been the main source of non-interest revenue for Zambian banks while revenue from Treasury bills accounts for a substantial amount of interest income (IMF/World Bank, 2002).

In consideration of the foregoing banking sector environment, Brownbridge further stated that local private banks took up enormous amounts of deposits while lending was mainly to the small traders which had been shut out from credit by foreign owned banks (Brownbridge, 1998). Brownbridge also highlighted that such a development presented insider borrowing problems. Therefore, insider borrowing exposed many of the banks to credit and exchange risk. This exposure was compounded by instability in the macroeconomic environment characterized by high rate of inflation, depreciating currency and deteriorating external terms of trade. Consequently, Brownbridge advanced that they started to experience liquidity problems due to an increase in the level of impaired assets relative to short-term liabilities and this led some of these banks to become insolvent. The eventual development was the liquidation of these banks between 1994 and 1998. This had an adverse effect on the Zambia economy as a whole as according to de Luna Martinez, the economic cost of these bank failures had been estimated at approximately 7.0 percent (%) of Gross Domestic Product (de Luna Martinez, 2006).

The foregoing flaws in the Zambian banking sector had been blamed on a weak regulatory framework and an understaffed supervisory authority which caused banks to engage in imprudent lending behavior (Maimbo, 2002; IMF and World Bank, 2002). Maimbo advanced that in an attempt to prevent future crises, the Central Bank of Zambia responded by strengthening its prudential regulatory and supervisory capacity, culminating in a restructuring program of other ailing but solvent banks. Accordingly, since 1998, only three banks have been closed down, two because of failure to recapitalize and the third had its operating license revoked in 2001 due to imprudent banking conduct related to money laundering activities. At the end of 2006, there were 13 commercial banks operating in Zambia (Bank of Zambia, 2006).

The Zambian banking sector development basically highlights the route taken by Zambia to be integrated into the global economy through adoption of international best practice banking precepts. However, this also meant that the same development exposed the Zambian financial services landscape to the changes in the global banking sector such as a reduction in giving credit to corporations and focusing more on individuals for income (Dos Santos 2009; Lapavitsas, 2009; Paineira, 2009; Brenner, 2009; Foster & Magdoff, 2008; Epstein, 2005). As earlier described in the section for the raise of consumer credit, this also meant that consumer credit started developing in Zambia as was the case with other developing countries that had been integrated into the global economy (Karacimen, 2013). This also meant that the Zambian financial services space was now susceptible to the advantages and disadvantages of such developments as shall be expended on in the next section.

2.3.5.2. Consumer credit in Zambia

The effects of the adoption of international banking best practice precepts which led to Zambia being integrated into the global financial services ecosystem started to be visible between 2000 and 2007. The amount of lending by Commercial banks to households increased by 642% from 2007 to 2016 in Zambia, this was part of the 200% increase in the numbers of borrowers from 88,098 in 2007 to 263, 447 in 2016, (Bank of Zambia, 2007, 2016). The Central Bank of Zambia (BoZ) produces several statistics that are important for planning purposes, analysis and to facilitate evidence based policy formulation and decision making. One of such publications is the annual booklet on financial and other statistics which provides information on various aspects of the Zambian financial system and economy. This booklet is designed to be used by researchers,

investors and the general public to gain insight primarily on developments in the financial sector and other statistics. In view of the foregoing, the aforementioned statistics from the booklet under consideration highlighted a phenomenon that changed the financial services landscape in Zambia. This was because the increase in lending to households brought about a niche (a clientele cluster) in the market place for clients that needed short term financing as they serviced their long term loans with commercial banks whenever they were faced with urgent financial needs that did not require relatively big amounts of money to sort out (Tembo, 2018; Chola, & Mwila, 2017; Nkonde & Mwaba, 2017; Simwaka, & Mkandawire, 2016; Simumba, & Sichilima, 2016).

The genesis of the whole development can be traced to the aforementioned period, 2007 to 2016 when a lot of households got long term loans from mostly commercial banks. The development was further propelled by the described phenomenon being characterized with a majority of the households who got the loans under consideration either getting them for the first time despite having worked for some time or were new entrants (newly employed staff in the market) hence were not experienced in productively using such long term loans (Chikweti, 2020; Bank of Zambia, 2007, 2016). The other aspect as would be expected of a novice borrower was that most of these loans were not invested in money generating ventures despite reasonably reducing the respective borrower's net income after the commencement of loan deductions.

It is also worth noting that the long term loans under review were mostly gotten by two (02) kinds of borrowers, those who got them to buy land with the view of venturing into real estate and those who bought consumables like household goods or vehicles. For the group that got the loans to venture into real estate, the total loan amount was usually not enough to complete their projects hence they started working on their projects slowly with whatever residual income they remained with. On the other part, those who bought household goods or vehicles also had a similar challenge of reduced income either due to maintenance or fuel costs for those who bought vehicles, which were mostly refurbished ones from Japan, or due to the fact that the household goods were not generating any income. It is also worth acknowledging that these borrowers under review justifiably planned to live by the residual income for the period of the loan deductions. However, due to a poor saving culture, a less developed insurance industry in Zambia and generally the failure for mortals to fathom the future, they found themselves unable to deal with unforeseen short

term financial demands (Preston & Prochaska, 2007). This then led to the creation of a niche of borrowers for short term loans who were servicing long term loans with other financial institutions such as banks. This was because the reduced net income made it extremely difficult for individuals to deal with any unforeseen short term financial challenges in light of the long term financial commitment for their long term loans.

In view of the foregoing, it is now ideal to state that despite this development bringing about new opportunities in the Zambian financial services market, commercial banks and other big financial institutions did not show much interest in serving the niche. This has been attributed to the constituents of the niche mostly being classified as high risk clients and in most cases the cost of reducing the risk associated with such borrowers outweighing the benefits relative to the risk appetite of investors in the respective commercial banks or financial institutions. This is what led to the mushrooming of several financial institutions offering short term loans such as Payday loans. The foregoing then resulted in adverse effects on major economic players such as the consumers of these short term loans due to being high cost leading to high indebtedness, as a result of a reduction in residue income as a result of servicing high cost short term loans. The high indebtedness caused such consumers who were mostly employees be financially stressed and this affected their production hence employers not getting much from their human resource and could even lead to high medical expenses for employers who provide medical services for employees. The other adverse development was that the development also led to demands for increased pay as the consumers of short term loans ended up failing to live by whatever remained after servicing high cost loans. On the other hand, the reduced income of consumers of high cost short term loans had a trickledown effect on merchants or providers of goods and services as these same consumers of short term high cost loans are the consumers of what merchants provide. This means when the residual income of consumers is reduced, they too are affected as the consumers buy less of their goods and services, leading to less profitability or economic growth consequently affecting everyone in the economic establishment under review.

2.4. REVIEW OF SIMILAR STUDIES

The growth of the short term consumer credit industry can be attributed to direct and indirect drivers. The direct drivers are mostly premised on short term consumer credit providing households with short term liquidity in a flexible manner (Islam & Simpson, 2017). Islam and Simpson were of the view that this is the main driver of the demand for short term consumer credit. On the other hand, concerns over its arguably exploitative nature due to being high cost and the conditions that follow when a borrower fails to pay have continued growing (Schwartz & Robinson, 2018). Schwartz and Robinson advance that borrowers who are not able to repay their loans must either: (1) extend or “rollover” the loan; (2) pay off the loan but immediately borrow again from the payday lender through a “back-to-back” transaction; or (3) default, and thereby incur other charges such as bounced cheque fees (if a postdated cheque was issued) by the payday lender and insufficient fund fees by the borrower’s bank while still owing the full amount of the original post-dated cheque. According to Schwartz and Robinson, the critical concern with rollovers and back-to-back loans is the repeated application of the entire fee for each new loan, and the subsequent fees that are applied to the total owing, which includes the previous fee(s). Schwartz and Robinson advance further assert that the foregoing developments end up trapping consumers into debt traps leading to financial distress.

In view of the foregoing, the major concern about payday lending stems in large part from its rapid growth beginning from the 1990s subject to its adverse effects on consumers hence generating concern amongst policy makers, academia and other stakeholders (Servon, 2017). One such example of the rapid growth would be that of the USD \$50 billion aforementioned growth prediction by Stegman and the growth from about USD \$10 billion in 2001 to nearly \$30 billion in 2012 estimated by Wolkowitz (Wolkowitz, 2014). Therefore, the cause for concern is mostly due to the interpretation that the growth in monetary value of the industry could be taken to mean the growth in the problems associated with the respective short term consumer credit.

What is evening more worrying for stakeholders is that the growth is projected to continue because the environment also seems to favor the growth of short term consumer credit. The conducive environment can be considered as the indirect driver of short term consumer credit growth as expounded by Servon. Servon contends that three (03) key changes explain this growth in short

term consumer credit as follows: (1) the reduced availability of consumer credit, (2) changes in the banking industry, and (3) long-term trends that include declining wages, contraction of the public and private safety nets, rising inequality, and an increase in income volatility and financial instability. Servon further asserts that in order to understand the role payday loans play in consumers' choice sets, it is important to understand what has happened to more mainstream sources of consumer credit during the same period in which payday lending has grown. The first two (02) of these three (03) changes do just that as expanded upon below. Meanwhile, it is also worth appreciating that Servon did very well in explaining this aspect from the developed world context but most of Servon's points might not be relied on that much from the developing world context such as this study's case study jurisdiction, Zambia. In view of this, Servon's arguments shall be stated, similar aspects established and differences explained.

2.4.1. Contraction of Consumer Credit

According to Servon, this contraction come about as a result of a development in which credit companies aggressively gave out credit cards facilities in the 1990s up to the period leading to the 2008 financial crisis. Servon advances that this period was associated with such companies giving out cards even to high risk consumers with regard to their ability to pay back. Then, in the mid-2000s, much of the credit that had been extended to an increasingly risky group of consumers was pulled back. Servon contends that for the United States of America (USA), the Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009 and the 2008 financial crisis led credit card providers to cut back significantly on the amount of credit they extended to consumers, both for new and existing cardholders (Associated Press, 2015). Therefore, with credit from conventional sources becoming harder to obtain, many people had to turn elsewhere when they had insufficient funds to pay their bills and cope with unexpected expenses. Payday lenders and other alternative lenders expanded to meet the new demand.

2.4.1.1. Changes in the Banking Industry

Servon attributes the growth in short term consumer credit as it is known post the 2008 financial crisis to changes in the bank's business model starting in the late 1970s. Servon advances that bank failures, policies that enabled consolidation, and a shift toward more fee income transformed banks. The banks focused less on consumers as they grew larger. Further that despite payday

borrowers having bank accounts, the vast majority of payday borrowers cannot get the kind of credit they need from their banks. Also that the banks do the same in a different way through those with bank accounts with overdraft facilities despite these being even way more costly although serving a similar cause. If we thought of an overdraft as a loan, and it had a repayment period of seven days, the Annual Percentage Rate for a typical incident would be over 5,000 percent (5000%), as opposed to the 400 percent (%) to 600 percent (%) Annual Percentage Rate of a typical payday loans.

2.4.1.2. Macro-trends

Servon also advances macro-trends and this is more relatable to most developing countries although was focused on the USA for Servon. Servon contends that the third factor explaining the dramatic increase in payday lending is that macro-trends have made chronic financial insecurity a more widespread phenomenon. First, declining wages made it more difficult for consumers to save and build assets. Controlling for inflation, wages have been declining since 1972. The second is income volatility and a key factor in this increase in income volatility is the rise in part-time work, on demand hours, and tenuous independent contractor arrangements. Servon also advances that public and private safety nets have been eroded, leaving individuals to cope with unexpected expenses.

Servon has been used in this section because the contributions done through her work give an overview of the general discourse on short term consumer credit. It is also worth appreciating that amongst all contributions from different stakeholders, what seems obvious is that short term consumer credit does save some need in society as can be inferred from the continuous uptake of short-term consumer credit products which indicates market demand (GRZ, 2021; Bank of Zambia [BoZ], 2020; Malone & Skiba, 2020; BoZ, 2000). However, there is also a lot of evidence suggesting that short term consumer credit facilities can lead to poor consumer outcomes due to being associated with high interest rates (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012).

This is why this study is anchored on attributing this dichotomy to the possible inherent flaw in the pricing (interest rate model) principal design of modern short-term consumer credit facilities of an interest being demanded when paying back credit (Hudson, 2003; Fisher, 1930).

Despite studies having been done over short term consumer credit facilities, there has not been a study that has been focused at resolving the high cost nature issue of short term consumer credit such as payday loans from the core, which is, the principal design of short term consumer credit facilities. Previous studies have either just highlighted the problem or proposed more and more policy regulatory responses through supervision and interest rate caps as the ultimate remedy (Fekrazad, 2020; OECD,2019; World Bank Group, 2018; Yin,2018; Bhutta, Skiba & Tobacman,2015; Skiba & Tobacam,2011).

However, inasmuch as regulation can be a source of good developments (Bernier & Plouffe, 2019), basing the whole solution entirely on regulation could also lead to stifling of innovation in the short term consumer credit market and other adverse developments such as lenders modifying their loans to evade regulations on interest rates, loan lengths, loan sizes, and repayment procedures such as allowing loans to roll over (GRZ, 2021; Malone & Skiba, 2020; He & Tian, 2020). Regulation also has implementation shortcomings based on jurisdiction and complexity of short term debt consumer risk drivers such as general economic context, life events and behavioral biases (OECD, 2019; Li, Mumford & Tobias, 2012).

It is against the foregoing that this study aims at developing a framework that maintains the positive aspects of short term consumer credit facilities which continue to drive demand whilst negating the adverse aspects which lead to poor consumer outcomes such as high indebtedness. The study attempts to achieve the foregoing by engaging short term consumer credit stakeholders subject to lender learning precepts. This is premised on the consideration that much of the high cost nature of short term consumer credit facilities can be attributed to asymmetry of information between and amongst lenders and borrowers due to moral hazard and adverse selection amongst stakeholders (Omede, 2019; Beecher, Fildmen & Lobel, 2019; Dobbie & Skiba, 2013).

The study is therefore very important to stakeholders such as policy makers, producers of goods and services, consumers, merchants, financial institutions and academia as it basically aims to address the downside of short term consumer credit while promoting its upside (Njoroge, 2021; Malone & Skiba, 2020; OECD, 2019; CFPB, 2019; PwC, 2018; CFSI, 2016; National Consumer

Law Center, 2015; Adegaju & Oloko-Oba, 2016; Fayolle, Liñán, & Moriano, 2014; Karlan & Zinman, 2011; Kim & Garman, 2003). This is because the current position is not sustainable for stakeholders consequently detrimental of all economic players. If the study is not done, the adverse effects of high cost short term consumer credit shall continue, leading to undesirable developments such as perpetual household financial distress, poor productivity due to having a stressed workforce, liquidity constraints and several other adverse developments for stakeholders, consequently unpleasantly affecting the general financial welfare (Bankers Association of Zambia [BAZ], 2021).

2.5. CRITIQUE OF EXISTING LITERATURES

In view of the preceding literature review, it can be observed that the short term credit facilities under review have both a good side that of helping out households in a flexible manner and most households see value in the service being offered by short term consumer credit lenders as evidenced by the continuously growing demand for the service (Malone & Skiba, 2020). However, there is also overwhelming evidence over the adverse effects of such short term credit facilities by virtue of being high cost and somewhat exploitative to consumers.

All this indicates the need to do something about short term credit that helps in retaining the advantages that are driving its demand while dealing with its adverse effects. This has been the most difficult discourse and two (02) groups seem to have formed where one group advocates for leaving things as they are and letting the market nurture the industry to a desirable state unlike basing the whole solution on regulation (Malone & Skiba, 2020, He & Tian, 2020; Skiba, 2012). On the other hand, others strongly feel the solution would be to highly regulate the short term industry (Fekrazad, 2020; OECD, 2019; Yin, 2018; Bhutta, Skiba & Tobacman, 2015; Skiba & Tabacam, 2011).

Amongst the advocates for regulation, the most prominent is the G20 OECD Task Force on Financial Consumer Protection, FinCoNet and the OECD International Network on Financial Education who expressed these views elaborately through their three (03) years joint report published in 2019 (OECD, 2019). This publication represents an important component of the work

of the G20 OECD Task Force on Financial Consumer Protection¹, FinCoNet², and the OECD International Network on Financial Education³ (OECD/INFE). It was developed in close co-operation with members of the three bodies, whose delegates provided initial responses to the joint questionnaire, and engaged in a fruitful discussion to incorporate additional findings to the report and to discuss its scope and conclusions.

Within the OECD Secretariat, the publication was prepared by Andrea Grifoni, Policy Analyst, with the contribution of Adele Atkinson, Senior Policy Analyst Financial Education, and Miles Larbey, Senior Policy Analyst Financial Consumer Protection, and oversight by Flore-Anne Messy, Head of Division, in the Insurance, Private Pensions and Financial Markets Division of the OECD Directorate for Financial and Enterprise Affairs. Basing on the constituents of the group that developed this report under review, it can be argued that this could be one of the most important documents on short term consumer credit that would greatly influence the direction of the short term consumer credit industry (OECD, 2019).

The foregoing development in the G20 OECD Task Force on Financial Consumer Protection, FinCoNet and the OECD International Network on Financial Education is why the study has taken keen interest in its findings and guidelines as to what will be happening or not happening in the industry shall be greatly influenced by this report. The OECD report conducted a qualitative and quantitative analysis and the information provided by public authorities responding to the joint survey suggests policy actions that can be applicable to the regulation and supervision of the products that consumers use to meet their short-term credit needs (OECD, 2019).

1 The G20/OECD Task Force on Financial Consumer Protection was established in 2010 as part of the strategic response to the financial crisis to conduct financial consumer protection policy and research on behalf of the G20 and the OECD. The Task Force comprises members from G20 and OECD economies, with policy, analytical and secretariat support from the OECD. Among other things, the Task Force is responsible for the G20/OECD High Level Principles on Financial Consumer Protection, which set out a comprehensive framework for enhancing financial consumer protection. Its membership includes all G20 and OECD economies.

2 Established in 2013, FinCoNet is an international organisation of supervisory authorities responsible for financial consumer protection. It is a member-based organisation set up as a not for-profit association under French law. FinCoNet promotes sound market conduct and strong consumer protection through efficient and effective financial market conduct supervision. Each member of FinCoNet has responsibility for and an interest in protecting the interests of consumers of financial services. FinCoNet seeks to enhance the protection of consumers, and to strengthen consumer confidence by promoting robust and effective supervisory standards and practices, and sharing best practices among supervisors. It also seeks to promote fair and transparent market practices and clear disclosure to consumers of financial services. It currently gathers 24 members and 6 observer organisations.

3 The OECD Governments officially recognised the importance of financial literacy in 2002 with the launch of a unique and comprehensive project. In 2008 the project was further enhanced through the creation of the OECD International Network on Financial Education (INFE) to collect cross-comparable data and evidence, develop methodologies to measure impact, share experience and good practices, develop research and comparative analysis, design policy instruments, promote effective implementation and monitoring. As of January 2019, 265 institutions from 119 economies are members of the OECD/INFE.

It also considered financial education and awareness initiatives. The whole report essentially focused on the need for authorities having a clear picture of the short term consumer credit space, the regulatory coverage consideration, regulatory and supervisory approaches and financial education as expanded upon below.

2.5.1. Evidence

According to the OECD report, policy makers should have a clear picture of the provision of short-term credit, and of its effects on consumers, in particular in jurisdictions in which certain short-term credit products might fall outside of the supervisory perimeter of the financial regulator (OECD, 2019). Policy makers should:

- Ensure effective market monitoring to capture short-term credit provision, and consider whether the short-term credit market might require more granular supervision.
- Seek to better understand consumer behaviour and understand how consumers use short-term credit products and to meet which needs, through a holistic view that takes into account all the credit products available to consumers, their levels of debt and savings.

2.5.2. Regulatory coverage

The OECD report also contends that policy makers should ensure that the provision of short-term credit by specialised lenders is covered by sufficient financial consumer protection measures, at least equivalent to those applicable to other forms of consumer credit (OECD, 2019). They should in particular:

- Assess the coherence of the regulatory and supervisory coverage of the short term credit market, and whether it is fit to protect consumers in this space.

2.5.2.1. Regulatory and supervisory approaches

The OECD report further contends that in the presence of consumer detriment in the market for short-term credit, policy makers could consider adopting specific policy solutions, and evaluating the effects of their introduction (OECD, 2019). They could consider in particular:

- Moving beyond disclosure for short-term credit products, to make consumers aware of their special features, in particular short-term high-cost credit products, through the presence of legislated warnings redirecting to the financial education website of the

responsible financial authority or the authority in charge of financial education initiatives, where this exists.

- Introducing caps on the cost of short-term credit, if they can contain costs for consumers without excluding the most vulnerable from the short-term credit market and/or giving rise to regulatory arbitrage.
- Introducing specific responsible lending provisions tailored on short-term credit providers, such as affordability rules, a limit on rollovers (refinancing) or on the number of concurrent short-term loans or multiple loans that a consumer can hold at a point in time or over a given period.

2.5.3. Financial education

Then the OECD report eventually suggests that policy makers should also consider addressing short-term credit as part of financial education programmes and initiatives targeting consumers and in particular, the most vulnerable, such as people on low incomes, young and/or elderly people (OECD, 2019). Financial education initiatives can in particular:

- support young people and adults in the development of positive financial behaviours and attitudes;
- promote savings habits as a way of avoiding borrowing to cover expenditure or income shocks, or to smooth uneven income and expenditure flows;
- understand how to build a credit score (where this exists) to improve access to lower cost forms of borrowing;
- improve knowledge on credit, its different features, limitations and beneficial use and awareness of possible lower-cost alternatives (e.g. lower-cost credit, or alternatives to borrowing);
- encourage consumers to shop around, to compare products and make informed choices, e.g. by supporting the creation of digital platforms or comparison tools;
- address consumers' behavioural biases, for example by harnessing the opportunities for improved decision making and behavioural change provided by digital tools; and
- be part of debt advice solutions for consumers in financial distress.

Inasmuch as the OECD report's finding and recommendations are quiet sound and progressive, they seem to miss out on one very important aspect of developing a growing industry. This is the ability to recommend things that would encourage innovation and corporation between and amongst stakeholders. In most cases, too much focus on regulation as has been the general discourse in the short term consumer credit market is a reactive approach where authorities shall mostly be playing catch up while the providers of short term credit shall continue finding ways to go round the regulation (Malone & Skiba, 2020). Malone and Skiba put up a strong argument in their 2020 work by the titled '*Regulations and recent trends in high interest credit markets*'. The duo contends that more regulations has led lenders to modify their loans to narrowly evade restrictions on interest rates, loan lengths, loan sizes, and repayment procedures like allowing loans to roll over. Each time such developments start happening then it means whatever is in place at the moment is not saving the interests of stakeholders well enough and a more conducive approach is needed.

The foregoing is why this study has embarked on the development of an interest model for short term consumer credit as a way of finding a permanent solution to the shortcomings of the short term credit facilities. This quest is justified by the observation that despite a lot of research having been done for more than two (02) decade on payday loans, very little process seem to be taking place, especially when one takes into consideration that as early as 2012, Skiba did a study in which documentation of the disconnect between the actual collection evidence and the then existing regulatory frameworks which has continued to purport to help consumers avoid misuse of payday loans was done. As early as 2012, Skiba stated that the regulations on payday lending which include outright bans, price caps, minimum and maximum loan lengths, minimum and maximum loan sizes, and rollover restrictions. Skiba argued that: **(1)** outright bans are misguided, **(2)** larger loans can actually help borrowers, **(3)** loan-length restrictions are ineffective, and **(4)** rollover restrictions do make sense (Skiba, 2012). The irony is that seven (07) years later, the discourse is still over measures that were earlier questioned and still have not provided a sustainable solution or at least shown signs of solving the problem for certain stakeholders as depicted in Table 2.2.

Table 2 2: Research Gaps Matrix

AUTHOR/YEAR	STUDY	FOCUS or RESULTS	GAPS
Carlie Malone and Paige Marta Skiba (2020)	Regulations and recent trends in high interest credit markets	Government restrictions have led lenders to modify their loans to narrowly evade restrictions on interest rates, loan lengths, loan sizes, and repayment procedures like allowing loans to roll over	Only highlights the inappropriateness of regulatory intervention but does not address the actual problem of high interest rates
Amir Fekrazad (2020)	Impacts of interest rate caps on the payday loan market: Evidence from Rhode Island	Lenders always charge the prevailing cap, creating a sharp and clean variation in interest rate	Highlights how regulation only leads to unscrupulous behavior but still does not solve the high interest issue
OECD (2019),	SHORT-TERM CONSUMER CREDIT Provision, regulatory coverage and policy responses	Highlights most governments position on short term consumer credit and how its inclined towards regulation and education	One of the most important documents on consumer credit which was highly funded but still does not address the matter by addressing the Interest rate cost drivers
Jie (Jack) He and Xuan Tian (2020)	Institutions and Innovation: A Review of Recent Literature	Highlights how regulation adversely affects innovation	Indicates how this too much regulation centric approach is not appropriate to solve the short term consumer credit industry
Lisa Servon (2017)	ARE PAYDAY LOANS HARMFUL TO CONSUMERS?	The paper gives more insight on the short term consumer credit	As most studies, this insight does not lead to the solving the short term consumer credit problem of high interest rates
NEIL BHUTTA, PAIGE MARTA SKIBA, JEREMY TOBACMAN (2015)	Payday Loan Choices and Consequences	Shows how consumers apply for payday loans when they have limited access to mainstream credit	Mainly Just highlights the problem but does not address issue through interest rate cost drivers

(Source: Author)

2.6. LESSONS LEARNT

Despite the gaps in Table 2.2 on short term consumer credit study, it would be naïve to perceive short term consumer credit as pure risk where no good can come out of as they do assist a lot of people ((Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). As can be seen from the literature, several scholars and stakeholders acknowledge the value of short term consumer credit. The fact that even the Consumer Financial Protection Bureau (CFPB) which usually is not pro-short term consumer credit has for a long time acknowledged that short term consumer credit such as payday loans are a way to bridge unexpected financial shortfalls between paychecks, receipt of benefits, or other sources of income (CFPB, 2016). CFPB contend that payday loans provide ready access to funds for a short period of time with very limited underwriting and research conducted by CFPB has acknowledged this as being very convenient to consumers. However, the dark side of short term consumer credit emerges when one considers that rather than charging a periodic interest rate which would generate a cost of money that depends on the amount of time the debt is outstanding, payday loans lenders usually charge a set fee that is based upon the amount borrowed and does not usually vary with loan duration (Ramirez, 2018). This is what then results in exorbitant interest rates which the payday lending industry's principal justification to the high interest rates charged is that they simply reflect the high costs involved in providing small sum, short-term loans (Booth, 2012). Whatever the debate between lenders, borrowers, authorities and academia over short term consumer credit, the fact that short term credit has a bearing on key economic stakeholders such as consumers, employers and merchants means all these parties owe their respective societies a duty of care because the adverse effects of their relation ends up affecting the entire community as shall be elaborated below.

For one (consumer) who consumes the short term consumer credit under review, the preceding review has indicated their possible adverse effects which are all tied to them being high cost credit. However, it is very tempting to think one is safe if they do not consume such loans hence it is paramount to highlight how this phenomenon affects everyone in a society in a bid to emphasize why it is very important for all stakeholders to join in on the advocacy against the adverse effects of short term consumer credit. In the first place, human beings live in societies in which their

activities are usually more intertwined than they care to admit. There are so many approaches the study could approach the foregoing to highlight this theory but for the sake of ease and focus, the study focuses on the three (03) core stakeholders with regard to commerce. These stakeholders as already identified as the study subjects are, employers/organizations (who employ members of a community and other resources to produce good/services), merchants (who sell goods and services to members of a community) and consumers (who get paid for working for employers/organizations and use the funds to pay for goods and services from merchants or engage in economic activities to make money to pay for goods and services from merchants) ((Njoroge, 2021; Malone & Skiba, 2020; OECD, 2019; CFPB, 2019; PwC, 2018; CFSI, 2016; National Consumer Law Center, 2015; Adegbaju & Oloko-Oba, 2016; Fayolle, Liñán, & Moriano, 2014; Karlan & Zinman, 2011; Kim & Garman, 2003; Marx, 1976). In light of this, below is how each stated stakeholder is affected by the payday loans adverse effect phenomenon:

2.6.1. Short term credit and Organizations/employers

As aforementioned, in the context of this study, employers/organizations refer to institutions in a respective society who engage/employ members of the society or community under consideration to produce goods and services for the same community or even export as described by Marx. Marx advances that the core objective for any employer/organization in a society in the foregoing regard is to produce goods or services. The three (03) conventional most important factors to this production are Human Capital, Financial Capital and Market Capital [Having infrastructure to produce and ensure the produce is made known to the target customer while providing means for them to access the respective products] (CIMA, 2021). CIMA contends that the most important of these factors is the Human Capital as these are essential to ensure that the other two (02) factors are coordinated to produce the desired results. Therefore, the moment Human Capital is compromised, this could be either by the constituents of this capital (Men and women) not working at their best for whatever reason, the whole establishment crumbles down.

In view of the foregoing, any development which adversely affects men and women engaged in economic activities effectively affect production in that respective society. Consequently as earlier presented, the most damaging part of short term consumer credit is that of being high cost leading to consumers of short term credit getting trapped in perpetual debt cycles as advanced by the key stakeholders such as the G20 OECD Task Force on Financial Consumer Protection, FinCoNet and

the OECD International Network on Financial Education through the OECD 2019 report and several prominent short term credit researchers such as Skiba, Servon, Tobacman, to mention a few. The high indebtedness becomes a cause for concern because it leads to a situation in which the affected parties lose control over their economic affairs which essentially means they developed a sense of something they hold dear to them (economic freedom- Ability to eat what they want, dress the way they want, live where they want or just engage in any activities in which they need money to participate) being threatened (McCarthy, 2011). McCarthy advances that this unpleasant feeling that one experiences when one perceives that something one values has been lost or is threatened is stress. Further that this loss or threat could be something material or symbolic such as the threat to one's status as provider, which is common when related to finance issues.

In order to put things into perspective, McCarthy states that this stress that emanates from a condition where individuals cannot or have difficulties with debt management is financial distress (McCarthy, 2011). Earlier in 1998, Sapolsky advanced that in addition to the unpleasant feeling, stress also includes a host of biochemical, physiological, cognitive, and behavioral changes. Biochemical changes include the secretion of catecholamines, epinephrine, norepinephrine, glucocorticoids, and cortisol. Further that, physiological changes include increased blood pressure, heart rate, and sweating. Sapolsky stated that when stress is short term, these biochemical and physiological responses are adaptive. However, when stress is chronic, these prolonged responses can put one at increased risk for health problems including cardiovascular disease, arthritis, hypertension, and reduced ability to fend off viruses due to compromised immune functioning (Sapolsky, 1998). They can also maintain (if not cause) major psychological disturbances including depression and anxiety.

A study done by the Association of Certified Chartered Accountants (ACCA) in 2014 found that payday loans lenders are usually reliant on repeat loans for profitability; what proportion of those loans are rollovers and what proportion refinancing? ACCA found that the most efficient way for the lender to recoup their Cost of Acquiring new customer was through rollovers or back-to-back refinancing because these are the fastest ways to get the money back. A rollover occurs when a borrower cannot repay a loan at the end of the stated term. Rather than pay off the full amount –

principal plus finance charge – the borrower pays the finance charge (plus, in some cases, a percentage of the principal or an additional ‘extension fee’). Therefore, the loan is extended until the next payday when the principal plus another finance charge will again become due. ACCA further indicates that the second loan in this case is typically classified as a separate and distinct loan in lenders’ financial statements (ACCA, 2014). This revelation shows that by design, payday loans are more inclined to last for a long time consequently exposing the customer to the adverse effects described by Sapolsky such as cardiovascular disease, arthritis, hypertension, and reduced ability to fend off viruses due to compromised immune functioning.

It is against the foregoing background that the adverse effects of payday loans on organizations are highlighted. There are more studies that have been done to further highlight the cause for concern from as far back as 1997. Zhang and Clarke found that anxiety, depression, and substance abuse, all synonymous with stress costs Canadian businesses more than USD\$11 billion per year in direct losses in productivity and an additional USD\$22 billion per year in indirect costs (Zhang and Clarke, 1997). The following are some of the elaborate effects on employers or organizations;

- a) The very nature of a stressed member of staff means that due to the biochemical and physiological changes as a result of stress, they are not at their best with regard to their contributions to their employer and this directly leads to low production. This means a respective employer doesn’t benefit from the full potential of an employee because the employee is distracted with financial concerns.
- b) An employee in financial distress has a sense of demotivation and a poor attitude towards work on the grounds that the employee feels as though they are not getting enough value from their job to solve their problems hence might not have the motivation to put in more effort for the best results for the employer.
- c) The payday loans effect leads to a reduced income for the employee, this means more pressure on the employer for salary increments and other incentive. This they demand for not because of current poor conditions of service but because they look at their financial position based on their net income, after loan deductions. For example, if an employee is entitled to a monthly net pay of say USD\$500.00. The basic logic from the employers’ perspective would be that this amount would be enough for the employee to have a decent

life and this assumption could even be correct. However, if due to the issue of payday soft loans the respective employees' net income is now USD\$200.00 because of having gotten a payday loan(s) and this is how much remains after paying back the principle and interest. Essentially, this employee would have a shortfall of USD\$300.00 from their perspective. This would force them to start lobbying for a salary increment of USD\$300.00 so they could afford a decent life. To the employee, the net effect of this increment would be a total monthly income of USD\$500.00 [Current net of USD\$200.00 plus salary increment of USD\$300.00]. However, to the employer, the increment would mean an abnormal 60% increment and its net effect would be a total USD\$800.00 for same employee and for doing the same work. This would end up creating a conflict between these important stakeholders in this organization consequently leading to numerous adverse developments for the employee, the employer and their respective community.

There are a lot of examples that can be given to highlight the damage of payday loans to organizations but the bottom line is, the payday loans issue in its current state does a lot of harm to organizations. Therefore, it would be prudent for all employers to buy in on any initiative that would remedy the situation leading to increased productivity and huge savings in both direct and indirect costs.

2.6.2. Short term consumer credit and Merchants

Merchants in the context of this study refers to any party, an individual or institutions that sells products or services to the final consumer in a respective society or community ((Njoroge, 2021; Malone & Skiba, 2020; OECD, 2019; CFPB, 2019; PwC, 2018; CFSI, 2016; National Consumer Law Center, 2015; Adegbaaju & Oloko-Oba, 2016; Fayolle, Liñán, & Moriano, 2014; Karlan & Zinman, 2011; Kim & Garman, 2003; Marx, 1976). The continued existence of merchants in any community is dependent on the well-being of producers of goods and services [If they don't produce for themselves] and the ability for the end users (consumers) to pay for such goods and services as advanced by Marx (Marx, 1976). Marx also contends that the volume of what merchants sell is also somewhat greatly tied to the quantity consumers are able to pay for whether by cash or whatever other means.

The foregoing highlights the dependency of merchants' continued existence on consumers. The consumers are largely those employed by organizations in their production of goods and services. Therefore, as consumer's income dwindles for whatever reason, so does that of merchants. It is against this background that merchants should take keen interest in consumers and help to create sustainable relations as this is critical to the wellbeing of both stakeholders. There are several ways in which the adverse effects of payday loans can be demonstrated but for the sake of just illustrations, consider below:

- a) Payday loans lead to consumer reduced income at the month end, reduced income due to the high interest that goes to the payday loans lending institution (Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). Schwartz, Robinson, Servon and Skiba all advance explicitly or implicitly that this interest is usually not used by the lenders to buy goods or services but is used to give to other consumers so that their income is also further reduced. This cycle continues for as long as the payday lending institution continues to grow. The effect of such is a diminishing return effect on the residual income of consumers in general consequently reduced purchases from merchants and if this is left unchecked could lead to depressions in a community or country (Dalio, 2017). Dalio argues over the importance of consumer's purchasing power and how its erosion could lead to economic depressions.
- b) All or most merchants are also organizations, which in the context of this study means they have employed people from their respective communities to either produce goods and services for the end consumer or to sell to those who supply such goods or services to the final consumer. Whatever the case, Merchants are part of the community in the respect of being employers hence all the preceding adverse effects of short term credit on institutions that employ members of a community also apply to them.

In considering the importance of this stakeholder and how it can influence or be influenced by developments in its community subject to short term consumer credit, it can be deduced that Merchants owe a duty of care to their respective communities to ensure it plays its part in preventing or at least reducing adverse developments such as those that can come as a result of short term consumer credit.

2.6.3. Short term consumer credit and Individuals (consumers/Borrowers)

In the case of individuals, as it can be seen from the works of “Major thinkers throughout history—Plato, Aristotle, Thomas Aquinas, Adam Smith, Karl Marx, and John Maynard Keynes, to name just a few are at the core of every activity in any society or community. This is because as individuals they make up institutions which employ members of a community, individuals are the ones who work in such institutions to produce goods and services, and its individuals who become merchants to sell the respective goods and services to final consumers ((Njoroge, 2021; Malone & Skiba, 2020; OECD, 2019; CFPB, 2019; PwC, 2018; CFSI, 2016; National Consumer Law Center, 2015; Adegaju & Oloko-Oba, 2016; Fayolle, Liñán, & Moriano, 2014; Karlan & Zinman, 2011; Kim & Garman, 2003; Marx, 1976). Therefore, individuals are the fabric of any society and community hence anything that adversely affect such key stakeholders should be a cause for concern. The very fact that individuals who become consumers of short term credit (borrowers) are at the center of a community means all the foregoing points on how organizations and merchants are affected by the adverse effects of payday loans in their current state are still valid for individuals who belong to a community or society.

It is against the foregoing that it is paramount that the short term credit matter is dealt with properly. The study is of the view that the current discourse advanced by key stakeholders such as the G20 OECD Task Force on Financial Consumer Protection, FinCoNet and the OECD International Network on Financial Education through the OECD 2019 report and several prominent short term credit researchers such as Skiba, Servon, Tobacman, to mention a few does not address the short term credit dilemma. The study argues that the proposal of more regulation is misplaced as it usually doesn't resonate with market trends as expounded by Skiba in 2012 (Skiba, 2012), while also leaving the markets to regulate the short term consumer credit space using market forces would also not be appropriate. This is because from the current discourse over short term consumer credit, lenders are also not yet disciplined enough (Malone & Skiba, 2020) as shown by the tactics they employ to avoid regulation. As such, the study focus on the development of a new model to create a win-win situation for all key players as a permanent solution to the squabble between short term borrowers, lenders and policy marker, in the form of a zero interest rate model.

2.7. CHAPTER SUMMARY

This chapter sought to gain insights into consumer credit by reviewing the mainstream literature that influences its pricing through various interest rate models. The chapter starts by reviewing banking and credit relations on the premise that credit is conceptualized in the modern era based on banking and credit relations. Therefore, the chapter essentially presents a review of the mainstream literature on banking relations. In this regard, it pays attention to the information theoretic approach which dominated economic analysis in the last four (04) or five (05) decades. This review does not cover the entire literature on information-theoretic approach to banking, but presents the approach it takes to credit relations.

The foregoing was intended to help understand how consumer credit is conceptualized from an information theoretic point of view. The strand of literature is criticized because it developed a microeconomic analysis of credit relations by examining a representative individual who tries to make rational choices. The cause for concern is that it does not take any social or historical contexts of these choices into consideration and because of this the interest rate model which was originally premised on production fails to be appropriate for other forms of consumer credit. The general premise is that this inappropriateness of the interest rate blueprint has since led to several challenges that end up negating the positives of consumer credit. Positives which have continued to drive its demand such as convenience and balancing up unforeseen budget shortfalls end up being negated by being high cost consequently leading to high household indebtedness much to the detriment of key stakeholders such as employers, individuals, merchants among others.

In criticizing mainstream approach, this chapter uses the Marxist political economy approach to build a coherent analysis of banking and credit relations. The argument is that it is the Marxist analysis that provides insights into an understanding of how social relationships and developments in the forces, and relations of production partly determine banking and credit relations. This consideration helps to revise the interest rate blueprint in a bid to conceptualize a plausible model which could harmonize the pros and cons of consumer credit, especially in forms that have caused a lot of debates such as payday loans. This is because the study argues that in the age of financialization, where according to Marx the transformation of money into capital and back into

money formula has been somewhat distorted. This is because banks and other financial institutions have diversified their income generating means hence are able to turn money into more money through interest only without production of anything tangible. The chapter attributes these developments to general changes in the producers and banks relations as they do not get loans from them as they used to. Therefore, the chapter argues how it was inappropriate to use the same interest rate blueprint in light of financialization, especially for short term consumer credit like payday loans.

In view of the foregoing, the chapter discusses interest rates subject to several models, the core interest blueprint from which all interest rates are modeled and then relates this to credit and specifically short term consumer credit. The chapter does this by reviewing consumer credit based on how it has evolved over time, consumer credit from the perspectives of developed countries, developing countries and Zambia. The chapter eventually takes into consideration similar studies, a critique of existing literature and lessons learnt from all this to inform the quest of developing an appropriate interest rate model for short term consumer credit in Zambia, which can even be extended to other countries.

CHAPTER 3

THEORETICAL FRAMEWORK

3.0. INTRODUCTION

This chapter basically crafts an Interest Rate Model which based on theory could be appropriate for short term consumer credit in Zambia. As stated in the introduction of the preceding chapter [chapter 2], this chapter begins to cover the third (3rd) phase of the study which is concluded in the next chapter [chapter 4]. It basically consolidates various theories and hypotheses from numerous disciplines to craft a theoretical interest rate model for short term consumer credit in Zambia. It is worth appreciating that the theoretical aspect of the interest rate model for short term consumer credit in Zambia is crafted under the guidance of two (02) considerations. The first (1st) consideration is about the rationale for the short term consumer credit interest rate model and the second (2nd) consideration is about the environment conducive for such a model to actually yield the desired results sustainably. This aspect is very important because the whole idea for the study is to get theories from different disciplines, some of them even outdated theories because of a change in the market. This is why the environment aspect covered in chapter 4 is also critical. In view of this, the structure of the study is such that the literatures review in chapter 2 sets the foundation for the rationale of the theoretical model crafted in this chapter [chapter 3] and from which then the conducive environment part is covered in chapter 4 under the conceptual framework.

3.1. PHYLOSOPHICAL UNDERPININGS OF THE STUDY

One aspect of this study that has been explicitly stated is that it is anchored on weaving together a solution for short term consumer credit stakeholders from a multi-disciplinary of theories. This essentially means culminating theories and hypothesis from accounting, economics, finance, psychology, sociology and information technology (IT). This consideration explicitly speaks to the depth the issue of developing an interest rate model for short term consumer credit has been pursued and implicitly to the complexity of the whole quest. It is against this background that an

appropriate worldview for the study had to be chosen so that the philosophical underpinnings under such a worldview lead to the supposed outcomes.

In light of the foregoing consideration, a pragmatism philosophical underpin has been thought to be appropriate. The pragmatic worldview concerns thinking that choosing between one position (epistemology, ontology, or axiology) is somewhat unrealistic in practice, especially for complex multi-disciplinary centric studies. The study is of the view that the most important determinant of which position to adopt is the research question (s) (Creswell & Plano Clark, 2011; Saunders et al., 2009). This is particularly relevant where the research questions as is the case with this study does not suggest clearly that either a positivist or interpretive philosophy should be adopted in an inquiry, for example, within an epistemological perspective. Therefore, in this philosophical argument the uses of both qualitative and quantitative methods to resolve a real-life world challenge are commended.

In line with the main research objective and accompanying research questions, a concurrent mixed method type of inquiry seems appropriate for the adopted pragmatism philosophical world view. In this regard, a realist ontology and inductive approach would handle the exploration part of the study. This is the part which contextualizes the study by establishing what the problem looks like and the severity of the problem as guided by what is happening or not happening, subject to the study agents/stakeholders in the problem. The explaining and understanding aspect is considered through a realist ontology with induction and nominalist ontology with deduction respectively. This is the part concerned with developing a case for why it is vital to solve the problem based on the severity of the problem and the impact of what is happening or not happening to the research subjects/agents. All the foregoing is then culminated into the construction of the interest rate model pragmatically.

3.2. THEORETICAL FRAMEWORK

3.2.1. Theoretical Solution to the short term consumer credit problem

In view of the literature review conducted in chapter 2, the study is of the view that the solution to the problem of short term consumer credit like payday loans basically lies in preventing the developments which lead to the problem. The development in question is consumers getting short

term consumer credit such as payday loans in order to bridge unexpected financial shortfalls between paychecks, receipt of benefits, or other sources of income in the short term ((Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012)). Essentially, these are shortfalls by consumers to pay for goods or services in the short term. Therefore, if this development is the source of the whole problem then there are two (02) options for solutions;

- The first one is to stop consumers from having unexpected financial shortfalls between paychecks since banning short term consumer credit has proved futile because of the vice being both formal and informal in most places as identified by the OECD report, Skiba and Malone (Malone & Skiba, 2020; OECD, 2019 Skiba, 2012).
- The second option is to create an environment in which employers, individuals and merchants as key stakeholders could be able to collaborate in dealing with the matter if that could result in mutual benefit. The initial position of the study based on literature review is that this could work because the current solutions which are structured in isolation such as more and more regulation (OECD, 2019) by policy makers in a bid to protect consumers end up creating a problem for the other stakeholders hence not attaining a mutual benefit status which the study believes to be the main ingredient in finding a lasting solution.

Simplistically looking at the matter, both options can solve the problem. However, critical analysis would suggest that the first option would not be suitable, especially in the short term and considering lack of control over the drivers of short term consumer credit demand as aforementioned during the review of the work of Servon, Schwartz and Robinson (Schwartz & Robinson, 2018; Servon 2017). On further analysis of the arguments of Skiba, Servon, Schwartz and Robinson, the first option can be classified as failing to meet the rationale of feasibility and stakeholder acceptability tenets which are vital for its successful implementation as proposed by Johnson, Schools & Whittington on successful undertakings (Johnson, Schools & Whittington, 2016). In view of the foregoing, the study is of the view that the immediate solution that is worth pursuing is the second option premised on it being suitable because it is focused on mutual benefit for all the key stakeholders. Without even considering a lot of other things, the mutual benefit part makes it more realistic and practical hence having a greater chance of being accepted by stakeholders, therefore, enhancing the chances of being feasible.

It is through the rationale of the second option that the study weaves together an interest model for short term consumer credit through lender learning precepts, blended with personal reputation in organization theories (Ferris, Zinko, Blass & Laird, 2007) and information technology. It is against this background *that* the core idea of the model is to take advantage of the short term nature of short term consumer credit to manipulate the time value of money through the provision of goods and services based loans while eradicating defaults which increase the cost of short term credit by managing the asymmetry of information between lender and borrower through reputation theories aided by information technology. Therefore, the whole quest of the study in light of the foregoing is finding a way to allow consumers to access goods and services without borrowing high interest loans. This is supposed to be the most viable. However, it must also be appreciated that because of certain concerns in the short term consumer loans lender-borrower relationship, such as the high risk of default that some scholars such as Miller have coined the main reason for short term credit is high cost relative to other types of credit, would have to be solved (Miller, 2013).

It is also worth appreciating that in order for the interest rate model for short term consumer credit to be actualized, the key stakeholders such as consumers, merchants and employers ought to be involved in a somewhat trust establishing relationship. This is because critical review of the whole cause for concern indicates that the consumer credit problem is trust based problem between and amongst consumers, merchants and employers. Therefore, this trust problem aids the coming into the picture of a third party to manage this trust problem. This is why scholars and other stakeholders assert that the problem could be attributed to the introduction of a third party (lender of short term credit) in the consumer-merchant-employer relationship because of a general lack of trust between and amongst these stakeholders as can be observed from the precepts of the trust theory advanced by Morgan and Hunt in 1994 although for them the focus was with regard to successful marketing (Morgan & Hunt, 1994).

Apart from Morgan and Hunt, other more recent and closely linked to the matter under consideration are the 2020 studies by Li, Wang, Liu and Hu on Trust management and decreased risk caused by information interaction. Others would be that of Isaeva, Gruenewald and Saunders on service industries benefits from customer trust (Li, Wang, Liu & Hu, 2020; Isaeva, Gruenewald

& Saunders, 2020). All these attest to the trust hypothesis despite being from different disciplines and the studies being incident on other aspects different from short term consumer credit. In view of the foregoing studies, the cost and benefits of trust in business relations are somewhat established and it is from here that high relationship maintenance costs due to low or lack of trust between and amongst stakeholders can be hypothesized. It is because of this that the following section expands on the trust issue and how it is critical to the crafting of the interest rate model for short term consumer credit.

3.2.1.1. Trust and the short term consumer credit problem

In the preceding reviews, a description of the short term consumer credit problem has been highlighted and from the preceding paragraph, the problem could rationally be associated with poor or lack of proper key stakeholder relationship management subject to trust between and amongst stakeholders. This position has been supported by the gist of the trust theory by Morgan and Hunt as earlier indicated. Other works such as that of Friman, Garling, Millett, Mattson and Johnson in 2000 contend with the position of Morgan and Hunt, and also by Hung in the dynamics and evolution of trust in business relationship done in 2013. The consistency of the trust hypothesis is further propagated through the works of Brown, Cronsno and Tong in 2018 in their trust enhancing commitment causality study. The rationale is further maintained by Schiffing, Hannibal, Fan and Tickle in their 2020 study on commitment and trust (Schiffing, Hannibal, Fan and Tickle, 2020; Brown, Cronsno & Tong, 2018; Hung, 2013; Friman, Garling, Millett, Mattson & Johnson, 2000).

It is against the foregoing that the study is of the view that in order to solve the short term consumer credit problem, it would be necessary to expound the trust hypothesis with regards to consumers, employers and merchants as key stakeholders. This is why it is vital to explicitly define the actual problem subject to the trust, and the consumer-employer-merchant relationship issues. Of course it is very tempting to at first glance conclude that payday loans are the problem in themselves. However, critical analysis and review on interdisciplinary constructs shows that the existence of payday soft loans is just a symptom of poor key stakeholder relationship management in an important industry. Therefore, the genesis of the problem under consideration as already hinted on earlier is “LACK OF TRUST” between and amongst market players in a respective society and

“NEGLIGENCE” amongst market players with regard to finding a lasting solution for the problem that is slowly eating up all market players like a cancer.

3.2.1.2. Lack of Trust as cause of the short term consumer credit problem hypothesis

In order to establish the hypothesis, it is cardinal to get back to the definition short term consumer credit in terms of payday loans as earlier defined in chapter 2. Many definitions for short term consumer credit with regard to this study exist as already established but the gist of the definition is the same hence picking on one already used by the Consumer Financial Protection Bureau (CFPB). According to CFPB, Payday loans are essentially a way to bridge unexpected financial shortfalls between paychecks, receipt of benefits, or other sources of income (CFPB, 2013). This definition highlights what would be regarded as the principal reason as to why consumers get short term consumer credit such as payday loans. The general assertion by this CFPB definition is that the purpose of such short term consumer credit is, “*to bridge unexpected financial shortfalls*”. This basically means to be able to purchase goods and services which are supplied by merchants but because of lack of trust between the merchant and consumer, the merchants cannot give the consumer the goods or services because they are not convinced the consumer would honor this debt payment when they get paid. Consequently, the price of this lack of trust is the introduction of a third party (lending financial institutions) albeit at a very high cost so that the consumer can now get the actual money from payday lending institutions and pay for the goods and services in cash. Because of this lack of trust, a third party is introduced in a transaction that was essentially supposed to just be between two (02) stakeholders, the merchant and consumer. Now because of this development, some money which was supposed to circulate between the merchant and consumer now remains with the payday loans institution.

The net effect of the foregoing is that, the money that the consumer would have spent will be reduced to the disadvantage of both the merchant and the consumer. The moment the consumer’s purchasing power is reduced due to servicing high cost consumer credit, the consumer’s respective employer also comes into the picture as aforementioned over the effects of such a development on employers. What’s even worse is that this development now starts a perpetual cycle in which each time the merchant and consumer engage in commerce, the money moving between the two is constantly reducing because of the introduction of a third party in this manner in their relationship

due to failure to solve their trust issues. What further compounds the problem is that both parties have become negligence as to try and solve this “Lack of Trust” problem so as to restore order in their relationship.

3.2.1.3. How society reached this Lack of Trust state that is detrimental to stakeholders in the short term consumer credit sector

The study is of the view that in order to properly address the problem under review it is vital to further interrogate the genesis of the lack of trust since it has been established to be at the center of the problem. After reviewing the works of Akerlof , Varian and Eaton on asymmetry of information, the short term consumer credit space could have reached this stage of no or very little trust between and amongst consumers and merchants through two (02) phenomenon synonymous with asymmetry of information, this is, moral hazard and adverse selection (Varian 2000; Eaton 1999; Akerlof 1970).

Moral hazard

When trade was mostly confined to small localities, it was possible for merchants to know details about their customers such that they were usually equipped with up to date information over the creditworthiness of most of their customers. However, as communities expanded with civilization, commerce became more complex and it was very difficult for merchants to have adequate information over their customers consequently making credit transactions more complex. This was mainly due to the fact that since it was either very difficult or not cost effective for merchants to get appropriate creditworthiness information on customers, customers tended to exaggerate their ability to qualify for credit facilities. In some cases, they tended to withhold information that would be vital for a merchant to decide whether or not to extend credit facilities to a prospective consumer (Akerlof 1970, Varian 2000, Eaton 1999). According to Akerlof , Varian and Eaton, such a development is what is referred to as “Moral Hazard” in the market place and it was because of such developments that led to huge defaults consequently merchants stopping to extend credit facilities to most consumers in modern communities. This tendency by consumers led to a condition which in the field of microeconomic theory is known as information asymmetry as advanced by Akerlof. It can basically be described as a line of research that investigates the role of information mismatch amongst different market players and its effect on the respective market as advanced by Barbosa and Marcal in their works on the subject in 2011 (Barbosa & Marcal ,2011).

Adverse Selection

This is better explained by starting with asking a question. The question is that ‘is it feasible that all consumers in modern communities exhibited moral hazard traits for merchants to either completely stop extending credit facilities or significantly reduce them?’ It is very unlikely that cannot be true. It is very plausible that there were some good consumers. This is why we still have merchants who extend some credit facilities to a select few of their customers. However, it is prudent to deduce that a majority should have exhibited moral hazard for credit facilities not to be extended to majority of consumers and this is justified by the “Adverse Selection” phenomenon.

The “Adverse Selection” phenomenon is best described using an example and the commonly used in academia is that of Akerlof (1970). Akerlof began his study of adverse selection with the automobile market. He selected the automobile market because of its tangible nature and ease of understanding than because of its importance or realism. In Akerlof’s illustration, information asymmetry is developed as of the moment at which a car owner is acquainted with all qualities of the car put up for sale, while all likely buyers are not. In this case, it would not be possible for buyers to detect whether it is a quality automobile or not. As a result, in this market buyers will usually pay average prices based on the perception of the percentage of good and bad cars in the market (and not really on quality as this is a latent characteristic). When a person decides to try and sell a bad car, this affects the perception of buyers on the average quality of cars in the market, with the resulting decrease in the price of such goods. This external feature drives off the sellers of good cars (who expect to receive a fair price for their goods), causing a fault in the market, this is what is known as adverse selection (Varian 2000). Varian contends that once the aforementioned condition takes place consecutively, at most it creates the concept of a lemons market in which good quality goods are forced out of the market and only the poor quality items will remain. In view of the foregoing, we could contend that merchants decided to evaluate the risk of the effect of moral hazard based on the perceived average moral hazard in their respective markets hence the resolution to opt for not extending credit facilities to most consumers. Whole this was because on average, due to the adverse selection effect subject to moral hazard a consumer could not be trusted to be extended credit facilities to.

3.3. NEW THEORY

The new theory essentially is a culmination of theories and concepts from Accounting, Economics, Finance, Psychology, Sociology, information Technology and other disciplines to weave together a plausible interest rate model for short term consumer credit. The whole theory is based on taking advantage of the short term nature of short term consumer credit to manipulate the time value of money. The idea is to do so through the provision of goods and services based loans while eradicating defaults which increase the cost of short term credit by managing the asymmetry of information between lender and borrower through reputation theories aided by information technology and other theories from the aforementioned disciplines.

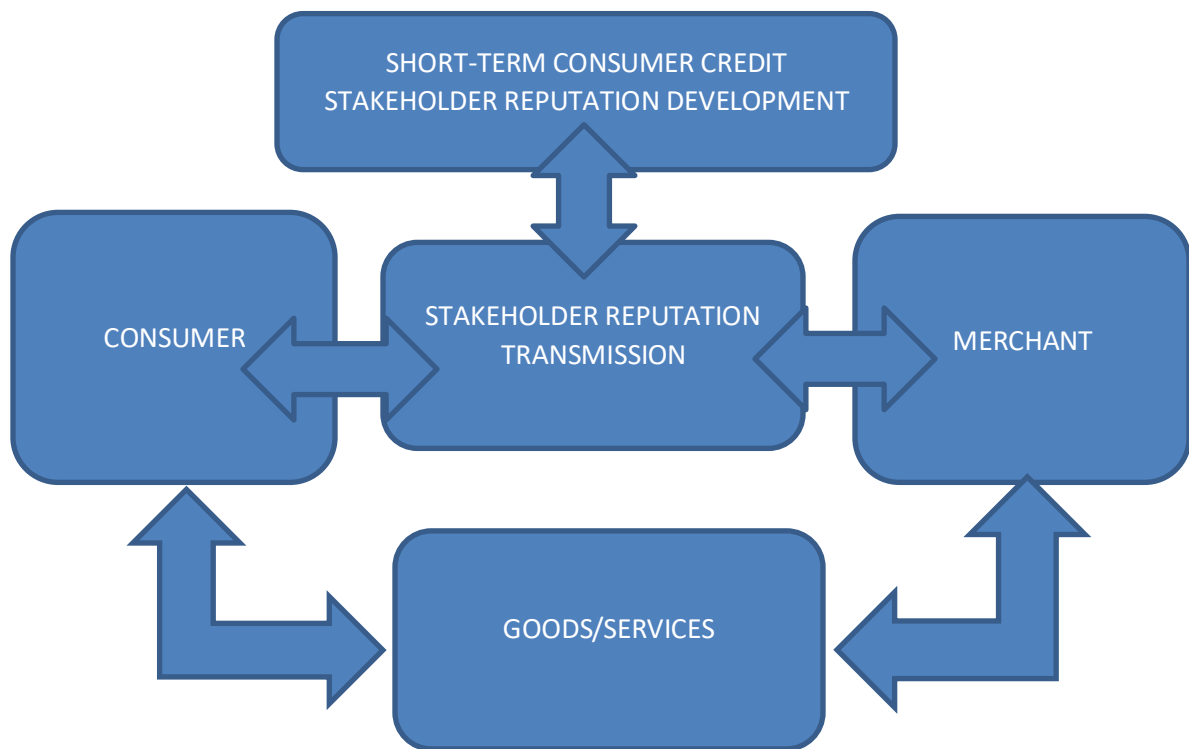


Figure 3 1: Short-Term Consumer Credit Low Cost Interest Rate Model

(Source: Author, 2022)

3.3.1. Prospective appropriate Solution to the adverse effects of short term consumer credit

The solution is basically enabling consumers to pay for goods and services without getting loans from the payday lending institutions. The obvious consideration be give consumers access to

cheaper loans but looking at the risk profile of such consumers, it would be very difficult for any financial institution to create real low interest products to service such a clientele. Of course there are a lot of fake low interest short term loans out there but they have so many clever compositions which hide a lot of aspects that lead to consumers ending up in the same debt trap. This can be better explained using the works on Miller on the composition an interest rate (Miller, 2013).

3.3.1.1. Why it is very difficult to have a low interest short term loan

The difficulty of low interest short term consumer credit could better be appreciated by reviewing the works of Miller. According to Miller, when one looks at what an interest rate is made up of, one would notice that it is composed of certain constituents and there is a cost attached to each of these constituents. Therefore, to reduce the interest rate, one would have to reduce the cost attached to such constituents. However, by the very nature of the risk profile of most consumers who get payday soft loans, it would be very difficult or impossible to reduce some of these costs to levels that would warrant such loans to be low cost enough to deal with the adverse effects of short term consumer credit.

The constituents of an interest rate are as depicted in the illustration below:

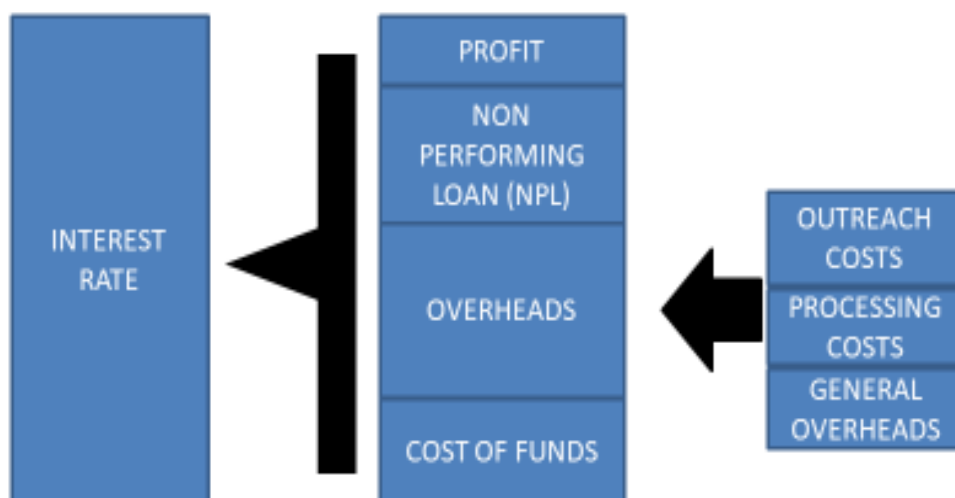


Figure 2.1: Breakdown of interest rate
(Adapted from Miller, 2013)

Miller advances that the cost of funds is the amount that the financial institution must pay to borrow the funds that it then lends out. For a commercial bank or deposit taking microfinance institutions this is usually the interest that it gives on deposits. For other institutions it could be the cost of wholesale funds, or a subsidized rate for credit provided by government or donors. Other Micro-Financial Institutions might have very cheap funds from charitable contributions.

In the case of overheads and the other interest rate constituents, Miller contends that the overheads reflect three broad categories of costs. The first is the general administration and overheads associated with running a network of offices and branches. The second is the cost of credit processing and loan assessment, which is an increasing function of the degree of information asymmetry. Finally, there are outreach costs; the expansion of a network or development of new products and services must also be funded by the interest rate margin. It is the overheads, and in particular the processing costs, that can drive the price differential between larger loans from banks and smaller loans from microfinance institutions. The profit and Non-Performing Loans (NPL) also make up the total rate quoted to the consumer. Mostly what drives an interest rate up is the NPL and Overheads, and these are usually high with short term loans hence the high interest rates associated with such loans.

In view of the foregoing, it is only prudent to deduce that an appropriate solution to the problem should be a solution only involving parties who would not require interest because that would automatically defeat the purpose. Such a quest would lead us back to consumers and merchants, consequently back to the issue of “Trust” as this is the only reason the two parties fail to collaborate. In light of this, the main task becomes to solve the “Lack of trust” problem between and amongst consumers and merchants. This would then equip us to solve the final problem of ensuring that once that trust is created, it is most importantly maintained in light of moral hazard and adverse selection which have been established to be the main cause of this general lack of trust.

3.3.1.2. Trust and Reputation

Maintaining the aforementioned trust shall essentially be centered on building a reputation of good business practice in order to avoid moral hazard and consequently preventing the effects of adverse selection. However, building trust in commerce is not as easy as it sounds. What makes it very

difficult is that trust in commerce is usually centrally governed by isolated market players, this means that if you have transacted with Company A reliably, the trust you create with Company A is usually not accessible by Company B hence one would not get any value from the good reputation created from company A. This is usually because Company A mostly never shares information with Company B. If it so happens that they do share, it's in rare cases and over a small network relative to the entire market or niche. However, the smaller the network the insignificant its influence in diffusing the effect of adverse selection which is more influenced by the market as a whole as indicated by Akerlof , Varian and Eaton. This inability to transfer trust from one isolated centralized service provider to another is what allows moral hazard to perpetuate as the ability to punish fraudulent consumers is significantly reduced.

It is against this background that the study advances that solving the trust problem would require the involvement of both direct (key) and indirect (passive) stakeholders in the short term consumer credit market. It is against this background that the study aims at developing an interest rate model for short term consumer credit by the creation of a relationship based platform/community between market players with shared interests to solve a shared problem. Therefore, the interest rate model for short term consumer credit is essentially a trust and reputation based platform upon which merchants and consumers can engage in short term debt or near future credit based transactions. Therefore, in order to deal with the trust issue, the model incorporates other stakeholders in the consumer-merchant relationship such as employers (those which employee consumers). In the same vein, it would be naïve to conclude that this would completely solve the “Lack of Trust” problem as some merchants might still not trust certain employers. This is because some employers are not professionally disciplined to exercise best practice business tenets without a third party hence to further enhance the trust issue, the model would have a provision (optional) of incorporating other stakeholders in a cost effective way such as financial institutions to underwrite the debt centric transactions.

The study at this stage advances that after incorporating employers, merchants, consumers and financial institutions, the model would adequately deal with the issue of moral hazard and consequently adverse selection. Therefore, the whole interest rate model is to create a trust relation based system upon which merchants are able to trust consumers so that they are able to advance

credit facilities to avoid the issue of consumers having to borrow money at exorbitant interest rates to pay for goods and services.

On the other hand, in order for such an initiative to properly work out, the payment for such facilities would have to be out of the control of the consumers such as being gotten directly from source (payroll). However, due to the possibility of employers also not being so reliable at times to deduct and timely remit the funds to avoid defaults, the credit facilities could be underwritten by reputable financial institutions such as banks, insurance companies, pension funds etc. The important part being that the financial institutions are “reputable” from the perspective of merchants and this was thought to be vital as such institutions are usually expert risk managers and would add great value in reducing the default risk which is core to the product.

The whole concept is about creating a win-win condition for all stakeholders. This is where a win for one stakeholder does not translate into a loss for the other as is the case with payday loans under the current interest rate model. The basic premise being to stop the dysfunctional developments in the relationship of consumers and merchants which have and continue to promote an environment in which there is no or very little trust between merchants and consumers hence promoting a state under which payday soft loans flourish inspite of their adverse effects on all stakeholders.

In order to achieve the foregoing theoretical short term consumer credit solution, the study shall conduct a concurrent mixed method study because of the complexity of the problem to be solved to test the hypothesis, create new ones and inform existing one. In order to achieve this, the research questions have been designed subject to the conceptual framework for the quantitative component and openly for the qualitative component as shall be elaborated further in chapter 4.

3.3.2. New Theoretical framework of an interest rate model for short term consumer credit

Theoretically, the interest rate model for short term consumer credit that is crafted after weaving together the foregoing theories from a cross section of disciplines could lead to short term consumer credit being priced at zero. This means with this model, one can theoretically borrow a

certain amount and pay back the same amount with no interest added provided the borrowing meets the profile of borrowing under consideration. In view of the foregoing, this section of the study gives a hypothesis of how such a model would go about delivering low cost credit without disadvantaging any key stakeholder.

In the preceding sections, an interest rate has been described to be composed of about four (04) components, Cost of funds, Profit, overheads and Non-Performing Loans (NPL) respectively as expounded by Miller (2013). A very simplistic way of solving the excessive interest rate problem is to eradicate the interest rate all together but the challenge would obviously be how such could be done. The study advances that such could be done by removing or by-passing all the components that make up an interest rate. This is premised on the understanding that by doing so, theoretically then there would be no interest rate. As rudimentary as the foregoing sounds, that's just what interest rate model under consideration attempts to do to solve the short term consumer credit problem through integration and collaboration of key stakeholders. The following is the theory of how the model could achieve the task;

1. Cost of funds

The conventional understanding is that lenders usually use funds provided by third parties to give out as loans to respective consumers. These third parties can be investors or central banks and give the funds in question to lenders on the understanding of receiving a return based on several economic parameters such as inflation, systematic risk and other considerations. This return to these third parties is ultimately paid by the ultimate borrower and forms part of the overall interest rate they pay after adding on the other constituents of the whole rate.

The new model under consideration hypothesizes the eradicated the cost of funds constituent of an interest rate by not giving out cash based loans but product/service based loans. As earlier establish, consumers of short term consumer credit do not essentially need money but what they can do with the money such as paying for goods and services. In this regard, the model facilitates for consumers to have direct access to the service or product, cutting out the middle man hence even the need for the high cost cash. The study supposes

this would work because it will mean no money has been gotten from any third party so no return should be expected to be paid. The merchant who advances the services or products is already compensated through the market price of the respective good/service in which profit is already incorporated. Therefore, as long as the interest rate model under consideration through its system or business community somewhat guarantees income as will be elaborated in chapter 4, there is no further risk to be compensated hence making the whole idea feasible.

2. Profit

The profit component in loans comes in as compensation to the lenders for facilitating the whole loan arrangement and bearing the risk involved in the transaction. However, since through this interest rate model the funds are facilitated in use-form through the collaboration of a number of stakeholders hence there would be no need for compensation as long as the default risk is well managed through the system/community provided by the model. The idea in this case is that these stakeholders such as providers of goods and services who are vital to the workability of the model would be compensated the normal way through their respective value chains hence removing the profit component (Mahajan, 2019; Gelman, Gao & Madan, 2019; Desai, Elliehausen & Udell, 2016).

3. Overheads

As highlighted earlier, the overheads component is composed of outreach, processing and general overhead costs. However, due to the supposed new interest rate model's ability to integrate vital stakeholders in the short term consumer credit value and supply chains, all these aspects are by default removed. Henceforth, no cost can be attributed to outreach, processing and general overheads hence eradicating the cost component with regards to these cost drivers in an interest rate.

4. Non-Performing Loans (NPL)

The concept of NPL is centered on the premise of defaults and borrowers compensating the lenders for the defaults of other borrowers. Essentially, this is a consideration of the effects of moral hazard and adverse selection. However, since the interest rate model under consideration guarantees reducing defaults to zero by virtue of the way it is designed and operated, this at best arbitrary cost is no longer necessary hence would no longer exist in an interest rate.

In view of the foregoing, the interest rate model for short term consumer credit eradicates all the components that make up an interest rate hence the resultant rate is now that no cost can be attached to any of the aspects that make up the interest rate. This is how the interest rate model attempts to achieve a low or ambitiously a zero interest rate for short term consumer loans to respective consumers.

3.3.3. Incorporation of consumers/borrowers in the informal sector and why this is very important

At face value, those who are not in formal employment seem to be left out by the proposed interest rate model. However, the study is of the view that they are one of the most important stakeholders for the sustainability of the initiative. As earlier asserted, the interest rate model for short term consumer credit is premised on creating a win-win status for all market players. The study is of the view that this is very important because usually anything, a product or activity where by others cannot benefit from and are not given an opportunity to be able to benefit from is a short lived product or activity. This is because humanity is more integrated than we would care to acknowledge as evidenced by the effect of moral hazard and adverse selection on entire markets or industries.

In view of the foregoing, it is cardinal that as many stakeholders as possible are incorporated for the model to provide sustainable value to all stakeholders. However, it is also worth acknowledging that the interest rate model shall be attempting to rectify a misnomer that has existed for a long time in our society hence cannot completely be achieved overnight. It is against this understanding that the study proposes that model is implemented in phases. The first phase is to extend the benefit of the interest rate model only to those in formal employment as it is easier and quicker to deal with the trust constraint for this group through their employers and the arrangements the respective employers make with their underwriters (optional). The second phase can now be to extend the benefits to consumers not in formal employment. This is purely an issue of establishing trust between consumers and merchants and by the very nature of those not in formal employment not having assurance of a certain, well defined income at a future date, they are more susceptible to moral hazard. Therefore, in order to deal with this, the interest rate model for short term consumer credit would have a provision through which those not in formal employments could be incorporated aided by the system or community in which the model's assertions would be feasible. Essentially, this would be the provision of a platform through which

those not in formal employments can build what is known as “***Reputational Collateral***” which can then over time be used as a basis to establish trust between this type of consumers and merchants.

3.3.3.1. Reputational collateral

In the information age, information has value and this is the basis upon which “Reputation” from past good business practices can be converted to a valuable intangible asset which can be used as collateral over time. As already alluded to, the basic premise is to create a good trust based relation between consumers and merchants. The idea here would be to ensure that none of these stakeholders are able to withhold information that would otherwise be valuable to the other party with regard to making sound business decisions consequently preventing information asymmetry. The sad development in most markets, especially in developing countries has been that despite there being so many trustworthy consumers out there, very few benefit from their good business practices as there is no basis to track their good business practices with regard to paying on time and other good business practice. Consequently, each time they transact in the market place, they are treated just like any other potential defaulter and they end up not benefitting from their good consumer practices.

It is against the foregoing, that the model under consideration has a provision for those in the informal sector to engage into business transactions with various merchants while each such transaction is rated by both parties and kept to be used as reference for future transactions. In this way, both have an opportunity to attest to the good or poor business practices of the other and this can be used to forewarn other market players or encourage them to do business with such a party. The idea is that if a consumer does all their purchases or business transactions through the system provided by the model, a trail is created of their behavior in business and this can be used as a basis for future transactions with other market players. This is because all those that wish to do business with such a consumer or merchant shall have (with the consent of either party) access to their past business records and this could inform new business activities as to how much reliability can be placed on such a consumer or merchant. It is believed that once transactions are done through the community provided by the model, all market players could be compelled to adopt good business practices in a bid not to tarnish their reputation and this would in turn build up to some collateral based on their reputation that can even be used to access zero or low cost interest loans if merchants are eventually satisfied with the built reputation.

The “Reputation Collateral” rationale is supported by studies by researchers such as (Gao & Huang, 2016; Sprenger, & Welppe, 2014; Chu, 2002; Miller, 2000). These researchers conducted studies on information sharing in the financial services industry based on the principal of the work of a credit bureau. Chu contended that a credit bureau through information sharing attenuate problems in connection with information asymmetry between lenders and borrowers in loan transactions, decreasing the likelihood of moral hazard, adverse selection, and excessive indebtedness. Chu contends that through such information sharing, a more accurate estimate of a loan’s payment possibilities, based on the borrower’s nature is established through past transactions. The study by Miller asserted that once there is a loan transaction conducted under an information sharing platform, the borrower is aware that its performance will be reported and other market players would have access to it hence it was in their best interest to honor their side of the agreement. Therefore, this information is essentially converted into “reputation collateral” which they are motivated to maintain, as any delay in payments or default by the borrower will reduce this “collateral’s” value, which may jeopardize future loans. Consequently, borrowers are encouraged to pay their loans in time.

If Credit Bureaus already exist, then what is the relevance of the platform for the model under consideration? It should be appreciated that the model provides a broader base and is not biased towards any specific industry hence provides more value and this part is just a component of its value preposition. It is worth appreciating that, inasmuch as the rationale of this credit bureau way of doing things is good and is able to solve a lot of the challenges faced in the market place, the information Credit bureaus provide is so centralized that only a select few stakeholders can have full access to it. Therefore, when those who have access to such information are considered relative to the entire market place, they turn out to not be big enough to deal with industry or market wide phenomenon such as moral hazard and adverse selection consequently not adding as much value as they would. It is against this background that a market wide, free for all such initiative such as the one provided by the model under consideration would have better effect on moral hazard and adverse selection consequently adding significant value to the market.

3.4. CHAPTER SUMMARY

This chapter was basically centered on crafting a basis for the hypothesis of an interest rate model which based on theory could be appropriate for short term consumer credit in Zambia. It essentially consolidated various theories and hypotheses from numerous disciplines to craft a theoretical interest rate model for short term consumer credit in Zambia. The core idea of the model was to take advantage of the short term nature of short term consumer credit to manipulate the conventional time value of money school of thought through the provision of goods and services based loans while eradicating defaults which increase the cost of short term credit by managing the asymmetry of information between lender and borrower through reputation theories aided by information technology.

This theoretical aspect of the interest rate model for short term consumer credit in Zambia was crafted under the guidance of two (02) considerations. The first (1st) consideration was about the rationale for the short term consumer credit interest rate model and the second (2nd) consideration about the environment conducive for such a model to actually yield the desired results sustainably. The environment aspect was critical as a basis to validate the effectiveness of certain theories used to craft the model. Meanwhile, since this chapter was more about the model's rationale, the environment aspect is covered in detail in the next chapter on the conceptual framework.

CHAPTER 4

CONCEPTUAL FRAMEWORK

4.0. INTRODUCTION

This chapter basically lays out the appropriate environment under which the rationale of an interest rate model for short term consumer credit can theoretically be actualized after being craft from a culmination from multi-disciplinary theories. The basic premise is that such an environment is one in which stakeholders of short term consumer credit have a predictable behavior which can be used as a basis for managing asymmetry of information to deal with moral hazard and adverse selection. This is because moral hazard and adverse selection have been identified as the main influences which make short term consumer credit high cost (Miller, 2013; Bertola et al., 2006). In light of the foregoing, the study established through literature that predictability of behavior which is critical to the actualization of the interest rate model under consideration through asymmetry of information management could be attained through creation of a system/platform or virtual community based on the reputation concept. The notion is that under the auspice of the reputation theory, the interest rate model would then be able to do what it is intended to do within the respective virtual community which would ideally be governed by personal reputation theory precepts.

It is against this background that the study adopted the Theory of Personal Reputation in Organizations as a conceptual framework for the creation of the predictable behavior centric virtual community necessary for the realization of a low cost interest rate model for short term consumer credit (Ferris, Zinko, Blass & Laird, 2007; Ferris et al., 2003). This theory was developed by Gerald R. Ferris, Robert Zinko, Fred R. Blass and Mary Dana Laird and it was premised on Ferris et al's conceptualization of personal reputation (Ferris et al., 2003). Despite this framework being originally crafted for reputation in organizations, its rationale has since been adapted to inform studies and other stakeholders' decisions in various sectors (R.Zinko, Furner, Hunt & Dalton, 2017; Zinko, Gentry & Laird, 2016; Zinko, Ferris, Humphrey, Meyer & Aime, 2012; Laird, Perryman, Hochwarter, Ferris & Zinko, 2009; Yang, 2007). This was the motivation against which

the personal reputation concept was adopted by the study considering it had mostly only been adopted in organizational behavior and not directly in the short term consumer credit sector.

4.1. REVIEW OF SIMILAR CONCEPTUAL UNDERPININGS

The Personal Reputation conceptual framework has led to several developments in different disciplines based on the environment it postulates when adopted for an organization or any establishment. Before reviewing some of such developments, it is cardinal to point out that the common thread in all the developments is reputation's ability to make behavior predictable as indicated in the definition of reputation as advanced by Ferris et al. Reputation is a perceptual identity formed from the collective perceptions of others, which is reflective of the complex combination of salient personal characteristics and accomplishments, demonstrated behavior, and intended images presented over some period of time as observed directly and/or reported from secondary sources, which reduces ambiguity about expected future behavior (Ferris et al., 2003).

In view of the developments that originate from the reputation theory, it is worth acknowledging that no application has been found to have been explicitly based on the theory reputation and specifically focused on short term consumer credit. For example, the reputation theory has been shown to be an important factor in assessing the worth of an organization (Gotsi & Wilson, 2001), or the value of a product (Feldwick, 1996). The reputation theory has also been positioned as playing important roles in managerial behavior (Ferris, Fedor, & King, 1994) and leadership (Ammeter, Douglas, Gardner, Hochwarter, & Ferris, 2002; Blass & Ferris, 2007; Hall, Blass, Ferris, & Massengale, 2004). It is worth acknowledging from these contributions, that the reputation theory has wide application in different sectors. Hence after the conceptualization of the theory it can now be easily adopted in several disciplines as is the case in this study. Prior to this codification of the theory when there was very little theory and research on personal reputation, the nature and dynamics of how a reputation is developed, and its impact on social interactions, it had limited application in organizational sciences but the situation is different now (Ferris, Blass, Douglas, Kolodinsky, & Treadway, 2003).

The study is of the view that using this theory in the short term consumer credit fills up a gap as no studies or direct applications have thus far been done in this sector. This is ironical considering

the importance of the sector. What has been a common development has been considerable research interest in personal reputation in corporate reputation, and interest in subunit or department reputation (Rindova, Williamson, Petkova, & Sever, 2005; Ferris et al. 2003; Fombrun, 1996). It is disappointing to see how little has been done over the application of this theory after considering what appeared to be the beginning of a serious stream of research on personal reputation in the 1980s (Gioia & Sims, 1983; Tedeschi & Melburg, 1984; Tsui, 1984), and revived interest in the mid-1990s (Bromley, 1993; Tsui, 1994).

Thus the study is of the view that adopted this theory for this study is a step in the right direction for academia and other stakeholders in a bid to realize the benefits from this important science. This main argument for this position is that the reputation theory takes into consideration social and historical aspects. Social and historical considerations emerge as very important considerations as they are the main criticism points against the Information Theoretic Approach which has greatly influenced finance and ultimately consumer credit in its various forms in the modern eon (Karacimen, 2013; Marx, 1976; Arrow & Debreu, 1954).

4.2. THE CONCEPTUAL FRAMEWORK

The conceptual framework adopted for the study is adapted from the Theory of Personal Reputation in Organizations. It was developed by Gerald R. Ferris, Robert Zinko, Fred R. Blass and Mary Dana Laird and It was used for the conceptualization of personal reputation in organizations. The framework presents reputation as an agreed upon, collective perception by others, and involve behavior calibration derived from social comparisons with referent others that result in a deviation from norms in one's environment, as observed and evaluated by others (Ferris, Zinko, Blass & Laird, 2007). As applied to this concurrent mixed methods study, this concept from the qualitative aspect holds that the independent variable, 'Reputation', influence or explain the dependent variable, 'Moral Hazard'. This is premised on the effect of reputation developed through the collective perception of others (Lenders and Borrowers) which according to the theory of personal reputation shall calibrate behavior subject to social comparisons with referent others (Other Lenders and Borrowers) in view of the norms of the environment under review as observed by stakeholders in the respective environment.

On the qualitative part of the study, the framework shall provide a lens through which the exploration of the problem shall be done in a bid to better understand the research problem. In essence, the framework in this sense is used as a broad explanation for behaviors and attitudes (Cresswell, 2003). The study is of the view that this approach would address the criticism against the Information theoretic approach to banking theory on which contemporary finance is premised. This is the argument that the Information Theoretic Approach to banking places too much emphasis on macro-analysis such that its basic assumptions end up being unrealistic. According to Ackerman deducing macro-analysis from the aggregation of individual actions is problematic because such an analysis assumes independent individual actions (Ackerman, 1999). Ackerman argues that in reality there is no such “individual” whose demand functions is representative of the demand function of the whole society. As earlier highlighted, the foregoing is based on the understanding that socioeconomic and institutional environments have significant effects on individual behavior. In the same vain, Hodgson advanced that, “our individuality and capacity to be free is formed by our socio-economic environment (Hodgson, 1986). Therefore, the basic element in society is not the abstract individual, but the social individual, one who is both constructive within and constructed through society”. Therefore, the argument is that while individuals have real choices, they are also influenced by their environment. It is against this background that this consideration becomes vital for the study.

In view of the foregoing, the personal reputation conceptual framework is deemed appropriate for the study as it places emphasis a social individual and how such an individual is both constructive within and constructed through society. This consideration creates an appropriate base to resolving the asymmetry of information problem between lender and borrower by manipulating moral hazard through reputation. This is all centered on establishing predictability of behavior of the borrower by the lender as guided by theories that are instrumental for the development and transmission of reputation such Social Comparison, Self-regulatory, and Signaling, Social information processing, contagion and communication theories as intervening variables for the quantitative part of the study (Cresswell, 2003).

CONCEPTUAL FRAMEWORK

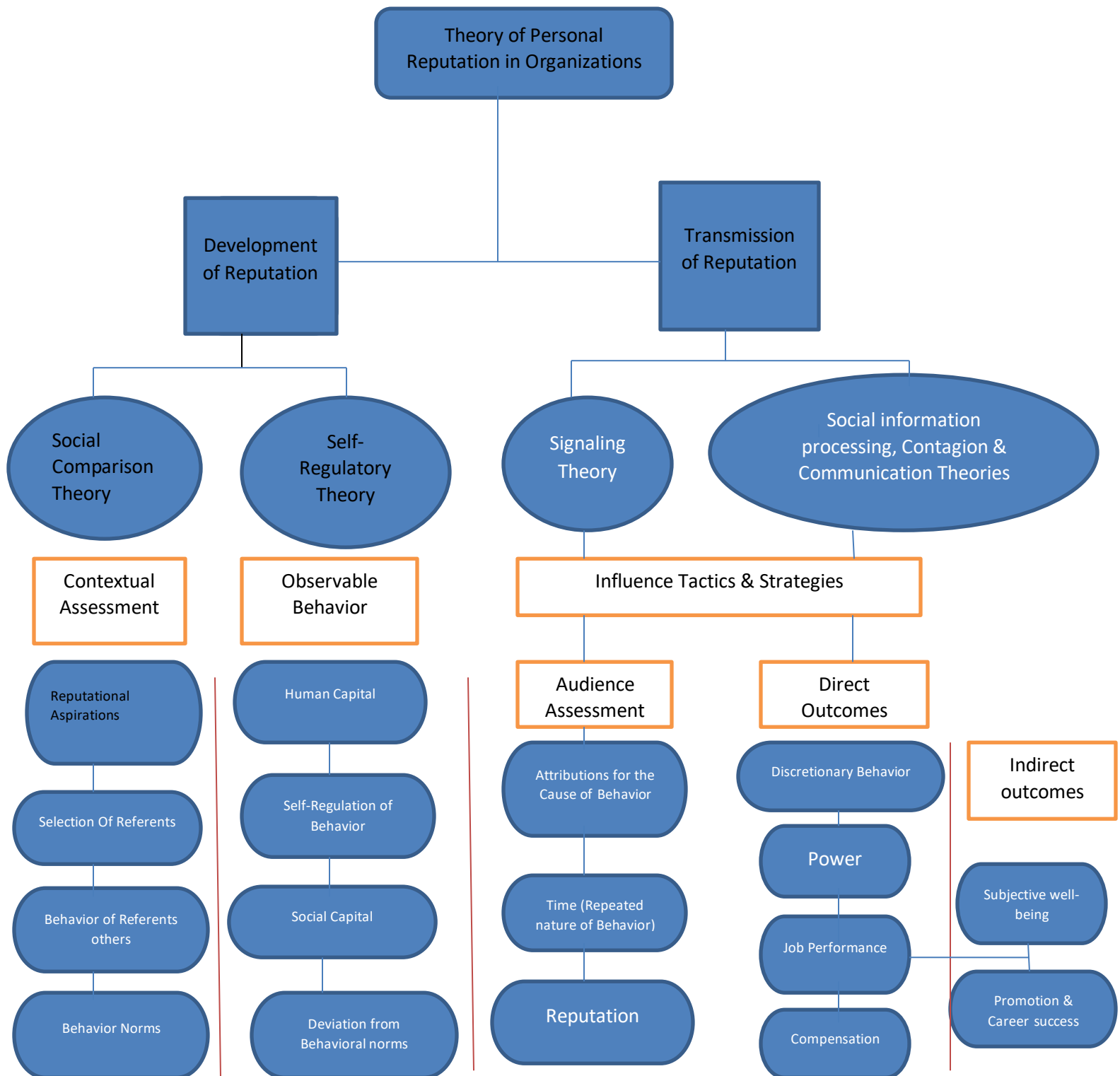


Figure 4. 1: Theory of Personal Reputation in Organizations

(Source: Author, 2022)

4.2.1. Adaptation of the Conceptual Framework to the study subject to the Research questions

The study is all about the integration of multi-disciplinary theories to craft an interest rate for short term consumer credit subject to the creation of an appropriate environment in the form of a virtual community based on personal reputation precepts for the model to be effective. Based on this, critical to the model is the creation of an environment in which reputation is developed and sustained and the theory of personal reputation does just that. The Theory of personal reputation in organizations stipulates the development and sustainability of reputation which is the study's independent variable. Therefore, its constituent theories such as Social comparison, Self-regulation, Signaling, Social information processing, contagion and communication theories serve as intervening or mediating variables. It is against this background that the overarching research questions and respective sub-questions have been adapted from the development and transmission of reputation subject to moral hazard, the dependent variable.

4.2.1.1. Development of reputation

1. Social Comparison theory

This Theory was developed by Festinger to address how people evaluate opinions and abilities when no objective standard existed (Festinger, 1954). It was later further developed to include personal attributes (Wood, 1989). The foregoing developments made it appropriate to be used in the conceptualization of the personal reputation in organizations theory. This was because the rationale of the social comparison theory was based on certain agents changing behavior subject to other agents in a bid to get certain rewards which the agents with the model behavior enjoy. This theory was built up by considering the contextual aspects broken down into Reputational Aspirations, Selection of referents, Behavior of Referent others and Behavioral norms as the anchors of the theory. Therefore, the theory has been used in the study as a component vital for the development of a predictable behavior necessary to deal with moral hazard in a bid to solve the information asymmetry between lenders and borrowers. The constituents of the Social comparison have since been used to predict the outcome of certain developments with regard to the study's independent variable, reputation.

a) Reputational Aspirations

- i) Would knowing that defaulting on a zero interest rate loan lead to this information being shared with Credit Bureau, colleagues at work, in your community, industry or Merchants compel you not to default for whatever reason? Yes [☐] No [☐] (*This question tests the theory of reputation's influence on moral hazard based on aspirations for certain rewards if behaving in a pre-prescribed manner*)

b) Selection of Referents and Behavior of Referent others

- i) Are interest rates for short term loans high and if so, would you be willing to change your behavior to that of others in your community who pay zero interest rate due to having a good reputation for not defaulting on short term credit if it meant you would also enjoy such privileges? (Tick all applicable)

Yes, interest rates are high [☐] Yes I would change behavior to get zero interest rates [☐] No, interest rates are not high [☐] No, I would not change behavior to get zero rates [☐] (*This question establishes the downside of short term loans and the desire by consumers to change behavior to one that would assist in solving the problem in an attempt to get the benefits/rewards others are getting through such behavior*)

c) Behavioral norms

- i) Would you sign up for a Zero interest rate short term loan facility for free with the only condition being that if you default your information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting your creditworthiness assessment in future business dealings? Yes [☐] No [☐] (*This questions tests the feasibility of the core concept of the model of zero interest rates premised on zero defaults based on reputation influencing behavior hence preventing moral hazard*)

2. Self-regulation theory

This theory was based on the effort people put forth to alter their responses in terms of attitudes and behaviors. It basically focuses on self-control with regard to starting, stopping, changing a process, or substituting one response or outcome for another in a bid to meet or achieve some standard (Baumeister, Heatherton & Tice, 1994). The

a) Human Capital

i) Gender **Male** [] **Female** []

iii) What is your highest level of education? **Certificate** [☐] **Studying for a Certificate** [☐] **Diploma** [☐] **Studying for a Diploma** [☐] **Degree** [☐] **Studying for a Degree** [☐] **Masters** [☐] **Studying for a Masters** [☐] **Ph.D** [☐] **Studying for a Ph.D** [☐]

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10 years [] **Above 10 years** [] **(Note:** Use experience in the source of income area you would use to obtain a loan)

b) Self-Regulation of Behavior

- i) Would you be willing to change your behavior to that of others in your community, work place or industry who pay zero interest rate due to having a good reputation for timely paying back short term credit if it meant you would also enjoy such privileges? Yes [] No [] *(This question establishes the desire by consumers to change/regulate behavior to one that would assist in solving the problem of moral hazard in pursuit of benefits/rewards such as zero interest loans)*

c) Social Capital

Note: The question used on human capital is enough to test this aspect of the Self-regulatory theory subject to social capital.

d) Deviation from Behavioral norms

- i) Are you more likely to default on a high interest short term loan compared to a low cost one? Yes [] No [] *(The question looks at the default risk and high interest rate relation, and the influence of this relation on consumers to deviate from a desired behavior)*

4.2.1.2. Transmission of Reputation

1. Signaling Theory

The signaling theory states that individuals coexist in markets of exchange, and that individuals signal others in these markets in attempts to transmit information or alter beliefs of others (Ferris, Zinko, Blass & Laird, 2007). The theory further states that signals represent observable, alterable characteristics and signals in themselves potential signals that influence others (Spence, 1974). Using this school of thought, reputation in the reputation theory has been viewed as an actual signal because it represents observable and alterable characteristics that can influence others hence an intentional signaling factor (Carroll et al, 2003; Ferris & Judge, 1991). As signaling factors, reputation itself has been used while attributions of the cause of behavior and

time, in terms of repeated behavior have also been acknowledged in the transmission of reputation in the theory of personal reputation in organizations. Therefore, the theory has since been used in the study as an intervening variable between reputation and moral hazard.

a) Attributions for the cause of behavior

- i) Would knowing that defaulting on a zero interest rate loan would lead to this information being shared with Credit bureau, colleagues at work, in your community, industry or merchants compel you not to default for whatever reason? Yes [] No [] *(This question tests the theory of reputation's influence on moral hazard subject to attributes that would cause or prevent certain behaviors)*

b) Time (Repeated Nature of Behavior)

- i) What period do you think would be appropriate for merchants to trust someone enough to offer them a 1 month credit facility for their goods or services? **1 Month** [] **6 Months** [] **1 Year** [] **3 years** [] **5 Years** [] *(This question considers how long a good act should be observed to be considered a reputation upon which future behavior can be based on and this shall be compared with the feedback of merchants)*

c) Reputation

- i) Should a good reputation with regards to not defaulting on agreements be used as collateral to get loans or enjoy other benefits from suppliers of goods/services? **Yes** [] **No** [] *(This questions assesses the value of reputation in business transactions between consumers and merchants)*

2. Social Information Processing, Contagion and Communication Theories

Under this heading, three (03) theories have been presented concurrently because they are all focused on the transmission of a message of reputation of a particular individual

in a respective social set up. This is what is vital for our study hence not focusing on individual theories that make up the reputation transmission in the theory of personal reputation in organizations.

The foregoing can be noticed from a brief description of the respective theories. The Information processing theory extends from the social learning theory and suggests people consider all the mental processes others use in relating to the social world around them in order to comprehend the actions of others (Salancik & Pfeffer, 1978). The Social Contagion theory looks at ‘the spontaneous spread of emotional and behavioral reactions among a group of people (Yukl, 1998). Through the foregoing, actors engage in a form of social talk to arrive at a shared, socially constructed interpretation of their social environment and use this to define meaning (Dogoey,2000). On the other hand, communication theories, which are based on the Sender – Message - Receiver communication model now has adaptations which take into account variations of codes and sub-codes that make up society.

The preceding allows intermediaries and multiple sources of senders and receivers (Stern, 1994), this means sender now has to consider not only the immediate audience, but also the context, environment, and possible intermediaries (Ferris, Zinko, Blass & Laird, 2007). This illustrates how dynamic the communication theory has become and how just for this study where the focus is just the transmission of reputation, the aforementioned theories can be looked at concurrently. The constituents of these intervening variables are further expressed in the theory of personal reputation in terms of direct outcomes such as Discretionary behavior, power, job performance and compensation, and indirect outcomes such as subjective well-being and promotion/career success. Both these outcomes have since been adapted in the form of sub-questions to the overarching research questions to use their influence in the assessment of the changes they bring about in the study’s independent variable, Reputation, in relation to the dependent variable, moral hazard.

a) Direct outcomes

As aforementioned, these include attributes that can be seen or observed, consequently be able to send a certain message to observers with regard to reputation and the results of having a good or bad in a respective community. These direct outcomes in the conceptual framework of personal reputation in organizations are expressed in terms of Discretionary Behavior, Power, Job Performance and Compensation. In this study, all these have been merged based all of them being premised on the same rational of transmission of reputation and this has been tested using the question below.

- i) Do you think a Zero interest rate short term loan would lead to an increase in your residue income and give you a chance at a decent life style for you and your family hence would cause you to abide by whatever conditions that enable you to have such benefits? Yes [] No [] (*This question aims at highlighting the benefits of the zero interest loans to consumers, what it means to a consumer and if the consumer would tailor behavior to maintain such benefits*)

b) Indirect outcome

In the case of indirect outcomes, aspects that bring an intrinsic benefit to an individual such a feeling of wellbeing and that sense of accomplishment which comes as a result of certain behaviors such as promotion or career success as used in the personal reputation framework are considered. The gist of these things is that they communicate or transmit the results of behaving in a certain manner.

- i) Do you think a Zero interest rate short term loan would lead to an increase in your residue income, give you a peace of mind and a sense of having a chance at a decent life style hence cause you to abide by the conditions enabling to have such benefits? Yes [] No [] (*This questions aims at highlighting the benefits of the zero interest loans to consumers, what it means to a consumer and if the consumer would tailor behavior to maintain such benefits*)

4.3. RESEARCH HYPOTHESES

Suitability centric hypothesis of the short term consumer credit interest rate model rationale on borrowers

Short term consumer credit demand driver hypothesis

H₀: Meeting budget shortfalls and paying for unforeseen expenditure is mostly not the main driver of short term consumer credit demand.

H₁: Meeting budget shortfalls and paying for unforeseen expenditure is mostly the main driver of short term consumer credit demand.

Short term credit consumer behavior and high interest rates hypothesis

H₀: Interest rates for short term loans are high relative to other loans but consumers are mostly not willing to change behavior even if such can lead to paying lower rates.

H₁: Interest rates for short term loans are high relative to other loans and consumers are mostly willing to change behavior if such can lead to paying lower rates.

Reputation Collateral hypothesis

H₀: Good reputation with regards to not defaulting on agreements should at most not be used as collateral to get loans or enjoy other benefits from suppliers of goods/services.

H₁: Good reputation with regards to defaulting on agreements should at most be used as collateral to get loans or enjoy other benefits from suppliers of goods/services.

Regulation of short term consumer credit hypothesis

H₀: Authorities should mostly regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers.

H₁: Authorities should mostly not regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers.

High interest rate and default hypothesis

H₀: Defaulting on short term consumer credit is mostly all about high interest rates and not a matter of personal integrity despite the terms of the loan are known from inception.

H₁: Defaulting on short term consumer credit is not mostly all about high interest rates but also a matter of personal integrity since the terms of the loan are known from inception.

Defaulting and public image hypothesis

H₀: A consumer knowing that defaulting on loan would lead to this information being shared with Credit bureau, colleagues at work, in their community, industry or merchants would mostly not compel them not to default for whatever reason.

H₁: A consumer knowing that defaulting on loan would lead to this information being shared with Credit bureau, colleagues at work, in their community, industry or merchants can compel them not to default for whatever reason.

Loan facility and salary increment hypothesis

H₀: It would not be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer than negotiate for a salary increment.

H₁: It would be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer compared to negotiating for a salary increment.

Purchasing power and increased sales volume for merchant's hypothesis

H₀: Consumers not paying high interest on short term consumer credit would not lead to them having more purchasing power and increased sales volumes for merchants.

H₁: Consumers not paying high interest on short term consumer credit would lead to them having more purchasing power and increased sales volumes for merchants.

Acceptability centric hypothesis of the short term consumer credit interest rate model rationale by borrowers

Consumer behavior and benefits hypothesis

H₀: A low cost short term consumer credit facility cannot lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits.

H₁: A low cost short term consumer credit facility can lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits.

Financial stress and poor production hypothesis

H₀: Productivity at work would not be adversely be affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them.

H₁: Productivity at work would be adversely affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them.

Feasibility centric hypothesis of the short term consumer credit interest rate model rationale subject to borrowers

Personal reputation and moral hazard hypothesis

H₀: Short term consumer credit consumers cannot sign up for a Zero interest rate short term loan facility for free with a condition that if they default their information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting their creditworthiness assessment in future business dealings.

H₁: Short term consumer credit consumers can sign up for a Zero interest rate short term loan facility for free with a condition that if they default their information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting their creditworthiness assessment in future business dealings.

Goods and services loans hypothesis

H₀: Short term consumer credit consumers would not mostly prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%).

H₁: Short term consumer credit consumers would prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%).

Low cost payroll deductible short term consumer loans hypothesis

H₀: Employers cannot allow mostly their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender.

H₁: Employers can allow their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender.

Employers and payroll deductible transactions hypothesis

H₀: Employers usually do not timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff.

H₁: Employers usually timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff.

4.4. CHAPTER SUMMARY

This chapter basically lays out the appropriate environment under which the rationale of an interest rate model for short term consumer credit can theoretically be actualized after being craft from a culmination from multi-disciplinary theories. The chapter highlights how such is achieved by establishing through literature how such an environment in which predictability of behavior which is critical to the actualization of the interest rate model under consideration through asymmetry of information management could be attained through creation of a system/platform or virtual community based on the reputation concept. The basic premise is that under the auspice of the reputation theory, the interest rate model for short term consumer credit would then be able to do what it is intended to do subject to the study objectives within the respective virtual community which would ideally be governed by personal reputation theory precepts.

The chapter hence adopts the Theory of Personal Reputation in Organizations as a source of the conceptual framework for the creation of the predictable behavior centric virtual community necessary for the realization of a low cost interest rate model for short term consumer credit (Ferris, Zinko, Blass & Laird, 2007; Ferris et al., 2003). This is then used to craft a conceptual framework for the study by adapting the core reputation theory concepts to in terms of hypothesis which are operationalized subject to the study objective and research questions.

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Zinko, Blass & Laird, 2007; Ferris et al., 2003). This is then used to craft a conceptual framework for the study by adapting the core reputation theory concepts to in terms of hypothesis which are operationalized subject to the study objective and research questions.

CHAPTER 5

METHODOLOGY

5.0. INTRODUCTION

This chapter provides the systematic process adopted for conducting the study. It describes the research design, data collection process, data analysis process, ethical considerations, the rationale used to craft the questionnaire and other related aspects that detail the logic of the process that was followed for the study (Creswell & Creswell, 2018; Neuman, 2014). The chapter basically provides a framework for how the study was conducted (Johnson & Christensen, 2019; Maxwell, 2013).

This study is aimed at developing an Interest Rate Model for short term consumer credit in Zambia mainly to address the adverse effects of the current model which has been leading to undesirable outcomes due to high interest rates relative to other credit facilities (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). In order to address this shortcoming, the suitability, feasibility and acceptability framework has been adopted in the prospective model with regards to consumers (borrowers), employers of borrowers and merchants from whom borrowers of short term consumers credit by goods/ services as key stakeholders (Johnson, Schools & Whittington, 2016).

Based on the foregoing, a mixed methods design has been adopted as most appropriate to address the matter through an understanding of the issue from both a quantitative and qualitative worldview of the key stakeholders (Creswell & Creswell, 2018). In order to further enhance data validity and completeness, address research questions that cannot be answered using one method alone, complement the weaknesses of each method, and provides a deeper understanding of the research problem, a concurrent mixed method has been adopted (Teddlie & Tashakkori, 2009; Creswell & Plano Clark, 2011). The quantitative data was used to explore the short term consumer credit problem and explain the problem based on the lender/borrower

relationship. On the other hand, the qualitative data was used to understand the constructs of short term consumer credit (Pervan & Ewing, 2007). By integrating both types of data, the study provides a more comprehensive understanding of the matter and following the steps below were followed in two (02) parts:

Part I

- (1) Questionnaire development;
- (2) Probability sample selection for the respondents for the questionnaire;
- (3) Data collection; and analysis of the results.

Part II

- (1) Interview Schedule development based on the responses to the questionnaire;
- (2) Availability and Maximum variation sample selection of the respondents for the interviews;
- (3) Data collection; and analysis of the results.

Part I

As earlier indicated in the chapter one, despite studies having been done over short term consumer credit facilities (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012), there has not been a study that has been focused at resolving the high cost nature issue of modern short term consumer credit from the core, which is, the principal design of short term consumer credit facilities by addressing the interest rate cost drivers (Miller, 2013). It is against this background that the development of the questionnaire was aimed at first at generating foundational knowledge to provide insight into the problem and help in the building/elaboration of the prospective Interest Rate Model (Creswell & Creswell, 2018; Neuman, 2014). The questions in the questionnaire were adapted from the hypotheses which were used in the development of the Interest Rate Model (Neuman, 2014). Therefore, Part I dealt with the following research questions:

- i. To explore the short term consumer credit problem and its effects on short term

consumer credit key stakeholders (Consumers, Employers and Merchants) in Zambia.

- ii. To explain the short term consumer credit problem subject to the lender-borrower relationship

Data was analysed using descriptive analysis (Logistic regression).

Part II

With regard to the development of interview questions and collecting data from this part, the rationale was that since all the questions were somewhat related and open-ended, most of the questions would be answered without even asking them directly through explanations to the asked questions which shall be asked at first. This means the objective of having these questions is for them to guide the interviews so that if the respondents leave out an important area for the study as they answer the asked questions, they can then be asked directly (Teddlie & Tashakkori, 2009; Creswell & Plano Clark, 2011). Meanwhile, the researcher relied on the profiles of the respondents to Part I to find the appropriate employers and merchants to inform Part II. In this regard, Part II dealt with the following research questions:

- i. Why is the inherent flaw in short term consumer credit facilities detrimental to key economic stakeholders such as consumers, employers and merchants? (Realist ontology and induction, Nominalist ontology and deduction)
- ii. How could the principal design of short term consumer credit facilities be changed to mitigate the adverse aspects of being high cost relative to other debt facilities? (Pragmatic)

Data in this phase will be analysed using thematic framework analysis.

5.1. RESEARCH DESIGN

The research design was created to demonstrate the methods and techniques utilized in the study. The design was formed using a research design matrix, which acted as a tool to guide the thought process and increase the effectiveness and efficiency of the study. The matrix is arranged in rows and columns, informed by the philosophical research assumptions based on the type of reality sought (Methodology, 2015; Harding, 1987). The matrix is also intertwined with the philosophical considerations of ontology (the nature of reality) and epistemology (Lincoln & Guba, 2011; Greene, 2006; Guba & Lincoln, 1994).

While the research design matrix served as a useful tool to guide the thought process during the study, it did not adhere to the rule of thumb of mirroring the research questions and objectives as it was not philosophical. The methodology used in research is a philosophical stance linked to the nature of being or reality that underlies and informs the style of research (Sapsford & Jupp, 2006). Several authors have argued that methodology cannot be explicated without philosophical clarity, and that the philosophy and methodology used in research are inherently intertwined (Alise & Teddlie, 2010; Hesse-Biber, 2010; Collis and Hussey, 2003; Creswell, 2003).

In addition to the research design matrix, the study also employed a mixed-methods approach to data collection and analysis. This approach involved collecting both quantitative and qualitative data through surveys, interviews, and observation. The use of a mixed-methods approach allowed for a more comprehensive understanding of the research questions and objectives by providing multiple perspectives and sources of data (Creswell & Plano Clark, 2018). This approach also helped to overcome the limitations of relying solely on quantitative or qualitative data by providing a more nuanced and in-depth analysis of the research findings (Teddlie & Tashakkori, 2009).

Furthermore, the research design matrix served as a framework for identifying the appropriate research methods and techniques to be employed in the study, ensuring that they were aligned with the research questions and objectives (Creswell, 2014). This helped to ensure that the study was carried out efficiently and effectively, with the desired outcomes and results.

Table 5. 1: Research Design Matrix

Research questions	Objectives	Sampling& Data collection	Data collection & methods	Technique for Data analysis
What is the current status of consumers, employers and merchants as a result of the inherent flaw in the principal design of short term consumer credit facilities? (Realist ontology and induction)	To explore the short term consumer credit problem and its severity subject to the short term consumer credit key stakeholders in Zambia	Population of all categories of short term consumer credit clients for Whence Financial Services in all Provincial Headquarter in Zambia. These will be enlisted by random sampling	Survey Questionnaires	Logistical regression (Hypothesis testing)
Why is the inherent flaw in short term consumer credit facilities detrimental to key economic stakeholders such as consumers, employers and merchants? (Realist ontology and induction, Nominalist ontology and deduction)	To explain the short term consumer credit problem subject to the lender-borrower relationship	Whence Financial Services documents by availability sampling	Documentary review	Logistical regression (Hypothesis testing)
		Whence Financial services employees enlisted using purposive sampling	Interviews	Qualitative Content Analysis
What are the constructs of short term consumer credit from the perspective of merchants and employers? (Nominalist ontology and deduction)	To understand the constructs of short term consumer credit from the perspective of merchants and employers	Merchants/employers who sell or produce essential goods and services such as food or electricity /water utility suppliers by availability sampling	In-depth interviews	Qualitative Content Analysis
How could the principal design of short term consumer credit facilities be changed to mitigate the adverse aspects of being high cost relative to other debt facilities? (Pragmatic)	To construct a composite interest rate model for short term consumer credit	Within the population of employees was enlisted using maximum variation sampling.	Workshop	Interpretive phenomenological analysis

It can be deduced that from the above, that this is a study driven by participatory action research (PAR) methodology. It is a triangulatory concurrent mixed methods type. A mixed methods type of research design therefore is appropriate to answer the research questions. This mixed methods

design was concurrent. It is also worth noting that the study was a departure from traditional basic research, where the researcher is an external observer and who proposes theories. In PAR, the “objects of research”, or the community, are integral parts of the research as they generate their own living theory of practice.

Participatory action research claims that this methodology “researches with, rather than on, people”. PAR has been chosen to provide the opportunity for full stakeholder involvement in the development of projects, by allowing for clarifications and reflections that might improve the researchers’ understanding of situations and problems to shape their strategies rather than prematurely introducing external ideas which builds the knowledge and skills for participants to act in their community as leaders or agents for creating change.

5.2. QUESTIONNAIRE DEVELOPMENT

The questionnaire development is drawn from the hypothesis of the study which have been tailored to highlighting how the concepts framing the development of an Interest Rate Model for short term consumer credit subject to the objective, research questions, theoretical and conceptual frameworks (Fowler, 2013; Groves, Fowler, Couper, Lepkowski, Singer, & Tourangeau, 2011); Krosnick, 1999). In light of the study being a concurrent mixed method type, the quantitative aspect has been mostly guided by the Rational Strategic Options Choice model of taking into consideration the suitability, feasibility and acceptability of the rationale of the low cost Interest Rate Model for short term consumer credit facilities (Johnson, Schools & Whittington, 2016). It is against this background that for the quantitative part, much emphasis has been given to the assessment of the suitability of the low cost interest rate model relative to feasibility and acceptability considerations. This is because while something can almost always be done to adjust factors that suggest a model is not acceptable or not feasible, there is usually very little or nothing that can be done with an unsuitable model (CIMA, 2021).

In view of the foregoing, suitability shall refer to the logic of the low Interest Rate Model for short term consumer credit facilities based on its ability to create value for the key stakeholders such as consumers, employers and merchants. The value under consideration is subject to the interest of the stakeholders such as low cost short term credit for borrowers, less financially stressed productive workforce for employers and more sales for merchants owing to having consumers with increased purchasing power as a result of savings from servicing low cost short term

consumer credit aided by the low cost interest rate model for short term consumer credit. Acceptability shall take into consideration stakeholder's financial expectations from the low cost interest rate model for short term consumer credit such as the model leading to them making/remaining with more residue income without causing harm to other stakeholders. Eventually, the feasibility part shall be concerned with establishing whether the low cost interest rate model for short term consumer credit can in fact be implemented based on the finance, technology, materials, stakeholder coordination and other resources/articles required.

It is also worth noting that many questions had been used, this was meant to reduce nonresponse bias and increase the precision of estimates made from the results (Dillman, Smyth & Christian, 2014; Groves, Fowler, Couper, Lepkowski, Singer & Tourangeau, 2011; Tourangeau, Rips & Rasinski, 2000; Sudman & Bradburn, 1983). This school of thought of having relatively many question has been said to have benefits. Dillman, Smyth, and Christian suggest that asking many questions can help reduce nonresponse bias and increase the precision of estimates (Dillman, Smyth & Christian, 2014). Groves, Fowler, Couper, Lepkowski, Singer and Tourangeau explain that asking many questions can help researchers to better understand complex phenomena, and offer guidance on how to design effective surveys with many questions (Groves, Fowler, Couper, Lepkowski, Singer & Tourangeau, 2011). Sudman and Bradburn argue that asking many questions is necessary to fully capture the complexity of human attitudes and behavior, and provide guidance on how to design questionnaires with many questions (Sudman & Bradburn, 1983).

Additionally, Tourangeau, Rips, and Rasinski (2000) review research on survey response and suggest that asking many questions in a questionnaire can increase respondents' engagement and motivation, leading to higher response rates and more accurate data (Tourangeau, Rips & Rasinski, 2000). However, the study recognized the importance of balancing the number of questions with the respondents' time and attention limitations to prevent survey fatigue and ensure the quality of the responses. This consideration was done through how the questions were structured as an online form was used hence it had few questions on each page and respondents could stop at any time and continue from where they left at whatever time as long as the survey was still active (Dillman, Smyth & Christian, 2014).

Suitability centric hypothesis subject to the study objective and research questions

1. Gender **Male** [] **Female** []
2. Number of Children **Nil** [] **Less than 3** [] **More than five** []
3. Age range **18 – 35 years** [] **36 – 40 years** [] **41 – 55 years** [] **56 and above** []
4. What is your highest level of education? **Certificate** [] **Studying for a Certificate** [] **Diploma** [] **Studying for a Diploma** [] **Degree** [] **Studying for a Degree** [] **Masters** [] **Studying for a Masters** [] **Ph.D** [] **Studying for a Ph.D** []
5. Experience at work or in business (entrepreneurship) **Less than 1 year** [] **1 – 2 years** [] **3 – 4 years** [] **4 – 5 years** [] **5 – 10 years** [] **Above 10 years** [] (**Note:** Use experience in the source of income area you would use to obtain a loan)

Questions 1 to 5 look at individuals investments into their public image which can have an effect on their reputation subject to moral hazard. They basically test the Public image hypothesis as indicated below.

Public image hypothesis

Ho: An individual's investment into their public image based on gender, age, parental status, level of education or experience at work/business (for entrepreneurs) can have an effect on their reputation subject to moral hazard.

Hi: An individual's investment into their public image based on gender, age, parental status, level of education or experience at work/business (for entrepreneurs) cannot have an effect on their reputation subject to moral hazard.

6. What do you use short term loans for?

Meeting budget shortfalls [☐] Paying for unforeseen expenditure [☐]

Paying for emergencies [☐] All the others [☐]

This question establishes the existence of demand for short term loans and is guided by the short term consumer credit demand driver hypothesis

Short term consumer credit demand driver hypothesis

Ho: Meeting budget shortfalls and paying for unforeseen expenditure is the main driver of short term consumer credit demand.

Hi: Meeting budget shortfalls and paying for unforeseen expenditure is not the main driver of short term consumer credit demand.

7. Are interest rates for short term loans high and if so, would you be willing to change your behavior to that of others in your community who pay zero interest rate due be having a good reputation for not defaulting on short term credit if it meant you would also enjoy such privileges? (Tick all applicable)

Yes, interest rates are high [☐] Yes I would change behavior to get zero interest rates [☐] No, interest rates are not high [☐] No, I would not change behavior to get zero rates [☐]

This question establishes the downside of short term loans and the desire by consumers to change behavior to one that would assist in solving the problem in an attempt to get the benefits/rewards others are getting through such behavior. This is guided by the Short term credit consumer behavior and high interest rates hypothesis

Short term credit consumer behavior and high interest rates hypothesis

Ho: Interest rates for short term loans are high relative to other loans and consumers are willing to change behavior if such can led to paying lower rates.

Hi: Interest rates for short term loans are not high relative to other loans and consumers are not willing to change behavior if such can led to paying lower rates.

8. Should a good reputation with regards to not defaulting on agreements be used as collateral to get loans or enjoy other benefits from suppliers of goods/services? Yes ☐ No ☐

This question assesses the effects of reputation in business transactions between consumers and merchants as guided by the Reputation Collateral hypothesis.

Reputation Collateral hypothesis

Ho: Good reputation with regards to not defaulting on agreements should be as collateral to get loans or enjoy other benefits from suppliers of goods/services.

Hi: Good reputation with regards to not defaulting on agreements should be as collateral to get loans or enjoy other benefits from suppliers of goods/services.

9. How do you think authorities can assist in dealing with the issue of short term loans having high interest rates? Completely ban short term loans ☐ Regulate the short term loans market more through banning loan rollovers, come up with interest rate limits etc, ☐ Facilitate a better design for the loans if that can lead to consumers paying less ☐ Encourage innovation that leads to consumers paying less ☐

This question assesses the suitability of regulation of short term consumer credit by authorities. This is guided by the regulation of short term consumer credit hypothesis

Regulation of short term consumer credit hypothesis

Ho: Authorities should highly regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers.

Hi: Authorities should not highly regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers.

10. Are you more likely to default on a high interest short term loan compared to a low cost one while having known the terms and conditions from the start? Yes ☐ No ☐

The question looks at the default risk and high interest rate relation, and the influence of this relation on consumers to deviate from a desired behavior. This is guided by the high interest rate and default hypothesis.

High interest rate and default hypothesis

Ho: Defaulting on short term consumer credit is not about high interest rates but a matter of personal integrity since the terms of the loan are known from inception.

Hi: Defaulting on short term consumer credit is all about high interest rates and not a matter of personal integrity based on the terms of the loan being known from inception.

11. Would knowing that defaulting on a zero interest rate loan would lead to this information being shared with Credit bureau, colleagues at work, in your community, industry or merchants compel you not to default for whatever reason? Yes [☐] No [☐]

This question tests the theory of reputation's influence on moral hazard. This is guided by the defaulting and public image hypothesis

Defaulting and public image hypothesis

Ho: A consumer knowing that defaulting on loan would lead to this information being shared with Credit bureau, colleagues at work, in their community, industry or merchants can compel them not to default for whatever reason.

Hi: A consumer knowing that defaulting on loan would lead to this information being shared with Credit bureau, colleagues at work, in their community, industry or merchants can compel them not to default for whatever reason.

12. What would be easier to negotiate for, a salary increment or lower interest rates on a short term loan? Salary Increment [☐] Lower interest rate [☐]

This question attempts to highlight how high interest rates on loans can increase pressure on employers to spend more on remuneration and how this could be countered by low cost loans. This is as guided by the loan facility and salary increment hypothesis.

Loan facility and salary increment hypothesis

Ho: It would be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer than negotiate for a salary increment.

Hi: It would not be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer compared to negotiating for a salary increment.

13. If you didn't have to pay interest on a short term loan what would you use the savings for?
- Buy goods and services that are in shortfall in the house [☐] Save the money for future use [☐] Take family or friends out over the weekend to release stress [☐] Buy healthier food for the house [☐] Send children to a better school [☐] Go back to school [☐] Finish a pending Project or start one [☐] All the options [☐]

This question attempts to show that increased purchasing power for consumers through low interest loans could lead to increased sales for merchants. This is guided by the purchasing power and increased sales volume for merchant's hypothesis.

Purchasing power and increased sales volume for merchant's hypothesis

Ho: Consumers not paying high interest on short term consumer credit would lead to them having more purchasing power and increased sales volumes for merchants.

Hi: Consumers not paying high interest on short term consumer credit would not lead to them having more purchasing power and increased sales volumes for merchants.

Acceptability centric hypothesis of the short term consumer credit interest rate model rationale

Acceptability centric hypothesis subject to the study objective and research questions

1. Do you think a Zero interest rate short term loan would lead to an increase in your residue income, give you a peace of mind and a sense of having a chance at a decent life style hence cause you to abide by the conditions enabling to have such benefits? Yes [☐]
No [☐]

This question aims at highlighting the benefits of the zero interest loans to consumers, what it means to a consumer and if the consumer would tailor behavior to maintain such benefits. This is as guided by the consumer behavior and benefits hypothesis.

Consumer behavior and benefits hypothesis

Ho: A low cost short term consumer credit facility can lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits.

Hi: A low cost short term consumer credit facility cannot lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits.

2. What would happen to your productivity at work when in default on a loan or when you do not have money to pay for a loan and the creditors are pursuing you? Productivity will not be affected [☐] Productivity will be average [☐] Productivity will below average [☐]

This question highlights how financial stress can lead to poor production for employers and ultimately an entire economic establishment. This is as guided by the financial stress and poor production hypothesis.

Financial stress and poor production hypothesis

Ho: Productivity at work would adversely be affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them.

Hi: Productivity at work would not be adversely affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them.

Feasibility centric hypothesis subject to the study objective and research questions

1. Would you sign up for a Zero interest rate short term loan facility for free with the only condition that if you default your information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting your creditworthiness assessment in future business dealings? Yes [] No []

This questions tests the feasibility of the core concept of the model of zero interest rates premised on zero defaults based on reputation preventing moral hazard. This is as guided by the personal reputation and moral hazard hypothesis.

Personal reputation and moral hazard hypothesis

Ho: Short term consumer credit consumers can sign up for a Zero interest rate short term loan facility for free with the only condition that if they default their information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting their creditworthiness assessment in future business dealings.

Hi: Short term consumer credit consumers cannot sign up for a Zero interest rate short term loan facility for free with the only condition that if they default their information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting their creditworthiness assessment in future business dealings.

2. What would you choose between getting cash and paying interest between 30% to 45% in a month or being given access to the goods or services you would otherwise use cash to pay for in a month at zero percent (0%)? Access to goods/services [☐] Cash [☐]

This question tests another core concept of the low cost interest rate model of consumers foregoing high cost cash loans for goods/services loans product/service based short term loans at zero interest. As guided by the goods and services loans hypothesis.

Goods and services loans hypothesis

Ho: Short term consumer credit consumers would not prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%).

Hi: Short term consumer credit consumers would prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%).

3. Can your employer allow you to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender? Yes [☐] No [☐]

This question tests the employer loan paying back model for the low cost interest loans. This is as guided by the low cost payroll deductible short term consumer loans hypothesis.

Low cost payroll deductible short term consumer loans hypothesis

Ho: Employers can allow their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender.

Hi: Employers cannot allow their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender.

4. Have you ever heard of any complaints from lenders over your employer not remitting or not remitting on time payroll deductions to respective lenders? Yes [] No []

This question assesses the reliability of the employer being used for loan repayments. This is as guided by the employers and payroll deductible transactions hypothesis.

Employers and payroll deductible transactions hypothesis

Ho: Employers usually timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff.

Hi: Employers usually do not timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff.

Qualitative part of the study overview

This part shall also adopt the suitability, acceptability and feasibility format, however, being based on the constructivist worldview, the questions shall be open-ended and the suitability, acceptability and feasibility framework shall only be used as a lens through which to view the questions (Creswell, 2007). The following are the qualitative questions that shall be asked in the in-depth interviews with employers and merchants. It is worth acknowledging that these questions shall be asked only to employers and merchants. The questions also seem to be too many for in-depth interviews, however, the rationale is that since all the questions are somewhat related and open-ended, most of the questions shall be answered without even asking them directly through explanations to the asked questions which shall be asked at first. This means the objective of having these questions is for them to guide the interviews so that if the respondents leave out an important area for the study as they answer the asked questions, they can then be asked directly.

Employers

1. Are you aware of your members of staff getting short term loans such as payday loans and why they get them?
2. What do you think about the notion that payday loans are high cost loans and usually exploitative mostly due to high interest rates?

3. Do you think payday loans are helpful when you ignore the high interest rate part?
4. If payday loans were offered to your staff at zero interest rates on condition that they don't get the cash but have access to products and services they would otherwise use cash on, would this be helpful to your staff and would you encourage/facilitate for your staff to sign up for such?
5. Do you think it is possible for your members of staff to complain about poor salaries paid by your institution because of a reduced net income due to servicing high interest short term loans?
6. Is it possible that you could increase the net income of your members of staff by them simply signing up for the zero interest rate short term loan facility?
7. What do you think about financial stress on employees and its effect on the productivity of your institution?

Merchants

1. What happens to your sales when individual consumers have an increase in net income?
2. Could you sell your products or services on credit for an average of 30 days if default risk was reduced zero by the payment being made through employer payroll, an insurance company, an underwriter or all these options combined? If yes, what would be the motivation for doing this and if not, what would be the reason for such?
3. Can you sell your products on credit for an average period of 30 days to an individual with a proven record of honesty to paying back things gotten on credit as assessed by you through being long time customers or other reasons?
4. How long would you need to assess someone's sincerity to paying back things gotten on credit before you can extend a credit facility to them and why would that be an appropriate period?
5. Could knowing that if you offered a service or product to an individual on credit and they defaulted such information shall become permanent information on them that shall be made available to other merchants, their peers or any other person(s) who would want to do business with them, could this increase your confidence in your expectations of them not defaulting and why?

6. What do you think about people's gender, age, parental status, level of education or experience at work/business (for entrepreneurs) have a bearing on whether or not they can be trusted in debt based business transactions?

5.3. POPULATION AND SAMPLE

This study will enlist potential respondents from Whence Financial Services short term consumer credit clients, Whence Financial services employees, merchants/employers who either produce or supply essential goods and services which fall under the category of human basic needs. Those providing essential goods and services have been selected because of the understanding that short term consumer credit is usually acquired to meet shortfalls in budgets for essential goods and services (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012).

In the first phase of the study, short term consumer credit clients for Whence Financial Services in Zambia made up the study population and the list of all these clients were adopted as the sampling frame. Simple random sampling was used and since the sampling list was available, an online random number generator¹ was used subject to the numbers of Whence Financial Services clients list numbers to come up with the sample (Hooper, 2019). This was targeted at finding respondents for the quantitative part of the study which required hypothesis testing to be done hence the use of this probability sampling method.

On the part of Employers and Merchants who made up most of the qualitative part of the study, non-probability sampling was used in the form of purposive sampling because the target was to get employers of people who use short term consumer loans and merchants who supply goods and services to users of short term consumer loans. It was based on these specific characteristics that were fundamental to the study that the aforementioned non-probability sampling technique was used on these respondents.

In view of the foregoing, the population under consideration was about eight thousand (8,000) clients for Whence Financial services from nine (09) provinces of Zambia. Based on this population a target sample size of three hundred sixty-seven (367) was adopted as being the sample size that would give representative results of the population as recommended by an online

electronic sample size calculator for the population under consideration. The online calculator is Raosoft² and is in line with Glenn's table (Sim & Wright, 2005; Glenn, 1992). This was premised on a five percent (5%) margin of error, ninety-five percent (95%) confidence level and a response distribution of fifty percent (50%). Sim and Wright justify the use of an online sample size calculator by stating that it can provide a quick and easy way to estimate the required sample size for a research study (Sim & Wright, 2005). They argue that the use of online calculators can save time and effort compared to using manual calculations or complex statistical software.

In addition, Sim and Wright note that many online sample size calculators are based on well-established statistical formulas and methods, and are therefore likely to provide reliable estimates. However, they caution that researchers should be careful when selecting an online calculator and ensure that it is appropriate for their specific study design and research question. Overall, Sim and Wright suggest that the use of online sample size calculators can be a valuable tool for researchers, particularly those with limited statistical expertise or resources (Sim & Wright, 2005).

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1. Random number generator (www.random.org)
 2. Online calculator is Raosoft (www.raosoft.com/samplesize.html)

5.4. DATA COLLECTION

Data was collected using a survey questionnaire, documentary review, in-depth interviews and eventually through a workshop (Stewart, 1984). Basically, the researcher moved to and from applying the PAR cycle. The data was essentially collected in three phases. Phase I included documentary review and the administration of a survey questionnaire by inviting prospective respondents as Google Forms were used (Sim & Wright, 2005). The invitation to participate was through email and other online media platforms as the study had access to emails and phone numbers of all the clientele for Whence Financial Services which services the target niche. Phase II involved the use of in-depth interviews with over forty (40) employers and merchants whereas Phase III was through a workshop. A survey questionnaire developed with the aid of Google Forms subject to the personal reputation in organization theory as the conceptual framework and short term consumer credit theories was administered. The questionnaire had sections asking respondents about general issues related to short term consumer credit and the consumer-employer-merchant relationship.

Documentary reviews and the workshop method were used to further explore the short term consumer credit problem subject to the consumer-employer-merchant relationship.

Contextual Action Research (Action Learning) was employed in this part of the study. A democratic participatory process based on a workshop was used in a bid to bring together action and reflection, theory and practice. In the workshop, participants were drawn using purposive sampling to further explore, explain and understand the short term consumer credit cause for concern in a bid to construct a composite interest rate model for short term consumer credit.

It is also worth noting that documentary review techniques differ from primary research data where the researcher is responsible for the entire research process from the design of the project, to collecting, analyzing and discussing the research data (Stewart, 1984). Judd, Smith and Kidder distinguish three common characteristics of documentary methods such as (Judd, Smith and Kidder, 1991):

- They rely entirely on the analyses of data collected for purposes other than those of particular studies in social relations;
- Documentary studies often call for ingenuity in translating existing records into quantifiable indices of some general concepts;

- Documentary studies are particularly susceptible to alternative interpretations for the natural events and their effects.

In view of the foregoing, information from the Whence Financial Services database and general documents such as Loan contract forms, Payment, marketing and related documentation were used to inform the study.

The workshop consisted of a small group that explore the subject in depth. The rationale was to facilitate an organized discussion with a group of individuals who shall exhibit a deep understanding of the problem under review. The discussion was based on a question and answer type format initially but interactions were and follow up questions were allowed. This was based on the premise that such a setting would bring out insights and understandings in ways which simple questionnaire items may not be able to tap (Krueger and Casey, 2000; Mertens, 2000).

The goal was to ensure participants get caught up in the spirit of group discussion in a bid for them to reveal more than they would in more formal interview settings despite that workshop being a virtual one considering the study was conducted at a time when the corona virus (Covid-19) pandemic was at peak. This was because in such a setting, chances of discussants drawing each other out and sparking new insights are usually very high. The other advantage is that the reactions of each participant could fill in a gap left by others as discussants build on each other to come to a consensus that no one individual would have articulated on their own (Krueger and Casey, 2000; Flores and Alonso, 1995; Krueger, 1988).

As prescribed by proponents of the group discussion techniques, there was no standard instrument to guide the topic as would be the case in survey interviewing or direct personal interviews hence only a topic was explored through the exchange of group discussions. The characteristics of the discussion were as lineated by Morgan (1998), Krueger and Casey (2002) and Krueger (2003) as enunciated below:

1. The workshop was organised with people fewer than 10 but not less than 4 and dealing with 5 to 7 topical issues or questions.
2. The discussions were structured on the basis of open-ended interviews
3. Avoided using “why questions” instead ask for reasons

4. Issues to be discussed were arranged in an orderly manner beginning with general and then transcending to specifics.

The aforesaid are some of the precepts that guided the virtual workshop to deal with the quantitative aspect of the study. The entire process was modelled to the five (05) stage research cycle in a bid to get the best results. Susman gives a somewhat more elaborate listing (Susman,1983). He distinguishes five phases to be conducted within each value added research cycle (Figure 2). Initially, a problem is identified and data is collected for a more detailed diagnosis. This is followed by a collective postulation of several possible solutions, from which a single plan of action emerges and is implemented. Data on the results of the intervention are collected and analysed, and the findings are interpreted in light of how successful the action has been. At this point, the problem is re-assessed and the process begins another cycle. This process continues until the problem is resolved.

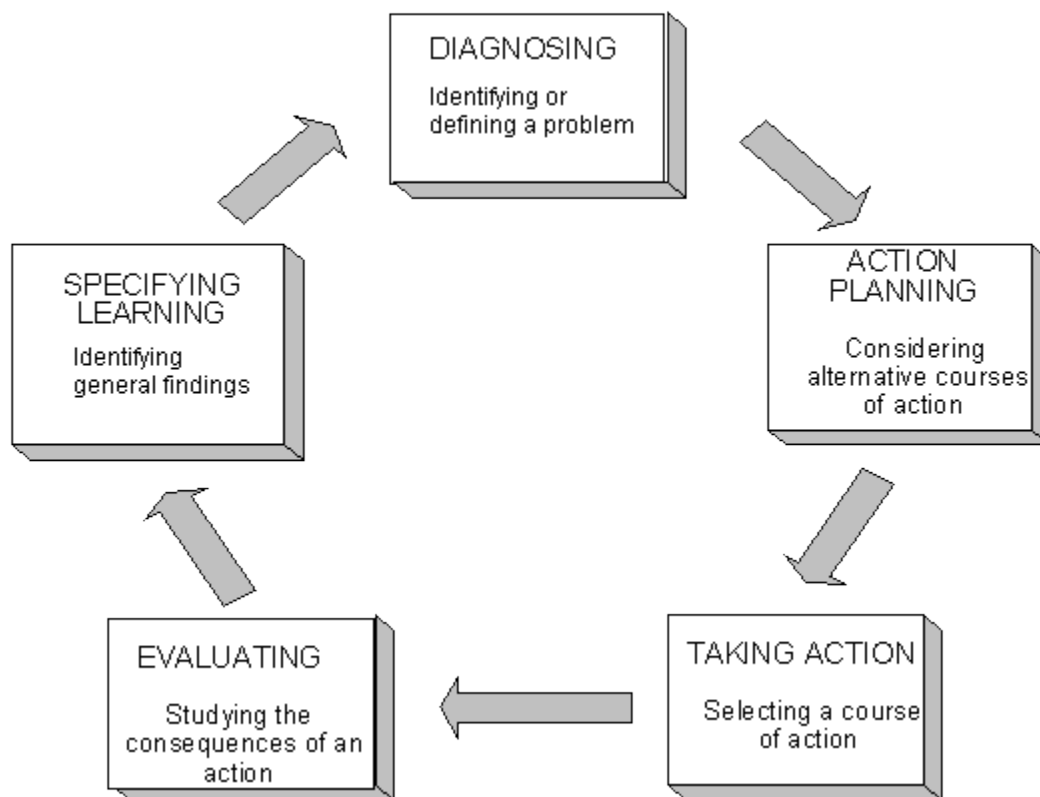


Figure 5. 1: Detailed Action Research Model

(Adopted from Susman, 1983)

It is worth appreciating that the study was conducted during the Covid-19 pandemic peak period hence all data collection was done using online platforms. However, there are numerous studies that support the use of online surveys, in-depth interviews and workshops as a valid research method. For example, Batinic et al. (2000) conducted a study comparing the results of a web-based survey with a traditional paper-and-pencil survey and found that the web-based survey produced similar results to the paper-and-pencil survey. Couper (2000) conducted a review of studies comparing web-based surveys to other modes of data collection and concluded that web-based surveys are a viable and cost-effective method of data collection. Hewson et al. (2003) conducted a study comparing face-to-face and online in-depth interviews and found that the two methods produced similar results in terms of the quality of data obtained. Baker et al. (2013) conducted a review of studies comparing web-based and face-to-face interviews and concluded that web-based interviews are a valid and reliable method of data collection, particularly for sensitive topics.

Overall, the use of online forms for surveys and in-depth interviews is a widely accepted research method and has been found to produce valid and reliable results in many studies.

Conducting Interviews Over the Phone

Apart from the survey conducted on borrowers, forty interviews were conducted on borrowers over the phone because the borrowers were geographically dispersed. Conducting interviews over the phone is a commonly used method in research to collect data from participants who may not be able to participate in face-to-face interviews. Some studies have shown that phone interviews can be as effective as face-to-face interviews in collecting data (Leech & Onwuegbuzie, 2008).

When it comes to interviewing borrowers about their feelings towards the development of a low-cost interest rate model, phone interviews can be a feasible option, especially if the borrowers are geographically dispersed or have limited availability. In a study conducted by Raza et al. (2019), phone interviews were used to collect data from small business owners on their perceptions of Islamic microfinance services.

However, it's important to note that there may be some limitations to using phone interviews, such as the potential for technical issues or a lack of nonverbal communication cues (Barron et al., 2017). Nonetheless, with proper preparation and planning, phone interviews can be an effective

method of data collection in research. On the other hand, the study was informed by other forms of information such as through the survey.

Appropriate number of Interviews

The appropriate number of phone interviews for a study will usually depend on the research question, the population being studied, and the nature of the information being gathered. In general, the number of phone interviews should be sufficient to achieve data saturation, which is the point at which new data no longer reveals new insights or themes (Guest, Bunce & Johnson, 2006).

There is no fixed number of interviews that is appropriate for every study, as sample sizes can vary depending on the research question and the population being studied. However, some researchers suggest that a sample size of 10-15 interviews can be sufficient to achieve data saturation in qualitative research studies (Guest, Bunce & Johnson, 2006). In view of this, 40 interviews were conducted on 40 random borrowers to ensure data saturation is most likely to be achieved.

It is also important to note that the quality of the data obtained from phone interviews is influenced by factors such as the quality of the interviewer, the clarity of the questions asked, and the rapport between the interviewer and the interviewee. Therefore, the question was explained, the interview conducted in a professional and respectful manner in order to obtain high-quality data.

5.5. DATA ANALYSIS

There were two types of data to be analysed and this comprised of quantitative as well as qualitative data. Quantitative data was analysed using logistical regression through hypothesis testing with the aid of Google Forms analytics and Advanced Microsoft Excel Statistics Analysis Package (Brown, Nguyen & Petersen, 2019; Ahn & Kim, 2017; Fong, Liu & Zhang, 2017; Lee, Huang & Chang, 2016; Altman, 1968).

Hypothesis testing is a statistical method used to test the validity of a hypothesis, which is often formulated based on a model or theory (Field, 2013). In the context of testing the model, hypothesis testing was used to evaluate the extent to which the data supported the assumptions made in the model (Agresti, 2018; Hair, Black, Babin & Anderson, 2014; Field, 2013). If the hypothesis tests indicate that the assumptions made in the model are well-supported by the data, this provides

evidence that the model is a good fit for the data (Agresti, 2018). Therefore, hypothesis testing was used to test the model since hypothesis testing is a statistical technique that can be used to determine whether the data supports or contradicts the hypothesis or model being tested. The rationale was to determine whether the assumptions underlying the model were valid, and whether the model fits the data well.

It is worth appreciating that there are many statistical tests that can be used for hypothesis testing, including the t-test, P-value, chi-squared test, and ANOVA. The specific test used will usually depend on the research question and the type of data being analysed. The use of P-value in model testing is most appropriate when there is a clear hypothesis to be tested and a specific statistical test to assess the hypothesis (Montgomery, Peck & Vining, 2012). In view of this, the P-value was used. The p-value test is commonly used in hypothesis testing to determine the statistical significance of a model's results (Jaccard & Becker, 2019). The p-value represents the probability of obtaining the observed results or more extreme results if the null hypothesis were true. If the p-value is less than the chosen significance level (often 0.05), it is considered statistically significant and the null hypothesis is rejected. This indicates that there is evidence to support the alternative hypothesis and that the model's results are not due to chance (Jaccard & Becker, 2019; Agresti, 2018; Hair, Black, Babin & Anderson, 2014; Field, 2013; Montgomery, Peck & Vining, 2012). Additionally, the study acknowledged that a p-value test alone may not provide enough information to draw meaningful conclusions about the data. Therefore, other factors, such as goodness-of-fit, and interpretability, when interpreting the results of a statistical analysis were employed (Jaccard & Becker, 2019).

For the qualitative data, since the data was in textual form, the data was analysed was through thematic framework analysis in two (02) steps (Johnson & Christensen, 2019; Maxwell, 2013). Thematic analysis is a flexible and widely used method for identifying patterns or themes within qualitative data, including written text such as literature (Braun & Clarke, 2006). In this approach, the data is coded into meaningful units, which are then organized into themes that capture the key concepts and ideas present in the data. Therefore, the first (1st) phase was aimed at establishing concepts from the meaning units drawn from literature.

The study started with a broad view over short term consumer credit and then searched for relevant literature that pertained to the topic. The literature was then analyzed using a systematic process of coding and identifying themes, this helped in identifying commonalities and patterns across different studies or sources (Thomas & Harden, 2008). Meanwhile, the study acknowledged that the use of literature as data in thematic analysis to develop meaning units can present unique challenges hence needed to critically evaluate the quality and relevance of the sources being used to consider issues of bias and author perspective (Vaismoradi et al., 2013). In view of this, the study approached the literature with a critical and analytical mindset, questioning the assumptions and beliefs of the authors and evaluating the evidence presented (Vaismoradi, Turunen & Bondas, 2013). It is also important to be aware of the potential biases and perspectives of the researcher themselves, and the study tried to mitigate these through careful selection of sources, documentation of the analytical process, and seeking out alternative viewpoints (Thomas & Harden, 2008; Braun & Clarke, 2006).

In the second (2nd) phase, relational analysis was done using semantic analysis. Both types were done with the aid of the computer using N vivo computer package. This approach was aimed at testing the suitability, acceptability and feasibility of the assumptions used to craft the new model. This is because previous prospective solutions for short term consumer credit from as far back as the early 1990s for have not yielded satisfactory results due to a lack of full key stakeholder enjoyment (Schwartz & Robinson, 2018; Servon, 2017).

Pragmatism embedded in Interpretive Phenomenological Analysis (IPA) was used for the analysis of data from the workshop. IPA is a qualitative data analysis technique that has gained popularity in various fields, including psychology, healthcare, and social sciences (Smith & Osborn, 2008). IPA aims to explore the lived experiences of individuals and the meanings that they attribute to a particular phenomenon (Smith, Flowers, & Larkin, 2009).

Pragmatism, on the other hand, is a philosophical orientation that emphasizes the practical and useful aspects of research. It prioritizes the relevance of research findings for stakeholders and allows for flexibility in research design and methodology (Creswell & Creswell, 2017).

The combination of pragmatism and IPA can result in a research approach that is practical and responsive to the research context while still providing a systematic and rigorous analysis of qualitative data hence having been adopted. This approach is becoming increasingly popular in qualitative research, as it allows researchers to be responsive to the needs of stakeholders and produce research that is relevant and useful (Creswell & Creswell, 2017; Smith & Osborn, 2008). Therefore, while pragmatism cannot be considered a data analysis technique on its own, it can be embedded in IPA to enhance the practicality and relevance of the research. The combination of pragmatism and IPA can result in a research approach that is both rigorous and responsive to the needs of stakeholders. This technique led to the development of the model while considering the results of the quantitative side of the study (O'Brien, 2021; Fisher, 2016).

Responses from Interviews

The information obtained from phone interviews on borrowers' opinions regarding high interest rates and a low cost interest rate model was then analyzed qualitatively using thematic analysis. Thematic analysis is a qualitative method that involves identifying, analyzing, and reporting patterns or themes within data (Nowell, Norris, White & Moules, 2017; Patton, 2014; Guest, MacQueen & Namey, 2012).

The following are the steps that can be used to present the information obtained from the phone interviews (Nowell, Norris, White & Moules, 2017).

1. Transcription: Transcribe the phone interviews by listening to the audio recording and typing out the conversation verbatim.
2. Data familiarization: Read through the transcriptions several times to become familiar with the data.
3. Coding: Identify relevant segments of text and assign codes to them. Codes are labels that identify the content of the data.
4. Theme generation: Identify themes by grouping related codes together and looking for patterns in the data.
5. Theme review: Review the themes and refine them by going back to the data to ensure they accurately represent the content.
6. Theme definition: Define each theme by creating a concise and descriptive label that captures its meaning.

7. Writing up: Write up the results of the analysis, providing examples from the data to illustrate each theme.

The presentation of the information obtained from the phone interviews can be in the form of a narrative that describes the themes identified and supported by quotes from the participants. This approach helps to provide a rich and detailed description of the opinions and experiences of the borrowers regarding high interest rates and a low cost interest rate models.

5.6. ETHICS STATEMENT

The study adhered to best practice ethical guidelines as prescribed by the Economic and Social Research Council (ESRC), which sets out six key principles of ethical research. These principles, which are approved by The University of Zambia Research Ethics Committee, include ensuring the quality and integrity of the research, seeking informed consent of participants, respecting the confidentiality and anonymity of research respondents, ensuring that participants participate voluntarily, avoiding harm to participants, and demonstrating that the research is independent and impartial (ESRC, 2015).

These ethical principles were critical in ensuring that the study was conducted in an ethical and responsible manner, and that the rights and welfare of the participants are protected. By adhering to these principles, the study aimed at ensuring that the study was trustworthy, credible, and socially responsible (Bryman, 2016).

Overall, the study recognized the importance of ethical research practices and ensured that these principles were integrated into every stage of the research process. This included obtaining informed consent, maintaining confidentiality and anonymity, minimizing risks and harms, and ensuring that the study was conducted in a fair and impartial manner.

5.7. CHAPTER SUMMARY

This chapter stipulates the research design that has been formulated in order to demonstrate the methods or techniques that were used in the study. This is basically the weaving up of the methodology model for the study which is depicted in the research design matrix. The research matrix is a tool to guide the thought process during the study in order to enhance effectiveness of the methods

and techniques used to increase efficiency, consequently the results obtained. This tool is arranged in rows and columns informed by the philosophical research assumptions based on the type of reality sought (Methodology, 2015; Harding, 1987) - intertwined with the philosophical considerations of ontology (the nature of reality), and epistemology (Lincoln & Guba, 2011; Greene, 2006; Guba & Lincoln, 1994).

CHAPTER 6

DATA PRESENTATION AND ANALYSIS

6.0. Introduction

This chapter presents and analyses data that was collected through a survey and interviews. The analysis follows the suitability, feasibility and acceptability framework and then integrating between and amongst different data or data components to inform the change in the principal design or new Interest Rate Model of short term consumer credit facilities pricing to address the aspect of short term consumer credit being high cost while promoting its positives that have continued driving its demand. Therefore, the chapter starts with the profile of respondents and then an analysis of the quantitative data which mostly addresses the first and second objectives for the study. These objectives are to explore the short term consumer credit problem and its severity subject to the short term consumer credit key stakeholders (Consumers, Employers and Merchants) in Zambia and to explain the short term consumer credit problem subject to the lender-borrower relationship. Essentially, these two (02) objectives are tailored at establishing what the problem looks like, the severity of the problem as guided by what is happening or not happening, subject to the study agents/stakeholders in the problem. These objectives are pursued through the hypothesis presented in the conceptual framework chapter [chapter 4], with reputation being the independent variable and moral hazard the dependent variable. The aspects which influence the development and transmission of personal reputation according to the theory of personal reputation are then used as intervening variables (Ferris, Zinko, Blass & Laird, 2007).

The foregoing is then followed by a mostly qualitative centric analysis with the idea of addressing the third and fourth aspects of the objectives. These objectives are to understand the constructs of short term consumer credit from the perspective of merchants and employers and then pragmatically construct a composite interest rate model for short term consumer credit. Essentially, these objectives evaluate the elements causing the problem and the resultant information used to formulate or conceptualize what could be done to cause what is happening to be made to stop or at least significantly slowed down as theorized in chapter 3. Meanwhile, considering that the composite model has already been theorized from the theoretical framework chapter [chapter 3],

the analysis shall be focused on establishing the suitability, acceptability and feasibility of the model in the advent of actual research data (Johnson, Schools & Whittington, 2016).

6.1. Profile of respondents to the study

Which sector do you belong to?
236 responses



Figure 6. 1: Organization Sector of Respondents

(Source: Field data, 2022)

Gender
239 responses

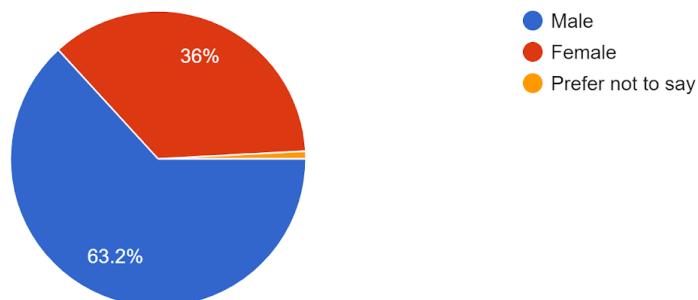


Figure 6. 2: Gender of Respondents

(Source: Field data, 2022)

Age range
240 responses

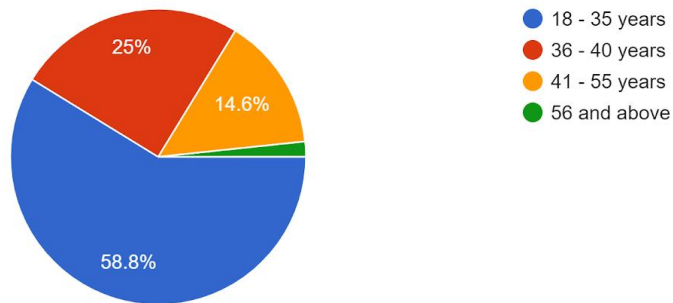


Figure 6. 3: Age Range of Respondents

(Source: Field data, 2022)

What is your highest level of education?
240 responses

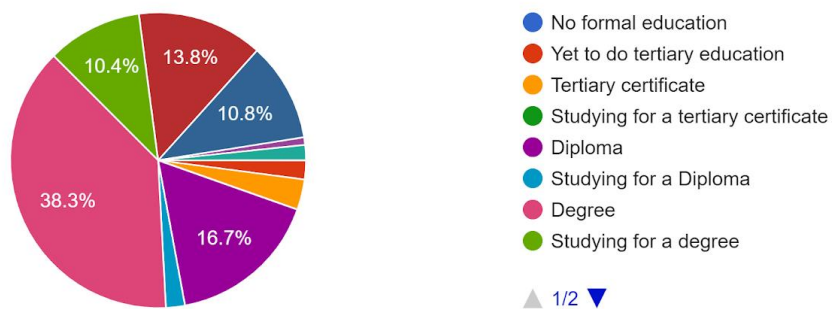


Figure 6. 4: Highest Level of Education of Respondents

(Source: Field data, 2022)

5. Experience at work or in business (entrepreneurship)

239 responses

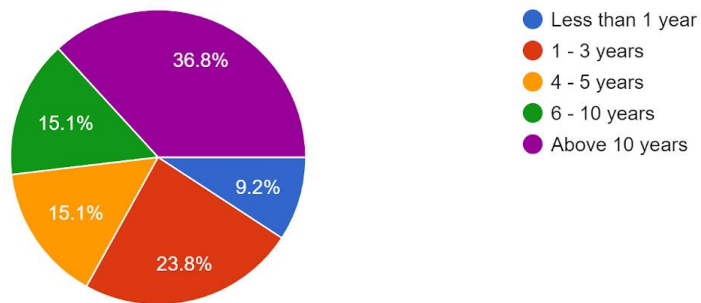


Figure 6. 5: Experience at Work or in Business/Entrepreneurship of Respondents

(Source: Field data, 2022)

In what capacity would you be participating in this study?

240 responses

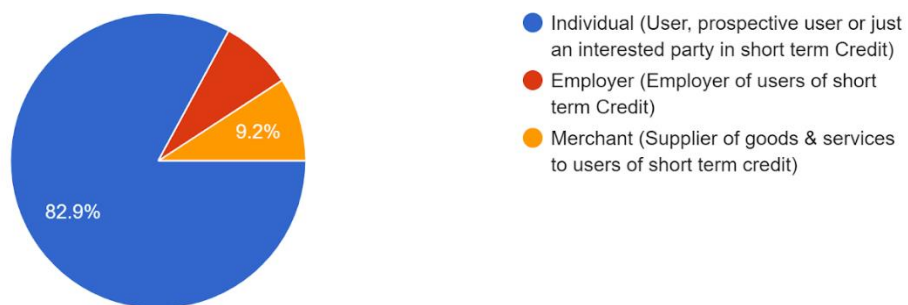


Figure 6. 6: Capacity of participation in the study

(Source: Field data, 2022)

This part whose quantitative data is in Table 6.1 and Table 6.2 and qualitative data in Table 6.3 and Table 6.4, and adapted from Figures 6.1 to Figure 6.6, basically ponders on the profile of the respondents. It dissects respondents based on age, gender, levels of education, sector from which the respondents are from and experience at work or in business for entrepreneurs. The rationale is to establish unique attributes from respective respondents such as level of understanding of things relative to the study objectives. This is because some questions in the survey or interviews might have a technical connotation to them and the level of education/profession or work/business experience of respondents could better inform the study. For example, a respondent to better inform the study on extension of credit facilities might need to have knowledge about the turnover period for the respective business/industry. This is knowledge that mostly is acquired through academic/professional education or experience in the business (usually at management level and above).

6.1.1. Quantitative part of the study respondent's profile

The total respondents in the whole study were two hundred and forty (240) from a population of eight thousand (8,000) clients for Whence Financial services from nine (09) provinces of Zambia. A sample size of three hundred sixty-seven (367) was adopted as recommended by an online electronic sample size calculator for the population under consideration. The online calculator is Raosoft and is in line with Glenn's table on sample size that would be appropriate to inform the study from this population (Glenn, 1992). This is for a five percent (5%) margin of error, ninety-five percent (95%) confidence level and a response distribution of fifty percent (50%) as already elaborated in Chapter five (05) under sampling. In view of this, 240 represents 65.4% of the sample size of 367 and this is above the 50% response distribution threshold hence the responses being appropriate to represent the population under review.

It is further worth appreciating that out of the 240 total responses, 199 are the ones that mostly account for the quantitative part of the study as they are directly from closed ended questions of the study. This represents a response distribution of 54.2% of the sample of 367 and is still within the 50% response distribution threshold.

Gender of quantitative part of the study respondents

Out of the total 240 responses, 151 representing 41.1% were male, while 86 representing 23.4% of respondents were female. If consideration is restricted to the 199 quantitative inquiry responses, then the 151 male respondents representing 62.3% of respondents while the 86 females would then account for 36% as summarized in Table 6.1. This basically shows that more male consumers of short term consumer credit or stakeholders responded to the study than their female counterparts. This could have several interpretations such as;

- (i) Males were more comfortable opening up about financial issues than females and this could be because the study was being administered by a male hence the development. However, electronic means (Google Forms) were used hence this might not hold that much, especially considering that the clientele profile of both male and female respondents used in the study is similar.
- (ii) Whence Financial Services from where the population was drawn has more male clients relative to females hence despite random sampling being used, the chances of male respondents was high from design. However, a check on the clientele indicated a normal distribution hence this not holding as much either.
- (iii) Males borrow more than females. This hypothesis of a certain gender borrowing more than the other gender is more pronounced with microfinance and studies indicate that women actually borrow more than men when it comes to microcredit (Schmitz, 2014; Armendariz and Morduch, 2005). Schmitz, Armendariz and Morduch all attribute such a development to issues of access based on financial inclusion issues where women are excluded from other forms of finance hence depending more on microcredit. However, in this case all females in the population are educated females in formal employment hence are not excluded from other financial products offered to their male counterparts.

In light of the foregoing, it is worth appreciating that both female and male respondents have similar clientele profile hence the rate of response might not have a significant adverse effect on the study hence should not be cause for concern in this regard (Malone & Skiba, 2020).

Age of quantitative part of the study respondents

Age of respondents is very important because it helps in establishing the risk profile of respondents relative to the study objective. The responses need to be from the right mix of consumers or stakeholders of short term consumer credit for the model to yield the desired results. It is worth appreciating that the age of respondent helps in establishing things such as ability to take risk, mobility, mental maturity and life experience particularly in financial management.

As summarized in Table 6.1, out of the total respondents of 240, 141 were between the 18 to 35 years representing a 38.4% and if only the quantitative respondents of 199 are considered, that is 58.8% of respondents. 60 out of 240 total respondents were between 36 to 40 years, representing 16.3% of total respondents and 25% of the 199 quantitative inquiry respondents. 35 out of 240 total respondents were between 41 to 55 years, representing 9.5% of total respondents and 14.6% of the 199 quantitative inquiry respondents. 4 out of 240 total respondents were above 55 years, representing 1.1% of total respondents and 1.7% of the 199 quantitative inquiry respondents.

The general trend is that there were more relative younger respondents. This could mean the population had more young people relative to the upper age bracket of above 55 years hence having a higher chance of being sampled for the study. This trend is supported by Autio et al who conducted a comprehensive study of the use of small loans in Finland (Autio et al., 2009). The results showed that young adults who could be represented by the progressive bigger number of respondents use small loans more than other age groups. This is could be an indication that the right population has been considered hence enhancing the effectiveness of the study results and application of results.

Level of education of the quantitative part of the study respondents

The level of education for respondents helps to ensure the right respondents are used in the study of are literate enough to understand the dynamics of short term consumer credit. This is based on the understanding that literacy levels give consumers of credit the ability to understand, interpret and respond to new opportunities including access to loans from lenders of credit faster than their

counterparts with lower education (Feder *et al.*, 1985). This means literacy levels are an important aspect to ensure the profile of respondents is fit subject to the study objective.

As summarized in Table 6.1, all respondents had some formal education. Out of the total respondents of 240, 5 were yet to have tertiary education representing a 1.4% and if only the quantitative respondents of 199 are considered, that is 2.1% of respondents. Out of the total respondents of 240, 8 had tertiary education certificates representing a 2.2% and if only the quantitative respondents of 199 are considered, that is 3.3% of respondents. Out of the total respondents of 240, 40 had tertiary education Diplomas representing a 10.9% and if only the quantitative respondents of 199 are considered, that is 16.7% of respondents.

Out of the total respondents of 240, 5 were studying for a tertiary education Diploma representing a 1.4% and if only the quantitative respondents of 199 are considered, that is 2.1% of respondents. Out of the total respondents of 240, 92 had Degrees representing a 25.1% and if only the quantitative respondents of 199 are considered, that is 38.3% of respondents. Out of the total respondents of 240, 25 were studying for a Degree representing a 6.8% and if only the quantitative respondents of 199 are considered, that is 10.4% of respondents. Out of the total respondents of 240, 33 had Masters Degrees representing a 9.0% and if only the quantitative respondents of 199 are considered, that is 13.8% of respondents. Out of the total respondents of 240, 26 were studying for a Master's Degree representing a 7.1% and if only the quantitative respondents of 199 are considered, that is 10.8% of respondents. Out of the total respondents of 240, 2 had Doctor of Philosophy Degree (PhD) representing a 0.5% and if only the quantitative respondents of 199 are considered, that is 0.8% of respondents. Out of the total respondents of 240, 4 were studying for a PhD representing a 1.1% and if only the quantitative respondents of 199 are considered, that is 1.7% of respondents.

The overall position is that 77.9% of respondents out of the total of 240 are have either a Degree or above. This increases further to 94% if only the quantitative respondents of 199 are considered. This could mean the understanding of most respondents is above that of an average person hence all responses could be taken to have been done from a well-informed point of view and very appropriate for the study (Feder *et al.*, 1985).

Table 6. 1: PROFILE OF RESPONDENTS FOR QUANTITATIVE PART OF THE STUDY (1ST TABLE)

POPULATION: 8000				QUANTITATIVE PART	
SAMPLE: 367 (GLENN, 1992)		TOTAL NO.	% IN	INDIVIDUALS	
		RESPODENTS	Total	NO.	% FROM
DESCRIPTION			SAMPLE	RESPODENTS	RESPODENTS
SAMPLE		240	65.4%	199	54.2%
GENDER	MALE	151	41.1%	151	63.2%
239 Responses	FEMALE	86	23.4%	86	36%
AGE	18 - 35	141	38.4%	141	58.8%
	36 - 40	60	16.3%	60	25%
	41 - 55	35	9.5%	35	14.6%
	56 <...	4	1.1%	4	1.7%
LEVEL OF EDUCATION	No formal education	NIL	NIL	NIL	NIL
	Yet to do tertiary education	5	1.4%	5	2.1%
	certificate	8	2.2%	8	3.3%
	Studying for a certificate	NIL	NIL	NIL	NIL
	Diploma	40	10.9%	40	16.7%
	Studying for a Diploma	5	1.4%	5	2.1%
	Degree	92	25.1%	92	38.3%
	Studying for a Degree	25	6.8%	25	10.4%
	Master’s Degree	33	9.0%	33	13.8%
	Studying for a Master’s Degree	26	7.1%	26	10.8%
	PhD	2	0.5%	2	0.8%
	Studying for a PhD	4	1.1%	4	1.7%

Sector in which respondents of quantitative part of the study operate

This part is intended to highlight the inclusiveness of the survey subject to the segments in which most consumers of short term consumer credit can be placed (BoZ, 2021; Chikweti, 2020). Therefore, as summarized in Table 6.2, out of the total respondents of 240, 75 were Civil Servants (Government workers) representing a 20.4% and if only the quantitative respondents of 199 are considered, that is 31.8% of respondents. Out of the total respondents of 240, 3 were from Quasi-Government (Zambia Revenue Authority, Road Development Agency, etc) representing a 0.8% and if only the quantitative respondents of 199 are considered, that is 1.3% of respondents. Out of the total respondents of 240, 9 were from Parastatals (Zambia Electricity Supply Corporation, ZAMTEL, etc) representing a 2.5% and if only the quantitative respondents of 199 are considered, that is 3.8% of respondents. Out of the total respondents of 240, 13 were from Public Limited Companies (Plc) representing a 3.5% and if only the quantitative respondents of 199 are considered, that is 5.5% of respondents. Out of the total respondents of 240, 88 were from Private Sector (Banks, Trade Kings, etc) representing a 24% and if only the quantitative respondents of 199 are considered, that is 44.2% of respondents. Out of the total respondents of 240, 48 were from the Small and Medium Scale Enterprises (SME) sector representing a 13.1% and if only the quantitative respondents of 199 are considered, that is 13.6% of respondents.

This breakdown of respondents shows that all these key segments of short term consumer credit consumers have been captured, of course with majority being from the Civil service, the Private sector and SMEs. What might be a cause for some concern is that the representation is not equal. However, it is worth appreciating that no study has come to the attention of the investigator which empirically establish defaults on short term loans being related to a specific segment hence influencing their risk profile. In view of this, a more representation is believed to suffice with regards to better informing the study.

Work or Business experience of the quantitative part of the study respondents

This aspect is important to the study because it helps to establish the period when the respondents started work or business. This is important because the study aims at sorting out a matter for those who were affected by the phenomenon that happened somewhere around 2009 to 2016 or so. This was as elaborated in literature review Chapter two (02) concerning the formation of a niche of short term consumers who required short term loans to sort out unforeseen issues owing to them

having a reduced net income while servicing long term loans with banks and other similar financial institutions (Boz, 2021, Chikweti, 2020, BoZ, 2016).

As summarized in Table 6.2, out of the total respondents of 240, 22 had less than one (01) year experience representing 6% and if only the quantitative respondents of 199 are considered, that is 9.2% of respondents. 57 out of 240 total respondents had experience of between 1 to 3 years, representing 15.5% of total respondents and 23.8% of the 199 quantitative inquiry respondents. 36 out of 240 total respondents had experience of between 4 to 5 years, representing 9.8% of total respondents and 15.1% of the 199 quantitative inquiry respondents. 36 out of 240 total respondents had experience of between 6 to 10 years, representing 9.8% of total respondents and 15.1% of the 199 quantitative inquiry respondents. 88 out of 240 total respondents had experience of above years, representing 24% of total respondents and 36.8% of the 199 quantitative inquiry respondents

The foregoing shows that in consolidation, 160 out of 240 total respondents had experience of between above four (04) years, representing 66.7% of total respondents and 80.4% of the 199 quantitative inquiry respondents. The study considered this to be a good enough basis to capture respondents from the niche under consideration by virtue of this amount being representative enough.

It is also worth appreciating that the intervals were based on the periods employers usually consider for them to allow their members of staff to get long term loans under the umbrella of the employer. This is usually a period enough to cover the Employment on Provisional Basis, which in the Zambia Government is about three (03) months, then a Probationary period which can run up to one (01) year. Then there are also instances when one is required to work for the Zambia Government for at least two (02) as this is the minimum required to go on vacation leave or work for at least above four (04) years as this is the period that on average they could have accumulated enough from their own pensions contributions. The idea is that these period could assist to cover for the loan should they decide to leave employment (Government for the Republic of Zambia, 2022). Therefore, the study used this as a standard for which period to consider. Then the period over five (05) years was based on the hypothesis of such people failing within the profile of those who could have been affected by the short term loans demand as a result of servicing a long term loan phenomenon.

Table 6. 2: PROFILE OF RESPONDENTS FOR QUANTITATIVE PART OF THE STUDY (2ND TABLE)

DESCRIPTION		POPULATION: 8000 SAMPLE : 367 (GLENN,1992)		QUANTITATIVE PART	
		TOTAL NO. RESPONDENTS	% IN SAMPLE	INDIVIDUALS	
				NO. RESPONDENTS	% FROM RESPONDENTS
SAMPLE		240	65.6%	199	54.2%
GENDER 239 Responses	MALE	151	41.1%	151	63.2%
	FEMALE	86	23.4%	86	36%
SECTORS 236 Responses	Civil Service	75	20.4%	75	31.8%
	Quasi-Government	3	0.8%	3	1.3%
	Parastatals	9	2.5%	9	3.8%
	Public Limited Company	13	3.5%	13	5.5%
	Private	88	24%	88	44.2%
	SME	48	13.1%	48	13.6%
WORK OR BUSINESS EXPERIENCE 240 Responses	Less than 1 year	22	6%	22	9.2%
	1 – 3 years	57	15.5%	57	23.8%
	4 – 5 years	36	9.8%	36	15.1%
	6 – 10 years	36	9.8%	36	15.1%
	10 <	88	24%	88	36.8%

6.1.2. Qualitative part of the study respondent's profile

The qualitative part of the study was basically composed of interviews with employers and merchants. As already alluded to in the preceding chapters, employers in this case are those who employ consumers of short term consumer credit and merchants are those who supply goods and services to consumers of short term consumer credit. Therefore, the study targeted those in management for employers and merchants on the premise that these had influence on the activities in these establishments hence their perspective on the topic could better inform the study. It is against this background that the respondent's profile consideration is aimed at establishing if the right respondents were engaged. This is subject to the issue of having influence in the respective establishments hence enhancing reliability on the interpretations of the study results.

One thing worth appreciating in this part is that a different approach is considered here such that unlike the profile analysis for the quantitative part where individual attributes are analysed, attributes for this qualitative part are combined. This is because despite there being a lot of studies over demographics such as gender, age, level of education, experience at work or in business and their influence on management decisions, none have been done in isolation but as a whole. For example, demographic variables such as gender, age, educational level and other consideration such as sectors in which they are from have been used to predict many behaviors, including effectiveness (Eagly, Karau, & Makhijani, 1995; Thompson, 2000), communication style (Kirtley & Weaver, 1999), decision making (Ganzel, 1999; Radecki & Jaccard, 1996), productivity (Kovar & Overdorf, 1995; Wilson & Hossain, 1999), participation (Itzhaky & York, 2000; O'Connor, 1996; Williamson, 2000), conflict style (Chusmir & Mills, 1989; Duane, 1989; P. S. Sorenson, Hawkins, & R. L. Sorenson, 1995), success (Blank & Levesque, 1993; Chusmir & Parker, 1992; Sutherland, 1999), and power (Jenkins, 2000; Lips, 2000).

It is against this background that despite the details of the respondents for the qualitative part being highlighted in Tables 6.3 and 6.4, the main focus was just establishing how representative the respondents were by considering the general picture. Therefore, the general details are that a total of 41 interviews were conducted between and amongst employers and merchants. Nineteen (19) of these interviews out of 41 representing 46.3% were with employers while 22 out of the 41 interviews representing 53.7% were with merchants. This was based on those who responded as employers and merchants to the interviews that were sent out to about six hundred (600) short term

consumer credit stakeholders. These invitations were based on the employers indicated by short term consumer credit clients for Whence Financial services which was used as the study population. The invitation guided respondents to respond as employers if they were in management for either an institution which employs users of short term consumer credit or supplies goods and services to such consumers. The method was chosen as being appropriate given the circumstances under which the study was being conducted of covid-19 as this was the time it was at peak hence no respondents could be met physically, henceforth all deliberations had to be done through Google Forms and other communication media such as Facebook, Whatsapp and electronic mail (email).

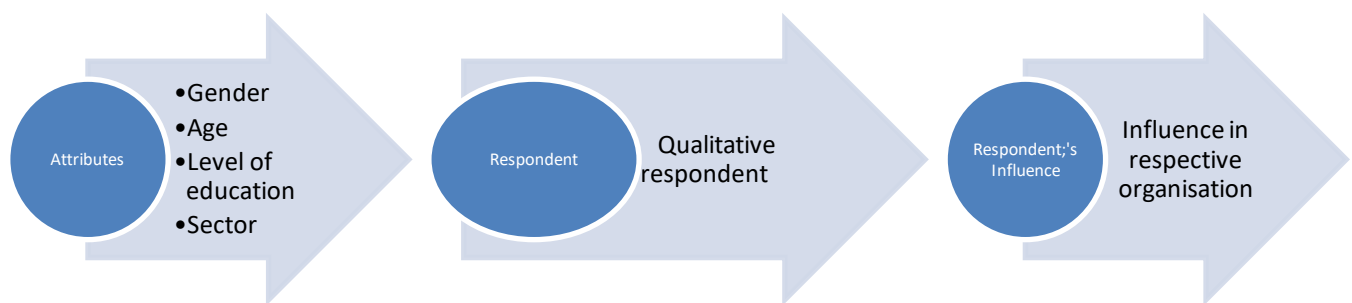


Figure 6. 7: Qualitative Respondents Organizational Influence

(Source: Author, 2022)

In view of the foregoing, the demographics considered are enough to capture the opinion of a respondents whose opinion can be influential enough to influence organisation decisions (Ganzel, 1999; Radecki & Jaccard, 1996).

Table 6. 3: PROFILE OF RESPONDENTS FOR QUALITATIVE PART OF THE STUDY (1ST TABLE)

DESCRIPTION		Totals		QUALITATIVE PART			
		NO.	%	EMPLOYERS		MERCHANTS	
		RESPONDENTS		Respondents	%	Respondents	%
INTERVIEWS	41	41	100%	19	46.3%	22	53.7%
GENDER	MALE	26	63.4%	12	63.2%	14	63.6%
	FEMALE	15	36.6%	7	36.8%	8	36.4%
AGE	18 - 35	23	56.1%	10	52.6%	13	59.1%
	36 - 40	12	29.3%	7	36.8%	5	22.7%
	41 - 55	5	12.2%	1	5.3%	4	18.2%
	56 <...	1	2.4%	1	5.3%	NIL	-
LEVEL OF EDUCATION	No formal education	NIL	-	NIL	-	NIL	-
	Yet to do tertiary education	NIL	-	NIL	-	NIL	-
	certificate	1	2.4%	NIL	-	1	4.6%
	Studying for a certificate	NIL	-	NIL	-	NIL	-
	Diploma	6	14.6%	4	21.1%	2	9.1%
	Studying for a Diploma	3	7.3%	1	5.3%	2	9.1%
	Degree	14	34.1%	4	21.1%	10	45.5%
	Studying for a Degree	7	17.1%	3	15.8%	4	18.2%
	Master's Degree	6	14.6%	4	21.1%	2	9.1%
	Studying for a Master's Degree	3	7.3%	3	15.8%	NIL	-
	PhD	NIL	-	NIL	-	NIL	-
	Studying for a PhD	1	2.4%	NIL	-	1	4.6%

Table 6. 4: PROFILE OF RESPONDENTS FOR QUALITATIVE PART OF THE STUDY (2ND TABLE)

DESCRIPTION				QUALITATIVE PART			
		NO. RESPONDENT S	%	EMPLOYERS		MERCHANTS	
				Respondent s	%	Respondent s	%
No. OF INTERVIEWS	41	41	100%	19	46.3 %	22	53.7 %
GENDER	MALE	26	63.4 %	12	63.2 %	14	63.7 %
	FEMALE	15	36.6 %	7	36.8 %	8	36.4 %
SECTOR	Civil Service	6	14.6 %	2	10.5 %	4	18.2 %
	Quasi-Government	NIL	-	NIL	-	NIL	-
	Parastatals	1	2.4%	1	5.3%	NIL	-
	Public Limited Company	2	4.9%	1	5.3%	1	4.6%
	Private	25	61%	12	63.2 %	13	31.7 %
	SME	7	17.1 %	3	36.8 %	4	59.1 %
WORK OR BUSINESS EXPERIENCE	Less than 1 year	7	17.1 %	4	21.1 %	3	13.6 %
	1 – 3 years	12	29.3 %	3	15.8 %	9	41.0 %
	4 – 5 years	7	17.1 %	5	26.3 %	2	9.1%
	6 – 10 years	3	7.3%	1	5.3%	2	9.1%
	10 <	12	29.3 %	6	31.6 %	6	27.3 %

6.2. Data analysis from the quantitative centric inquiry layout

This part of the analysis is dedicated to the quantitative component of the concurrent mixed methods study which is based on the hypothesis in the conceptual framework chapter [chapter 4] and its underlying assumptions. All the quantitative data as aforementioned is analyzed subject to reputation being the independent variable and moral hazard the dependent variable, with the constituents of developing and transmission of reputation being the intervening variables (Cresswell, 2003). In essence, this part of the chapter is anchored on the premise of asymmetry of information being the major cause of defaults in short term loans which makes them high risk loans hence being administered at a high cost in order to make enough to manage such a risk (Omede, 2019; Beecher, Fildmen & Lobel, 2019; Dobbie & Skiba, 2013). However, this is what ends up making them high cost loans leading to undesirable outcomes such as financial distress on consumers. The underlying assumption advanced by the prospective appropriate low cost interest rate model for short term consumer credit is that this asymmetry of information can be significantly reduced by incorporating precepts of personal reputation in the model to manage moral hazard. Therefore, this part of the study tests the hypothesis by considering the effect of a change in an intervening variable and measuring its effect on consumer reputation based on the respective change in moral hazard.

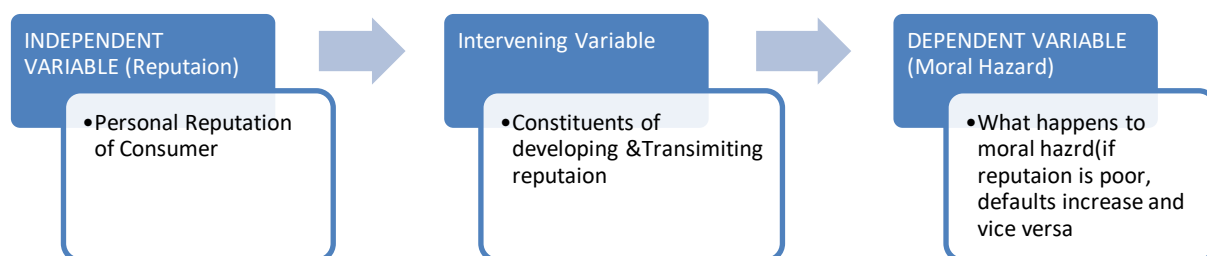


Figure 6. 8: Reputation and Moral Hazard

(Source: Author, 2022)

6.3. Responses from Individual consumers or stakeholders of short term consumer Credit

6.3.1. Suitability centric hypothesis of the short term consumer credit interest rate model rationale

Short term consumer credit demand driver hypothesis

H₀: Meeting budget shortfalls and paying for unforeseen expenditure is mostly not the main driver of short term consumer credit demand.

H₁: Meeting budget shortfalls and paying for unforeseen expenditure is mostly the main driver of short term consumer credit demand.

What do you use short term loans for?

199 responses

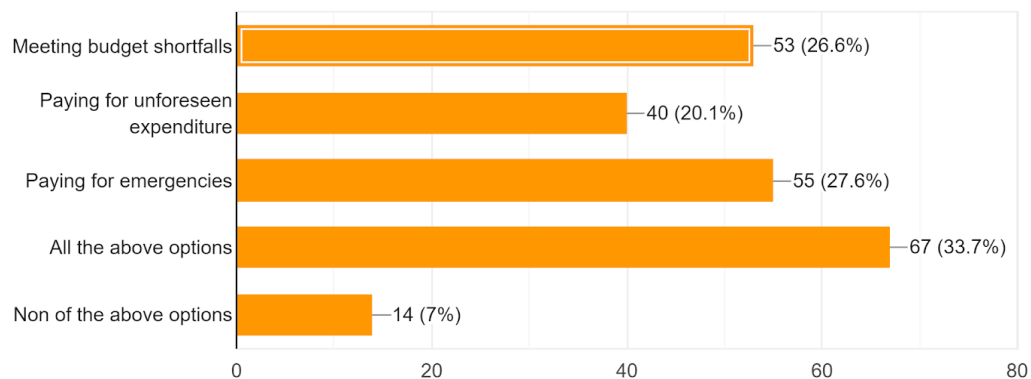


Figure 6. 9: Use of Short Term Loans

(Source: Field data, 2022)

Table 6. 5: Short term consumer credit demand driver hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION						
					Claim	Meeting budget shortfalls and paying for unforeseen expenditure is mostly the main driver of short term consumer credit demand
Hypothesis being tested	Short term consumer credit demand driver hypothesis					
Hypothesis Statements					Decision Rule	Reject Null Hypothesis
Null Hypothesis (H_0)	$H_0: P =$	0.5				
Alternative Hypothesis (H_1)	$H_1: P >$	0.5	Claim		Conclusion	There is enough evidence at a 95% level of significance to reject the null hypothesis hence supporting the claim
Level of Significance	α	0.05				
Test Type		Right-Tailed				
Distribution		Normal Distribution				Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
						P = Proportion q = Population Proportion of failures n = Sample Size
Numbers of successes	x	185				
Sample Size	n	240				
Sample Proportion of Successes	$\hat{p}$	0.770833333				P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5				Note (s) P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
St.Dev of Sampling Distribution	S_x	0.032274861				
Probability Value (P-Value)		1	Left-tailed			
		0	Right-tailed	< Alpha		
		0	Two-tailed			

(Source: Author, 2022)

Short term consumer credit demand driver hypothesis

Significance of hypothesis to the study

The intent of this concurrent mixed methods study is to change the principal design of short term consumer credit facilities pricing to address the aspect of short term consumer credit being high cost while promoting its positives that have continued driving its demand. Therefore, it is vital to properly understand the demand drivers so as to anchor the solutions established by the study on true attributes to enhance the results of the resultant model. In essence, ***this hypothesis consideration helps to start the pursuit of the first objective of exploring the short term consumer credit problem.*** This pursuit is further consolidated by an attempt to address the first research question which establishes what the problem looks like in terms of severity, describing what is happening or not happening and highlighting the type of key stakeholders in the problem.

General observation from results

As indicated in Table. 6.5 adapted from Figure 6.9, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that meeting budget shortfalls and paying for unforeseen expenditure is mostly the main driver of short term consumer credit demand in Zambia. This is because the Probability value (P-Value) which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that the actual test gave a P- Value of zero (0), this simply means the actual value was less than 0.001 and the zero is due to rounding offs. Therefore, this shows that results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) of meeting budget shortfalls and paying for unforeseen expenditure being mostly the main driver of short term consumer credit demand. This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening. This position has further been supported by the tests of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table.

Short term credit consumer behavior and high interest rates hypothesis

H₀: Interest rates for short term loans are high relative to other loans but consumers are mostly not willing to change behavior even if such can lead to paying lower rates.

H₁ Interest rates for short term loans are high relative to other loans and consumers are mostly willing to change behavior if such can lead to paying lower rates.

7. Are interest rates for short term loans high and if so, would you be willing to change your behavior to that of others in your community who pa... also enjoy such privileges? (Tick all applicable)

199 responses

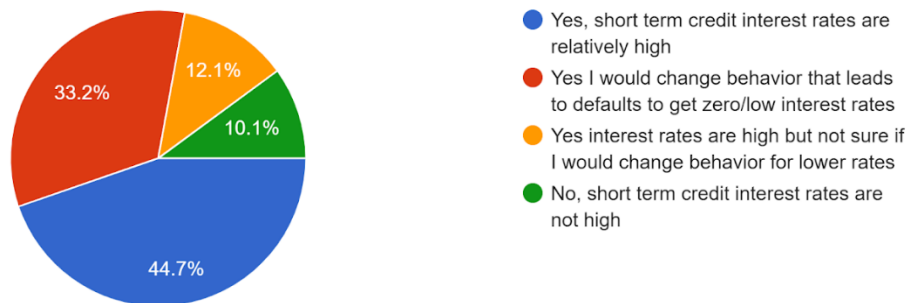


Figure 6. 10: Interest Rates and Consumer Behavior

(Source: Field data, 2022)

Table 6. 6: Short term credit consumer behavior and high interest rates hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					
				Claim	Interest rates for short term loans are high relative to other loans and consumers are mostly willing to change behavior if such can lead to paying lower rates.
Hypothesis being tested	Short term credit consumer behavior and high interest rates hypothesis				
				Decision Rule	Reject Null Hypothesis
Hypothesis Statements					
Null Hypothesis (H_0)	$H_0: P =$	0.5			
Alternative Hypothesis (H_1)	$H_1: P >$	0.5	Claim	Conclusion	There is enough evidence at a 95% level of significance to reject the null hypothesis hence supporting the claim
Level of Significance	α	0.05			
Test Type		Right-Tailed			
Distribution		Normal Distribution			Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
					P = Proportion q = Population Proportion of failures n = Sample Size
Numbers of successes	x	155			
Sample Size	n	250			
Sample Proportion of Successes	$\hat{p}$	0.62			P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5			Note (s)
					P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
St.Dev of Sampling Distribution	$S_{\bar{x}}$	0.031622777			
Probability Value (P-Value)		0.999926099	Left-tailed		
		7.39012E-05	Right-tailed	< Alpha	
		0.000147802	Two-tailed		

(Source: Author, 2022)

Short term credit consumer behavior and high interest rates hypothesis

Significance of hypothesis to the study

This hypothesis is important as it helps to establish a cardinal aspect of the interest rate model for short term consumer credit which would address the issue of being high cost. This is where a community (which can be virtual) is created in which a standard behavior is established which if met the constituents of the respective community enjoy certain benefits which in this case could be low or even zero interest rates on short term credit. According to Baumeister et al, a standard is a conception of how things should be, such as social norms, personal goals, and expectations of others (Baumeister et al., 1994). Therefore, the general quest is a community with a reputation of a certain standard behavior in which there is no or insignificant asymmetry of information to address the issue of moral hazard which leads to defaults consequently high interest rates in a bid to manage the default risk (Omede, 2019; Beecher, Fildmen & Lobel, 2019; Dobbie & Skiba, 2013).

In view of the foregoing, this hypothesis helps to place reputation, which is the study's independent variable in connection with moral hazard which is the dependent variable and how a consideration of self-regulation as an intervention variable influence the two. It basically helps the study to establish if this hypothesis is valid enough to establish the suitability of creation of a community under which its constituents are availed benefits which they only get to enjoy by abiding with the set standards.

General observation from results

As indicated in Table 6.6 adapted from Figure 6.10, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that Interest rates for short term loans are high relative to other loans and consumers are mostly willing to change behavior if such can lead to paying lower rates. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this case the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly

significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) of consumers of short term credit being aware and concerned about the high cost of such loans and being willing to change behavior that leads to moral hazard which causes these loans to be high cost on a promise of lower interest rates. This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this hypothesis test result gives insight into how reputation can be affected by a change in moral hazard as a result of the effects of self-regulation on the premise of consumers being compelled to not to default to enjoy low rates of short term consumer credit. Consequently, this helps to address the secondary objective of explaining the short term consumer credit problem subject to the lender-borrower relationship.

Reputation Collateral hypothesis

H_0 : Good reputation with regards to not defaulting on agreements should at most not be used as collateral to get loans or enjoy other benefits from suppliers of goods/services.

H_1 : Good reputation with regards to defaulting on agreements should at most be used as collateral to get loans or enjoy other benefits from suppliers of goods/services.

Should a good reputation with regards to not defaulting on agreements be used as collateral to get loans or enjoy other benefits from suppliers of goods/services?
199 responses

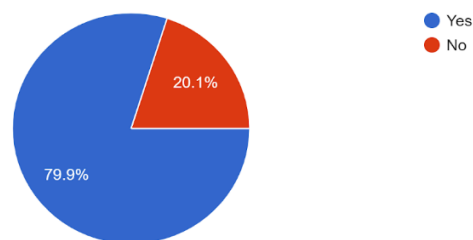


Figure 6. 11: Reputation Collateral

(Source: Field data, 2022)

Table 6. 7: Reputation Collateral hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					Claim	Good reputation with regards to defaulting on agreements should be used as collateral to get loans or enjoy other benefits from suppliers of goods/services.
Hypothesis being tested	Reputation Collateral hypothesis					
Hypothesis Statements					Decision Rule	Reject Null Hypothesis
Null Hypothesis (H_0)	$H_0 : P =$	0.5				
Alternative Hypothesis (H_1)	$H_1 : P >$	0.5	Claim		Conclusion	There is enough evidence at a 95% level of significance to reject the null hypothesis hence supporting the claim
Level of Significance	α	0.05				
Test Type		Right-Tailed				
Distribution		Normal Distribution				Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
Numbers of successes	x	159				P = Proportion q = Population Proportion of failure n = Sample Size
Sample Size	n	240				
Sample Proportion of Successes	$\hat{p}$	0.6625				P-Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5				Note (s)
St.Dev of Sampling Distribution	S_x	0.032274861				P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		0.999999761	Left-tailed			
		2.39076E-07	Right-tailed	< Alpha		
		4.78152E-07	Two-tailed			

(Source: Author, 2022)

Reputation Collateral hypothesis

Significance of hypothesis to the study

The theoretical framework for the study as indicated in detail in its chapter advances that in order for the low cost interest rate model for short term consumer credit to be actualized, the key stakeholders such as consumers, merchants and employers ought to be involved in a somewhat trust establishing relationship. Therefore, this hypothesis sets a basis for establishing a trust based relationship between and amongst the key stakeholders.

General observation from results

As indicated in Table. 6.7, adapted from Figure 6.11, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that good reputation with regards to defaulting on agreements should be used as collateral to get loans or enjoy other benefits from suppliers of goods/services. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) of good reputation with regards to defaulting on agreements being used as collateral to get loans or enjoy other benefits from suppliers of goods/services. This is because the foregoing would cause consumers of short term credit facilitates to be willing to change behavior that leads to moral hazard which causes these loans to be high cost loans to maintain a reputation that enables them to have access to goods and services even without having tangible collateral.

This sets a basis upon which the crafting of a suitable low cost interest rate model for short term consumer credit can be based. This is because this hypothesis test result gives insight into how reputation can be affected by a change in moral hazard as a result of the effects of self-regulation on the premise of consumers being compelled to not to default in a bid to build their reputation

collateral to enjoy access to goods and services. This helps us achieve our objective of to explain the short term consumer credit problem subject to the lender-borrower relationship. This position has further been supported by the tests of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table.

Regulation of short term consumer credit hypothesis

H₀: Authorities should mostly regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers.

H₁: Authorities should mostly not regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers.

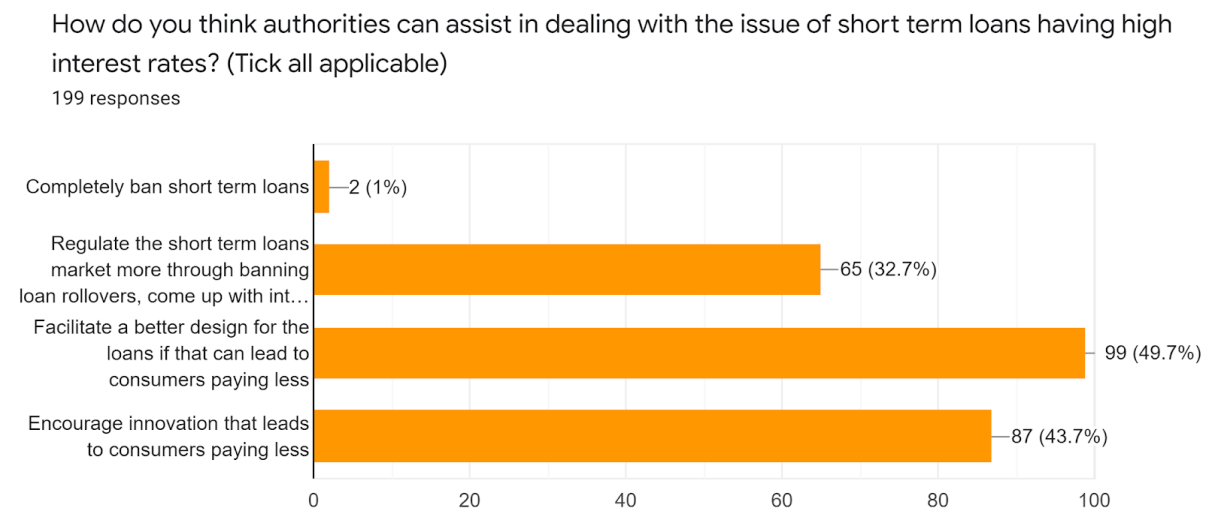


Figure 6. 12: Regulation of Short Term Loans

(Source: Field Data, 2022)

HYPOTHESIS TEST FOR A PROPORTION						
					Claim	Authorities should mostly not regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers
Hypothesis being tested	Regulation of short term consumer credit hypothesis					
					Decision Rule	Reject Null Hypothesis
Hypothesis Statements						
Null Hypothesis (H_0)	$H_0 : P =$	0.5				
Alternative Hypothesis (H_1)	$H_1 : P >$	0.5	Claim		Conclusion	There is enough evidence at a 95% level of significance to reject the null hypothesis hence supporting the claim
Level of Significance	α	0.05				
Test Type		Right-Tailed				
Distribution		Normal Distribution				Standard Deviation of Sampling Distribution $= \sqrt{pq/n}$
						P = Proportion q = Population Propotion of failuress n = Sample Size
Numbers of successes	x	186				
Sample Size	n	240				
Sample Proportion of Succeses	$\hat{p}$	0.775				P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5				
St.Dev of Sampling Distribution	S_x	0.032274861				Note (s)
						P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		1	Left-tailed			
		0	Right-tailed	< Alpha		
		0	Two-tailed			

194

Regulation of short term consumer credit hypothesis

Significance of hypothesis to the study

The consideration of this hypothesis helps to address a matter that is critical to solving the short term consumer credit high cost problem so as to ensure the study's crafted model is founded on workable precepts. The challenge with inflexible regulation of the short term consumer credit space has been poor stakeholder engagement. This is what has led to consumers conniving with suppliers to evade the regulations made by authorities (Malone & Skiba, 2020). Therefore, consideration of this hypothesis helps with regards to taking the views of key stakeholders into consideration so that the overall solution to the problem through the new interest rate model is structured to have regards to these stakeholders to enhance suitability of the proposed solution.

General observation from results

As indicated in Table. 6.8, adapted from Figure 6.12, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that authorities should mostly not regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers. This is because the Probability value (P-Value) which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that the actual test gave a P- Value of zero (0), this simply means the actual value was less than 0.001 and the zero is due to rounding offs. Therefore, this shows that results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that authorities should mostly not regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers. This sets a basis upon which the crafting of a suitable low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening. This consideration would help in managing reputation subject to moral hazard as it would have addressed the issue that causes individuals to deviate from the desired behavioral norms propagated by stiff regulation (Weick, 1979; Havilland, 1977; Biddle &

Thomas, 1966). This position has further been supported by the tests of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table.

High interest rate and default hypothesis

H₀: Defaulting on short term consumer credit is mostly all about high interest rates and not a matter of personal integrity despite the terms of the loan are known from inception.

H₁: Defaulting on short term consumer credit is not mostly all about high interest rates but also a matter of personal integrity since the terms of the loan are known from inception.

How likely are you to default on a high interest short term loan compared to a low cost one?

197 responses

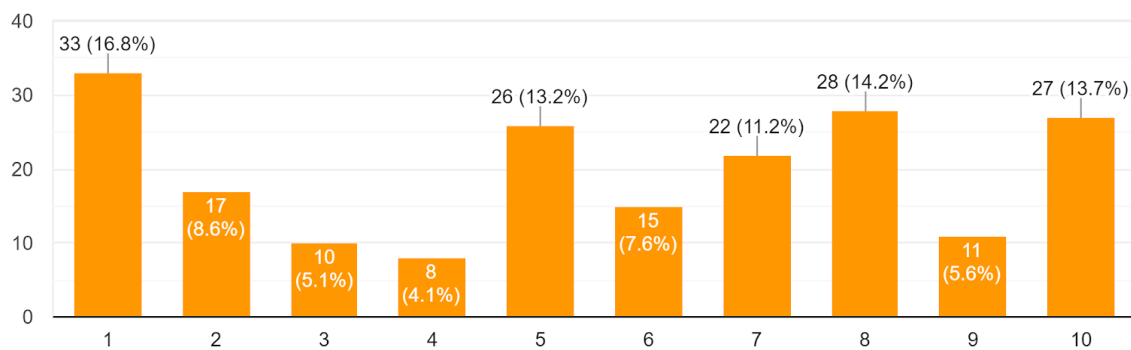


Figure 6. 13: Defaults and Interest Rates

(Source: Field data, 2022)

Table 6. 9: High interest rates and defaults hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					
				Claim	Defaulting on short term consumer credit is not mostly all about high interest rates but also a matter of personal integrity since the terms of the loan are known from inception.
Hypothesis being tested	High interest rate and default hypothesis				
				Decision Rule	Reject Null Hypothesis
Hypothesis Statements					
Null Hypothesis (H_0)	$H_0 : P \leq$	0.5			
Alternative Hypothesis (H_1)	$H_1 : P >$	0.5	Claim	Conclusion	There is enough evidence at a 95% level of significance to reject the null hypothesis hence supporting the claim
Level of Significance	α	0.05			
Test Type		Right-Tailed			
Distribution		Normal Distribution			Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
					P = Proportion
Numbers of successes	x	164			q = Population Proportion of failure
					n = Sample Size
Sample Size	n	240			
Sample Proportion of Successes	$\hat{p}$	0.68333333			P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5			
St.Dev of Sampling Distribution	$S_{\bar{x}}$	0.032274861			Note (s)
					P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		0.999999993	Left-tailed		
		6.71996E-09	Right-tailed	< Alpha	
		1.34399E-08	Two-tailed		

(Source: Author,2022)

High interest rate and default hypothesis

Significance of hypothesis to the study

The rationale of the interest rate model under consideration is anchored on building a trust based community hence reputation which is a prerequisite of such a community being paramount. This hypothesis tests deviation from behavioral norms as an intervening variable and assess its influence on the independent variable reputation subject to moral hazard as the dependent variable.

General observation from results

As indicated in Table. 6.9, adapted from Figure 6.13, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that defaulting on short term consumer credit is not mostly all about high interest rates but also a matter of personal integrity since the terms of the loan are known from inception. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that defaulting on short term consumer credit is not mostly all about high interest rates but also a matter of personal integrity since the terms of the loan are known from inception. This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening. This position has further been supported by the tests of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table.

Defaulting and public image hypothesis

H₀: A consumer knowing that defaulting on loan would lead to this information being shared with Credit bureau, colleagues at work, in their community, industry or merchants would mostly not compel them not to default for whatever reason.

H₁: A consumer knowing that defaulting on loan would lead to this information being shared with Credit bureau, colleagues at work, in their community, industry or merchants can compel them not to default for whatever reason.

Would knowing that defaulting on a zero/low interest rate loan would lead to this information being shared with your colleagues at work, in your comm...) compel you not to default for whatever reason?
198 responses

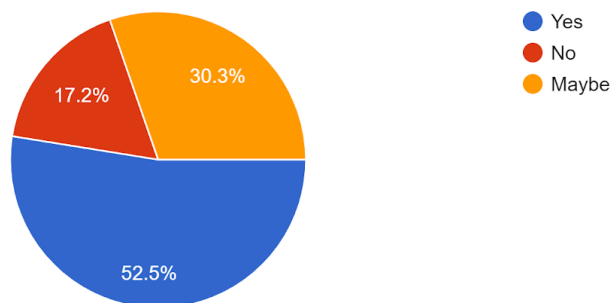


Figure 6. 14: Short Term Loans Interest Rates and Consumer Behavior

(Source: Field data, 2022)

Defaulting and public image hypothesis

Significance of hypothesis to the study

The rationale of the interest rate model under consideration is anchored on building a trust based community hence reputation which is a prerequisite of such a community being paramount. This hypothesis tests individual's ability not to deviate from behavioral norms to maintain their investment into their public image as an intervening variable and assess its influence on the independent variable reputation subject to moral hazard as the dependent variable.

General observation from results

As indicated in Table. 6.10, adapted from Figure 6.14, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that a consumer knowing that defaulting on loan would lead to this information being shared with Credit bureau, colleagues at work, in their community, industry or merchants can mostly compel them not to default for whatever reason. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The rationale of the interest rate model under consideration is anchored on building a trust based community hence reputation which is a prerequisite of such a community being paramount. Therefore, this hypothesis tests explains an individual's ability not to deviate from behavioral norms to maintain their investment into their public image. This gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening hence exploring the matter to better inform the crafting of the low cost short term consumer credit model under consideration. This position has further been supported by the tests of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table

Loan facility and salary increment hypothesis

H₀: It would not be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer than negotiate for a salary increment.

H₁: It would be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer compared to negotiating for a salary increment.

What would be easier to negotiate for, a salary increment with your employer or asking your employer to facilitate lower interest rates on a short term loan if they could?

197 responses

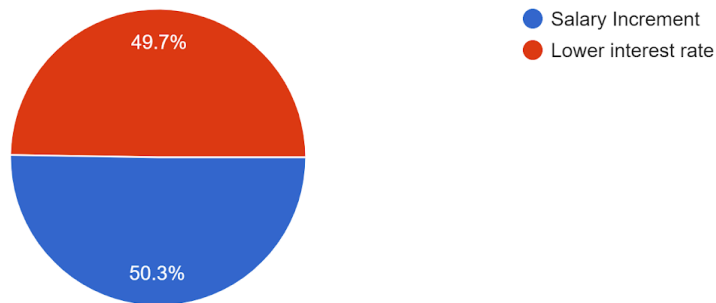


Figure 6. 15: Short Term Consumer Perspective on Salary Increment and Low Loan Rates

(Source: Field data, 2022)

Table 6. 11: Loan facility and salary increment hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION						
					Claim	It would be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer compared to negotiating for a salary increment.
Hypothesis being tested	Loan facility and salary increment hypothesis					
					Decision Rule	Fail to Reject Null Hypothesis
Hypothesis Statements						
Null Hypothesis (H_0)	$H_0: P =$	0.5				
Alternative Hypothesis (H_1)	$H_1: P >$	0.5	Claim		Conclusion	There is enough evidence at a 95% level of significance to reject the null hypothesis hence supporting the claim
Level of Significance	α	0.05				
Test Type		Right-Tailed				
Distribution		Normal Distribution				Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
						P = Proportion
Numbers of successes	x	98				q = Population Proportion of failures
						n = Sample Size
Sample Size	n	240				
Sample Proportion of Successes	$\hat{p}$	0.40833333				P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5				
St.Dev of Sampling Distribution	S_x	0.032274861				Note (s)
						P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		0.002254349	Left-tailed			
		0.997745651	Right-tailed	> Alpha		
		0.004508698	Two-tailed			

(Source: Author, 2022)

Loan facility and salary increment hypothesis

Significance of hypothesis to the study

This hypothesis helps the study to highlight the expectations of individual consumers as key stakeholders with regards to what their employer is able to do to help address the short term consumer credit problem. It is worth appreciating that the essence of this hypothesis was mainly to see how individual consumers of short term credit think about such an issue in relation to employers who were asked a similar question. This is because if the low cost short term interest rate model was going to work, individuals or employers would be required to see eye to eye on such matters otherwise, the model would not be suitable.

General observation from results

As indicated in Table. 6.11, adapted from Figure 6.15, there is not enough evidence at a 95% level of significance to fail to reject the Null Hypothesis (H_0) hence not supporting the claim that it would be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer compared to negotiating for a salary increment. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is more than the alpha [α] (Underhill & Bradfield, 2013).

Therefore, this shows that the results were not significant enough as such, they could to have occurred by chance hence not supporting the claim.

Interpretation of general observation from results

The test results indicate that a larger sample size would be required to test as to whether or not it would be easier for a consumer of short term consumer credit to negotiate for lower interest rate facilities through their employer compared to negotiating for a salary increment. The idea is that it should be easier for the employer to negotiate with employer to facilitate for lower rates based on how reputable they are the community under consideration and because this would be something that would not cost them anything (Wood, 2000; Kulik & Ambrose, 1992; Festinger, 1954). This is compounded by the argument that the employer has the capacity to promise timely deductions to suppliers and even fulfil (Trevor, 2001; Spence, 1973). Therefore, dealing with the default concern which leads to suppliers of short term consumer credit costing them relatively high compared to

other loan facilities. However, the test of goodness fit of data suggests the null hypothesis be rejected as shown in the computations in the appendix.

Purchasing power and increased sales volume for merchant's hypothesis

H₀: Consumers not paying high interest on short term consumer credit would not lead to them having more purchasing power and increased sales volumes for merchants.

H₁: Consumers not paying high interest on short term consumer credit would lead to them having more purchasing power and increased sales volumes for merchants.

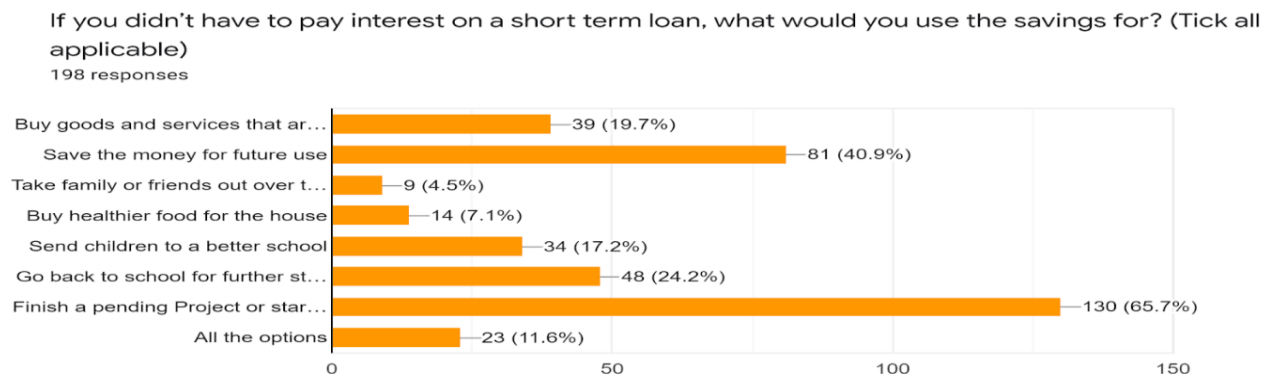


Figure 6. 16: Short Term Loan's Consumer Savings

(Source: Field data, 2022)

Table 6. 12: Purchasing power and increased sales volume for Merchants hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION				Claim	Consumers not paying high interest on short term consumer credit would lead to them having more purchasing power and increased sales volumes for merchants.
Hypothesis being tested	Purchasing power and increased sales volume for merchant's hypothesis				
				Decision Rule	Reject Null Hypothesis
Hypothesis Statements					
Null Hypothesis (H_0)	$H_0: P =$	0.5			
Alternative Hypothesis (H_1)	$H_1: P >$	0.5	Claim	Conclusion	There is enough evidence at a 95% level of significance to reject the null hypothesis hence supporting the claim
Level of Significance	α	0.05			
Test Type		Right-Tailed			
Distribution		Normal Distribution			Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
Numbers of successes	x	156			P = Proportion q = Population Proportion of failure n = Sample Size
Sample Size	n	240			
Sample Proportion of Successes	$\hat{p}$	0.65			P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5			
St.Dev of Sampling Distribution	$S_{\bar{x}}$	0.032274861			Note (s)
					P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		0.99998321	Left-tailed		
		1.67926E-06	Right-tailed	< Alpha	
		3.35852E-06	Two-tailed		

(Source: Author, 2022)

Purchasing power and increased sales volume for merchant's hypothesis

Significance of hypothesis to the study

The general quest for the study is to create a win-win situation for all key stakeholders in the bid of solving the short term consumer credit problem. Therefore, it is vital that the interest rate model under consideration take care of the interests of all stakeholders, otherwise, the model shall be just like the other solutions which have been proposed since the early 1990s but have failed to yield satisfactory results (Servon, 2017). In view of the foregoing, this hypothesis test if individuals would support the interest of merchants, which is increased sales volume if their residual income had to increased due to savings made as a result of paying lower rates on loans.

General observation from results

As indicated in Table. 6.12, adapted from Figure 6.16, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that consumers not paying high interest on short term consumer credit would lead to them having more purchasing power and increased sales volumes for merchants. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that consumers not paying high interest on short term consumer credit would lead to them having more purchasing power and increased sales volumes for merchants. This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening. This helps the study to understand the constructs of short term consumer credit from the perspective of consumers of short term credit subject to suppliers of goods and services to such stakeholders. This position has further been supported by the tests

of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table.

6.3.2. Acceptability centric hypothesis of the short term consumer credit interest rate model rationale

Consumer behavior and benefits hypothesis

H₀: A low cost short term consumer credit facility cannot lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits.

H₁: A low cost short term consumer credit facility can lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits.

Do you think a Zero interest rate for short term loans would lead to an increase in your residue income, give you a peace of mind and a sense of h...by the conditions enabling to have such benefits?

197 responses

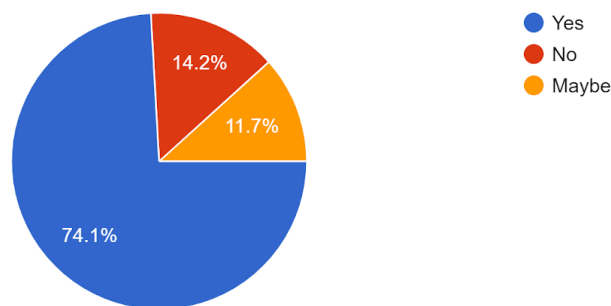


Figure 6. 17: Effects of Zero Interest Loans

(Source: Field data, 2022)

Table 6. 13: Consumer behavior and benefits hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					Claim	A low cost short term consumer credit facility can lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits.
Hypothesis being tested	Consumer behavior and benefits hypothesis					
Hypothesis Statements					Decision Rule	Reject Null Hypothesis
Null Hypothesis (H_0)	$H_0 : P =$	0.5				
Alternative Hypothesis (H_1)	$H_1 : P >$	0.5	Claim		Conclusion	There is not enough evidence at a 95% level of significance to not fail to reject the null hypothesis hence the claim cannot be supported
Level of Significance	α	0.05				
Test Type		Right-Tailed				
Distribution		Normal Distribution				Standard Deviation of Sampling Distribution $= \sqrt{pq/n}$
Numbers of successes	x	169				P = Proportion q = Population Proportion of failures n = Sample Size
Sample Size	n	240				
Sample Proportion of Successes	$\hat{p}$	0.70416667				P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5				
St.Dev of Sampling Distribution	$S_{\bar{x}}$	0.032274861				Note (s) P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		1	Left-tailed			
		1.25903E-10	Right-tailed	< Alpha		
		2.51805E-10	Two-tailed			

(Source: Author, 2022)

Consumer behavior and benefits hypothesis

Significance of hypothesis to the study

This hypothesis helps to test the notion of individual consumers being able to adapt their behavior based on predefined behavioral expectations in order to have access to certain benefits. Essentially, it tests the effects of attributions for the cause of behavior as an intervention variable on Reputation as the independent variable in consideration of moral hazard as the dependent variable.

General observation from results

As indicated in Table. 6.13, adapted from Figure 6.17, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that a low cost short term consumer credit facility can lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that a low cost short term consumer credit facility can lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits. This sets a basis upon which the crafting of an acceptable low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening. This position has further been supported by the tests of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table.

Financial stress and poor production hypothesis

H₀: Productivity at work would not be adversely be affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them.

H₁: Productivity at work would be adversely affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them.

What would happen to your productivity at work when in default on a loan or when you do not have money to pay for a loan and the creditors were pursuing you?

199 responses

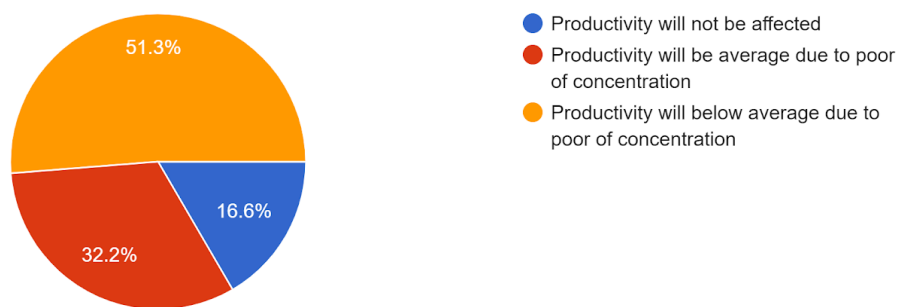


Figure 6. 18: Consumer Productivity when in Loan Default

(Source: Field data, 2022)

Table 6. 14: Financial stress and poor production hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					
				Claim	Productivity at work would be adversely affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them.
Hypothesis being tested	Financial stress and poor production hypothesis				
				Decision Rule	Reject Null Hypothesis
Hypothesis Statements					
Null Hypothesis (H_0)	$H_0: P =$	0.5			
Alternative Hypothesis (H_1)	$H_1: P >$	0.5	Claim	Conclusion	There is not enough evidence at a 95% level of significance to not fail to reject the null hypothesis hence the claim cannot be supported
Level of Significance	α	0.05			
Test Type		Right-Tailed			
Distribution		Normal Distribution			Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
					P = Proportion
Numbers of successes	x	166			q = Population Proportion of failure
					n = Sample Size
Sample Size	n	240			
Sample Proportion of Successes	$\hat{p}$	0.691666667			P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5			
St.Dev of Sampling Distribution	S_x	0.032274861			Note (s)
					P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		0.999999999	Left-tailed		
		1.43756E-09	Right-tailed	< Alpha	
		2.87511E-09	Two-tailed		

(Source: Author, 2022)

Financial stress and poor production hypothesis

Significance of hypothesis to the study

This hypothesis gives a basis upon which financial stress in a workforce can affect the employers of consumers of high cost short term loans hence giving a better understanding of the relationship of these key stakeholders. This understanding helps in both stakeholders seeing how and why it is vital to work together to resolve the matter for mutual benefit through the collaboration proposed by the low cost interest rate model under consideration.

General observation from results

As indicated in Table. 6.14, adapted from Figure 6.18, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that productivity at work would be adversely affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that productivity at work would be adversely affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them. This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening.

6.3.3. Feasibility centric hypothesis of the short term consumer credit interest rate model rationale

Personal reputation and moral hazard hypothesis

H₀: Short term consumer credit consumers cannot sign up for a Zero interest rate short term loan facility for free with a condition that if they default their information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting their creditworthiness assessment in future business dealings.

H₁: Short term consumer credit consumers can sign up for a Zero interest rate short term loan facility for free with a condition that if they default their information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting their creditworthiness assessment in future business dealings.

Would you sign up for a Zero/low interest rate facility for free with the only condition that if you default your information of the default would be s...orthiness assessment in future business dealings?

198 responses

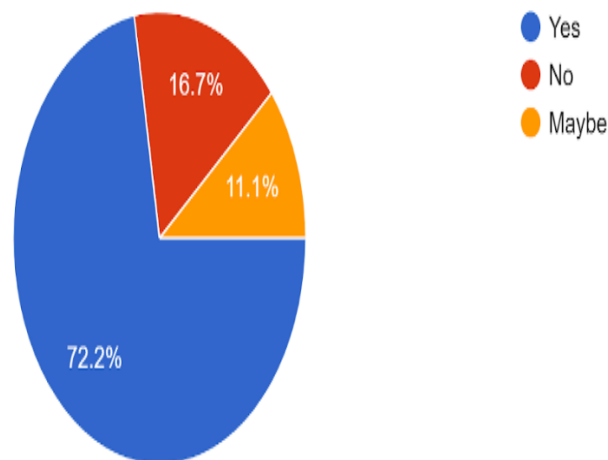


Figure 6. 19: Low Short Term Rates and Consumer Behavior
(Source: Field data, 2022)

Table 6. 15: Personal reputation and moral hazard hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					
				Claim	Short term consumer credit consumers can sign up for a Zero interest despite knowing that them defaulting would lead to such information being made public consequently affecting their future creditworthiness
Hypothesis being tested	Personal reputation and moral hazard hypothesis				
				Decision Rule	Reject Null Hypothesis
Hypothesis Statements					
Null Hypothesis (H_0)	$H_0 : P =$	0.5			
Alternative Hypothesis (H_1)	$H_1 : P >$	0.5	Claim	Conclusion	There is not enough evidence at a 95% level of significance to not fail to reject the null hypothesis hence the claim cannot be supported
Level of Significance	α	0.05			
Test Type		Right-Tailed			
Distribution		Normal Distribution			Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
					P = Proportion q = Population Proportion of failures n = Sample Size
Numbers of successes	x	165			
Sample Size	n	240			
Sample Proportion of Successes	$\hat{p}$	0.6875			P-Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5			
St.Dev of Sampling Distribution	S_x	0.032274861			Note (s) P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		0.999999997	Left-tailed		
		3.13345E-09	Right-tailed	< Alpha	
		6.2669E-09	Two-tailed		

(Source: Author, 2022)

Personal reputation and moral hazard hypothesis

Significance of hypothesis to the study

This hypothesis helps to establish the basis of the feasibility of the low cost interest rates model for short term consumer credit which is basically getting them to belong to a community in which they would be required to behave in a predictable way in return for low cost loans in whichever form they offered.

General observation from results

As indicated in Table. 6.15, adapted from Figure 6.19, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that Short term consumer credit consumers can sign up for a Zero interest despite knowing that defaulting would lead to such information being made public consequently affecting their future creditworthiness. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that Short term consumer credit consumers can sign up for a Zero interest despite knowing that defaulting would lead to such information being made public consequently affecting their future creditworthiness. This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening.

Goods and services loans hypothesis

H₀: Short term consumer credit consumers would not mostly prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%).

H₁: Short term consumer credit consumers would prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%).

What would you choose between getting cash and paying interest between 30% to 50% in a month or being given access to the goods or service...cash to pay for in a month at zero percent (0%)?

198 responses

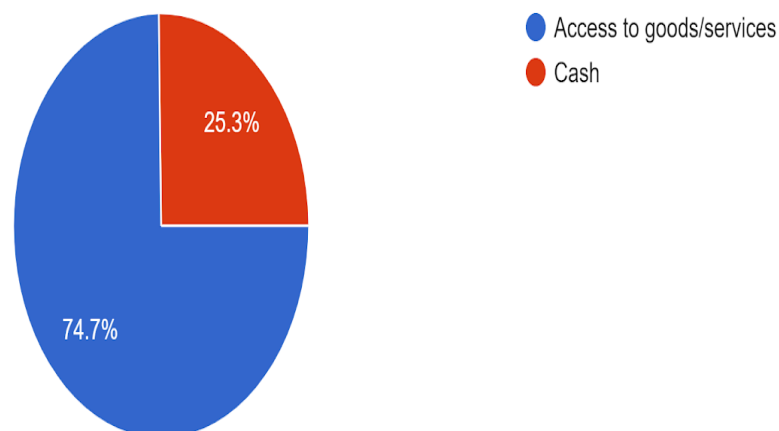


Figure 6. 20: Consumer Desire for Goods/Services or Cash Subject to Low Loan Rates

(Source: Field data, 2022)

Table 6. 16: Goods and Services loans hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					
Hypothesis being tested	Goods and services loans hypothesis				
Hypothesis Statements					
Null Hypothesis (H_0)	$H_0 : P =$	0.5			
Alternative Hypothesis (H_1)	$H_1 : P >$	0.5	Claim		
Level of Significance	α	0.05			
Test Type		Right-Tailed			
Distribution		Normal Distribution			
Numbers of successes	x	148			
Sample Size	n	240			
Sample Proportion of Successes	$\hat{p}$	0.616666667			
Population Proportion of failures	q	0.5			
St.Dev of Sampling Distribution	$S_{\bar{x}}$	0.032274861			
Probability Value (P-Value)		0.999849701	Left-tailed		
		0.000150299	Right-tailed	< Alpha	
		0.000300598	Two-tailed		

Claim

Short term consumer credit consumers would prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%).

Decision Rule

Reject Null Hypothesis

Conclusion

There is not enough evidence at a 95% level of significance to not fail to reject the null hypothesis hence the claim cannot be supported

Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$

P = Proportion
q = Population Proportion of failure
n = Sample Size

P- Value is the measure of the strength of the evidence against the Null Hypothesis

Note (s)

P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)

(Source: Author, 2022)

Goods and services loans hypothesis

Significance of hypothesis to the study

According Arrow and Debreu, perfect information (sometimes referred to as "no hidden information") is a feature of perfect competition. With perfect information in a market, all consumers and producers have perfect and instantaneous knowledge of all market prices, their own utility and own cost functions. On the part of a complete market (Arrow-Debreu market or complete system of markets), Arrow-Debreu advance that it is a market with two conditions: Negligible transaction costs and therefore also perfect information, there is a price for every asset in every possible state of the world. Based on these two (02) assumptions, the duo advances that with perfect information, there is no need for financial institutions because lenders and borrowers would interact with each other in a costless way at optimal prices. Therefore, if consumers and merchants can transact directly, it means there would be no need for actual cash hence the loans would have to be in goods and services form which essentially is what the consumers actually need. This is based on the understanding that the loans which financial institutions provide to consumers to buy goods and services are basically a means of managing default risk.

It is also worth appreciating that such an arrangement is only feasible if it happens under a community as proposed by the short term consumer credit model under consideration. Otherwise, the conditions under which the assumptions of the General equilibrium theory would work would not be met.

General observation from results

As indicated in Table. 6.16, adapted from Figure 6.20, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that Short term consumer credit consumers would prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%). This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that Short term consumer credit consumers would prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%). This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening. This position has further been supported by the tests of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table.

Low cost payroll deductible short term consumer loans hypothesis

H_0 : Employers cannot allow mostly their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender.

H_1 : Employers can allow their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender.

Can your employer allow you to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender?

197 responses

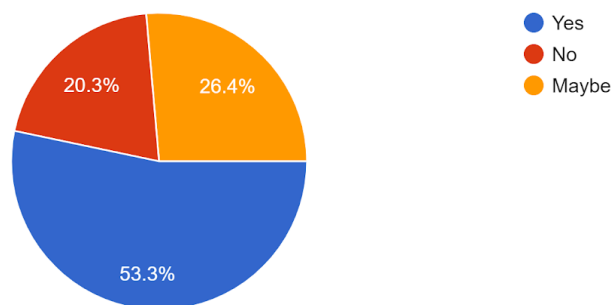


Figure 6. 21: Consumer Perspective on Payroll Deductible transactions

(Source: Field data, 2022)

Table 6. 17: Low cost payroll deductible short term consumer loans hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					Claim	Employers can allow their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender.
Hypothesis being tested	Low cost payroll deductible short term consumer loans hypothesis					
Hypothesis Statements					Decision Rule	Reject Null Hypothesis
Null Hypothesis (H_0)	$H_0 : P =$	0.5				
Alternative Hypothesis (H_1)	$H_1 : P >$	0.5	Claim		Conclusion	There is not enough evidence at a 95% level of significance to not fail to reject the null hypothesis hence the claim cannot be supported
Level of Significance	α	0.05				
Test Type		Right-Tailed				Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$ P = Proportion q = Population Proportion of failure n = Sample Size
Distribution		Normal Distribution				
Numbers of successes	x	157				
Sample Size	n	240				
Sample Proportion of Successes	$\hat{p}$	0.654166667				P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5				
St.Dev of Sampling Distribution	$S_{\bar{x}}$	0.032274861				Note (s) P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		0.999999109	Left-tailed			
		8.91068E-07	Right-tailed	< Alpha		
		1.78214E-06	Two-tailed			

(Source: Author, 2022)

Low cost payroll deductible short term consumer loans hypothesis

Significance of hypothesis to the study

This hypothesis is significant because it helps in grounding an assumption that is important to ensure the short term interest rate model under consideration yields the desired results through the collaboration of key stakeholders in a bid to deal with a common problem for mutual gain.

General observation from results

As indicated in Table. 6.17, adapted from Figure 6.21, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that Employers can allow their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that Employers can allow their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender. This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening. This position has further been supported by the tests of goodness of fit of the data as indicated in the computations in the appendix for this respective hypothesis and the corresponding table.

Employers and payroll deductible transactions hypothesis

H₀: Employers usually do not timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff.

H₁: Employers usually timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff.

Have you ever heard of any complaints from lenders over your employer not remitting or not remitting on time, payroll deductions to respective lenders?

198 responses

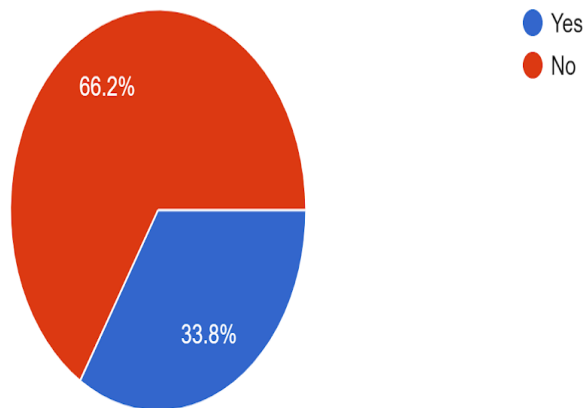


Figure 6. 22: Consumer Perspective on Payroll Deductible transactions and Employer

(Source: Field data, 2022)

Table 6. 18: Employer and payroll deductible transactions hypothesis testing

HYPOTHESIS TEST FOR A PROPORTION					Claim	Employers usually timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff.
Hypothesis being tested	Employers and payroll deductible transactions hypothesis					
Decision Rule						Reject Null Hypothesis
Hypothesis Statements						
Null Hypothesis (H_0)	$H_0 : P =$	0.5				
Alternative Hypothesis (H_1)	$H_1 : P >$	0.5	Claim		Conclusion	There is not enough evidence at a 95% level of significance to not fail to reject the null hypothesis hence the claim cannot be supported
Level of Significance	α	0.05				
Test Type		Right-Tailed				
Distribution		Normal Distribution				Standard Deviation of Sampling Distribution = $\sqrt{pq/n}$
Numbers of successes	x	157				P = Proportion q = Population Proportion of failures n = Sample Size
Sample Size	n	240				
Sample Proportion of Successes	$\hat{p}$	0.654166667				P- Value is the measure of the strength of the evidence against the Null Hypothesis
Population Proportion of failures	q	0.5				
St.Dev of Sampling Distribution	$S_{\bar{x}}$	0.032274861				Note (s) P value = 0, means the P value is less 0.001 and means the results were highly significant (Very unlikely to have occurred by chance)
Probability Value (P-Value)		0.999999109	Left-tailed			
		8.91068E-07	Right-tailed	< Alpha		
		1.78214E-06	Two-tailed			

(Source: Author, 2022)

Employers and payroll deductible transactions hypothesis

Significance of hypothesis to the study

This hypothesis is significant because it helps in grounding an assumption that is important to ensure the short term interest rate model under consideration yields the desired results through the collaboration of key stakeholders in a bid to deal with a common problem for mutual gain.

General observation from results

As indicated in Table. 6.18, adapted from Figure 6.22, there is enough evidence at a 95% level of significance to reject the Null Hypothesis (H_0) hence supporting the claim that Employers usually timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff. This is because the Probability value (P-Value) from the hypothesis test, which essentially measures the strength of evidence against the null hypothesis is less than the alpha [α] (Underhill & Bradfield, 2013). It is also worth appreciating that in this cases the actual test gave a very small P- Value hence has since been written in standard form. Basically, standard form is a way of writing down very large or small numbers easily by being multiplied by a power of ten (10). Therefore, this also shows that the results were highly significant suggesting they are very unlikely to have occurred by chance hence supporting the claim.

Interpretation of general observation from results

The hypothesis test results seem to support the claim advanced by the Alternative Hypothesis (H_1) that Employers usually timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff. This sets a basis upon which the crafting of a low cost interest rate model for short term consumer credit can be based. This is because this result gives an insight upon which to establish what the problem looks like in terms of what is happening or not happening.

Table 6. 19: Short term Consumer Credit Interest rate model hypothesis testing summary

Hypothesis testing summary for the Interest rate model for short term consumer credit		
	Hypothesis Test Results	
	Claim not supported	Claim supported
Model Suitability Centric hypothesis		
Short term consumer credit demand driver hypothesis	-	✓
Short term credit consumer behavior and high interest rates hypothesis	-	✓
Reputation Collateral hypothesis	-	✓
Regulation of short term consumer credit hypothesis		✓
High interest rate and default hypothesis		✓
Defaulting and public image hypothesis	-	✓
Loan facility and salary increment hypothesis	✓	-
Purchasing power and increased sales volume for merchant's hypothesis	-	✓
Sub-Total	1	7
Percentage (%) of possible outcome	12.50%	87.50%
Model Feasibility centric hypothesis		
Personal reputation and moral hazard hypothesis	-	✓
Goods and services loans hypothesis	-	✓
Low cost payroll deductible short term consumer loans hypothesis	-	✓
Employers and payroll deductible transactions hypothesis	-	✓
Sub-Total	-	4
Percentage (%) of possible outcome		100%
Model Acceptability Centric hypothesis		
Consumer behavior and benefits hypothesis	-	✓
Financial stress and poor production hypothesis	-	✓
Sub-Total	-	2
Percentage (%) of possible outcome		100%
Total	1	13
Total Percentage (%) of total outcomes	7.10%	92.90%

(Source: Author, 2022)

Table 6. 19, gives a summary of all the hypothesis tests and indicates that 92.90% of the claims have been supported while 7.10% of the testing did not have enough evidence to reject the null

hypothesis. Therefore, this part can be said to support the assumptions adopted in the development of a low cost interest rate model for short term consumer credit. Consequently suggesting that the model from the quantitative perspective would be suitable, feasible and acceptable to key stakeholders.

6.4. Data presentation and analysis from qualitative centric interviews

This part is adapted from Figures 6.23 to 6.30 and Tables 6.20 to 6.21 for the employer centric part of the study. On the merchants' side, adaptation has been done from Figures 6.31 to 6.32 and Tables 6.22 to 6.25 respectively.

6.4.1. Data from Responses from Employers of consumers of short term consumer credit

What do you think about the notion that payday loans are high cost loans and usually exploitative mostly due to high interest rates?

(13 responses)

Table 6. 20: EMPLOYER OPINION ON HIGH INTEREST RATES BEING EXPLOITATIVE

Description	Total Interviews: 13		
	Interview Response (Meaning Unit)	Qualitative Content analysis Data	
		Conceptual (Thematic analysis data)	Relational (Semantic analysis data)
Response 1 (Follow up made)	It's too high	High interest rates are exploitative	High interest rates relative to other rates in the market are inherently exploitative
Response 2	They are certainly exploitative and rather a viscous cycle	High interest rates are exploitative	High interest rates are exploitative and usually lead to a debt trap for consumers
Response 3 (Follow up made)	very correct	High interest rates are exploitative	High interest rates relative to other rates in the market are inherently exploitative

Response 4 (Follow up made)	The assertion is true	High interest rates are exploitative	High interest rates relative to other rates in the market are inherently exploitative
Response 5	<p>It's true payday loans are usually expensive because the repayment is mostly a one off payment</p> <p>Generally speaking, payday loans are expensive due to prevailing high interest rates in Zambia. Lenders also tend to exploit their clients by incorporating other hidden 'administrative' costs. Clients are exploited mainly because of their desperation for cash</p>	High interest rates are exploitative	Payday loans are usually exploitative due to short loan tenure, relative market rates in Zambia, hidden costs and the exploitation is based on client desperation as a result of not having other options
Response 6 (Follow up made)	Clients are exploited mainly because of their desperation for cash.	High interest rates are exploitative	High interest rates relative to other rates in the market are inherently exploitative and the exploitation is based on client desperation as a result of not having other options
Response 7 (Follow up made)	Payday soft loans are designed to cover short term expenses and are a risk if consumer does not understand this aspect.	High interest rates are not exploitative	High interest rates relative to other rates in the market are not exploitative when the consumer risk profile is factored in and the supposed exploitation is usually because of consumers not appreciating the short term nature of the loans
Response 8	Payday loans may provide quick infusions of cash that can help you make it to the next paycheck. But these loans come with high fees and interest rates, which could lead to debt traps	High interest rates can be exploitative	High interest rates relative to other rates in the market not exploitative but could lead to adverse developments if not

			understood by the consumer
Response 9 (Follow up made)	I think it's true but are very convenient to the borrower	High interest rates can be exploitative	High interest rates relative to other rates in the market not exploitative but could lead to adverse developments if not understood by the consumer
Response 10 (Follow up made)	I don't think they are high cost	High interest rates are not exploitative	High interest rates relative to other rates in the market are not exploitative when the consumer risk profile is factored in and the supposed exploitation is usually because of consumers not appreciating the short term nature of the loans
Response 11 (Follow up made)	False	High interest rates are not exploitative	High interest rates relative to other rates in the market are not exploitative when the consumer risk profile is factored in and the supposed exploitation is usually because of consumers not appreciating the short term nature of the loans
Response 12 (Follow up made)	The interest rates are high as a result, making it difficult to do business	High interest rates are exploitative	High interest rates relative to other rates in the market are inherently exploitative and the exploitation is based on client desperation as a result

			of not having other options
Response 13 (Follow up made)	On average payday loans are expensive and result in over indebtedness.	High interest rates are exploitative	High interest rates relative to other rates in the market are inherently exploitative

SUMMARY OF TABLE 6.20

Total Number of responses: 13		SUMMARY PARAMETERS	
DESCRIPTION	THEME (BASIS OF SUBSTANCE OF ANALYSIS)	Frequency	Percentage (%) of Total Responses
High interest rates are exploitative		8	61.5%
High interest rates can be exploitative		2	15.4%
High interest rates are not exploitative		3	23.1%

(Source: Field data, 2022)

Do you think payday loans are helpful when you ignore the high interest rate part?

17 responses

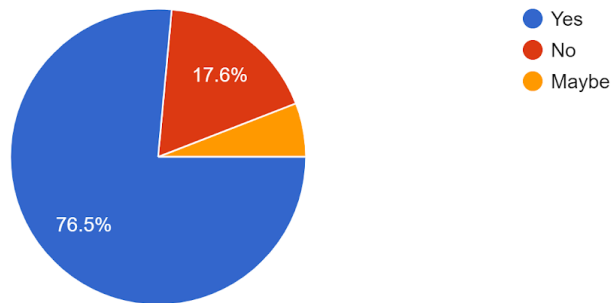


Figure 6. 23: Helpfulness of Low Cost Payday Loans

(Source: Field data, 2022)

Are you aware of your members of staff getting short term loans such as payday loans and why they get them?

18 responses

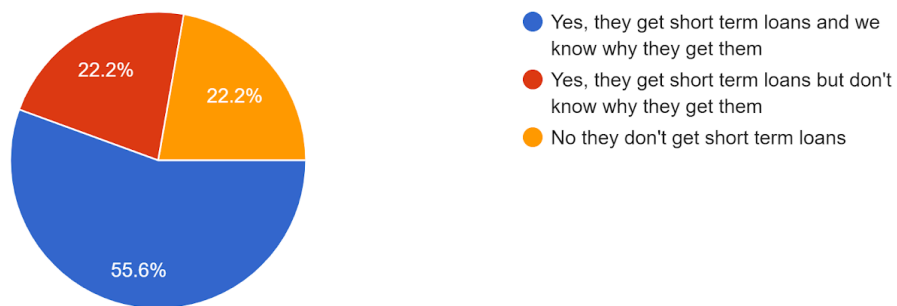


Figure 6. 24: Employer's Perspective on Staff's Access to Payday Loans

(Source: Field data, 2022)

If payday loans were offered to your staff at zero interest rates on condition that they don't get the cash but have access to products and services they ...rage/facilitate for your staff to sign up for such?

18 responses

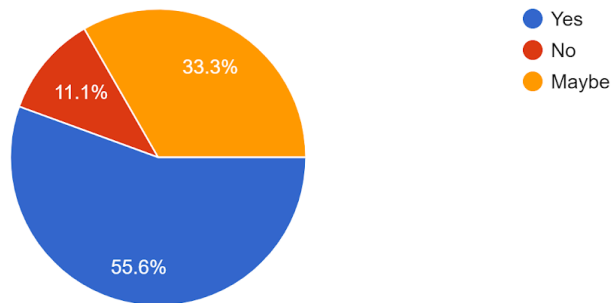


Figure 6. 25: Employer's Perspective on Goods/Services Based Short Term Loans

(Source: Field data, 2022)

5. Do you think it is possible for your members of staff to complain about poor salaries paid by your institution because of a reduced net income due to servicing high interest short term loans?

18 responses

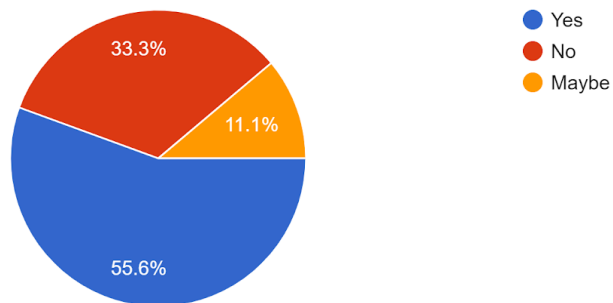


Figure 6. 26: Discontentment's from Servicing High Cost Loans

(Source: Field data, 2022)

Is it possible that you could increase the net income of your members of staff by them simply signing up for the zero interest rate short term loan facility?

18 responses

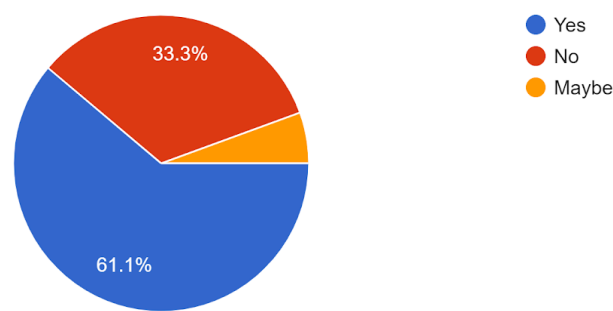


Figure 6. 27: Increase in Residue Income through Low Cost Loans

(Source: Field data, 2022)

What do you think about financial stress on employees and its effect on the productivity of your institution?

(15 responses)

Table 6. 21: EMPLOYER OPINION ON EMPLOYEE FINANCIAL DISTRESS AND PRODUCTIVITY

Description	Total Interviews: 15		
	Interview Response (Meaning Unit)	Qualitative Content analysis Data	
		Conceptual (Thematic analysis data)	Relational (Semantic analysis data)
Response 1 (Follow up made)	Financial stress is likely present in all aspects of an employee’s life, not just his or her work hours.	Financial distress affects productivity	Financial distress adversely affects productivity in every area of an individual’s life
Response 2	The effects of stress on the job are numerous and may include increased work absences, tardiness, more staff turnover and poor work quality	Financial distress affects productivity	Financial distress adversely affects productivity and manifests through increased work absences, tardiness,

			more staff turnover and poor work quality
Response 3 (Follow up made)	It does affect the employee	Financial distress affects productivity	Financial distress adversely affects productivity based on its hostile effect on consumers of financial services
Response 4 (Follow up made)	The effect is huge. Staff actually stay away from work as a result and/or are unable to perform optimally	Financial distress affects productivity	Financial distress adversely affects productivity based on its hostile effect on consumers of financial services
Response 5 (Follow up made)	Low productivity at place of work	Financial distress affects productivity	Financial distress adversely affects productivity based on its hostile effect on consumers of financial services
Response 6 (Follow up made)	It is detrimental	Financial distress affects productivity	Financial distress adversely affects productivity based on its hostile effect on consumers of financial services
Response 7	When employees are highly indebted concentration at work is usually affected which consequently result in lower production	Financial distress affects productivity	Financial distress adversely affects productivity based on how it affects the concentration levels of the subject
Response 8	Financial stress has a negative effect on an employee's performance, thus overall productivity of an institution will be negatively affected	Financial distress affects productivity	Financial distress adversely affects productivity based on its hostile effect on consumers of financial services
Response 9 (Follow up made)	It produces poor results because there is no motivation	Financial distress affects productivity	Financial distress adversely affects productivity based on how it negatively affects a consumers motivation
Response 10 (Follow up made)	It's causing low levels of productivity, and it's costing employers	Financial distress affects productivity	Financial distress adversely affects productivity and is an indirect cost on employers
Response 11 (Follow up made)	It disturbs the employees and consequently make them lose focus on the work	Financial distress affects productivity	Financial distress adversely affects productivity based on how it affects the

			concentration levels of the subject
Response 12	Financial stress may occur with low income. As a result of not making enough money to meet your needs such as paying bills in the institution	Financial distress may affect productivity	Financial distress adversely affects productivity based on its hostile effect on consumers such as inadequacy to settle bills
Response 13	Financial stress can affect the productivity of the institution in the sense that employees tend to lose focus because of the pressure they are going through , it disturbs them mentally hence the performance is negatively affected loose interest in work	Financial distress may affect productivity	Financial distress adversely affects productivity based on how it affects the concentration levels of the subject
Response 14 (Follow up made)	It really has got a negative effect on productivity of an organization	Financial distress affects productivity	Financial distress adversely affects productivity based on its hostile effect on consumers of financial services
Response 15	Over indebtedness leads to financial stress which unfortunately can lead to depression and can affect concentration on the job resulting in low productivity	Financial distress affects productivity	Financial distress adversely affects productivity based on its hostile effect on consumers such as leading them to depression hence reduced levels of concentration

SUMMARY OF TABLE 6.21

Total Number of responses: 15 DESCRIPTION THEME (BASIS OF SUBSTANCE OF ANALYSIS)	SUMMARY PARAMETERS	
	Frequency	Percentage (%) of Total Responses
Financial distress affects productivity	13	86.7%
Financial distress may affects productivity	2	13.3%
Financial distress does not affect productivity	Nil	-

(Source: Field data, 2022)

6.4.2. Data from Responses from Merchants who supply goods/services to short term consumer credit consumers

What would happen to your sales when individual consumers have an increase in net income?

20 responses

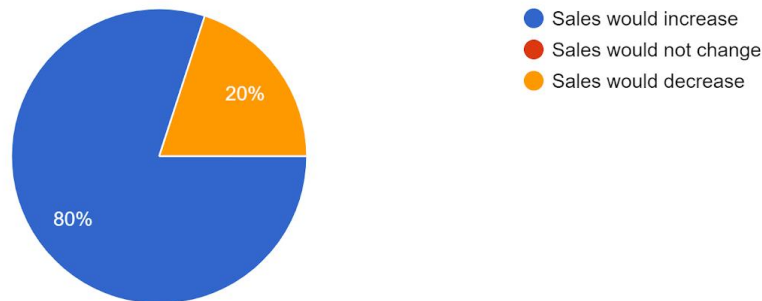


Figure 6. 28: Consumer Net Income Increase and Merchant's Sales Volume Increase

(Source: Field data, 2022)

Which of the following do you think can be used as a basis of trusting someone in credit based business transactions (Tick all applicable)

21 responses

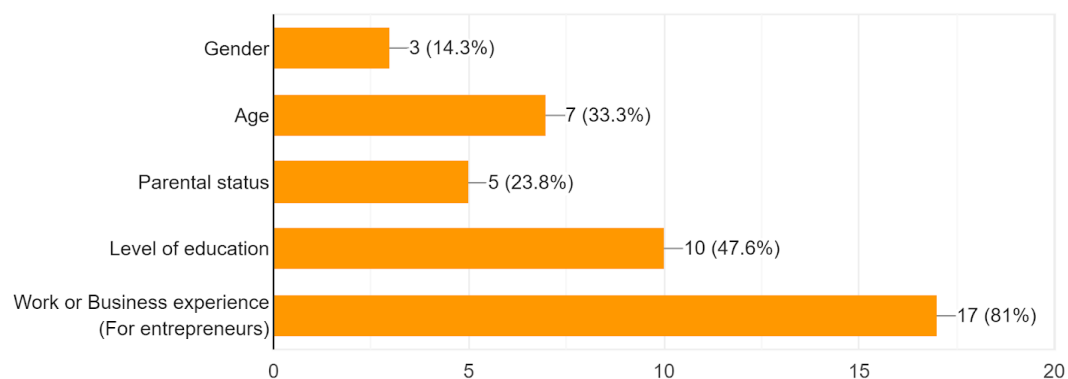


Figure 6. 29: Basis for Credit Based Transaction from Merchant's Perspective

(Source: Field data, 2022)

Could you sell your products or services on credit for an average of 30 days if default risk was reduced to zero by the payment being made through...y, an underwriter or all these options combined?

21 responses

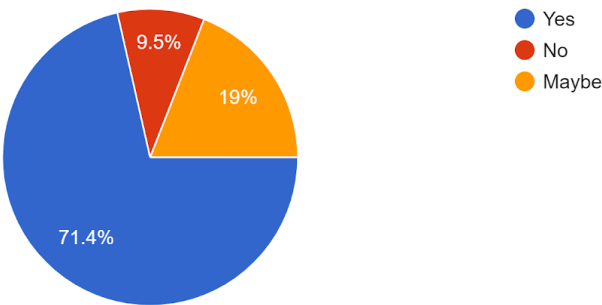


Figure 6. 30: Merchant’s Perspective on 30 days’ credit facility

(Source: Field data, 2022)

If default risk was reduced to zero by the payment being made through employer payroll, an insurance company, an underwriter or all these options combined and you were asked to sell your products or services on credit for an average of 30 days? What would be your motivation for doing this and if not, what would be the reason for such?

(18 responses)

Table 6. 22: MERCHANT OPINION ON REDUCED DEFAULT RISK AND CREDIT FACILITIES

Description	Total Interviews: 18		
	Interview Response (Meaning Unit)	Responses Content analysis Data	
		Conceptual (Thematic analysis data)	Relational (Semantic analysis data)
Response 1 (Follow up made)	Time period has low likelihood of a significant change in financial status of the borrower to change	Could extend credit facility if default risk is reduced	Could extend credit facility if default risk is reduced, though consideration of reduced default risk should be relative to time

Response 2 (Follow up made)	The knowledge that default risk is zero is enough to take a chance on a piece of business that guarantees performing	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 3	My motivation would be the existence of the third party, such as the employer payroll deduction arrangement guaranteeing my payment. Considering the fact that they have the power or access to my debtors income	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 4 (Follow up made)	I think this is one of marketing strategies to increase sales and attract more customers in the business	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced as this is one way of increasing market share and revenue
Response 5 (Follow up made)	I wouldn't. Motivation being, you can't fully eliminate default risk in the kind of economic situation the globe is in	Cannot extend credit facility even if default risk is reduced	Cannot extend credit facility even if default risk is reduced because the systematic risk was still too high relative to the desired risk tolerance
Response 6 (Follow up made)	The fact that default risk has been reduced to zero is motivation enough	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 7 (Follow up made)	Obviously because of the risk reduced to zero I would be assured that I can get back my investment no matter the case	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 8	My motivation would be to avoid stock piling beyond acceptable levels and also maintain or retain my good customers. What would stop me from giving 30 days' credit would be mostly my liquidity position. I would prefer a shorter term of 5 to 15 if I have pressing issues that need liquidity	Could extend credit facility if default risk is reduced	Could extend credit facility if default risk is reduced to prevent stock piling and retain good customers. However, due to liquidity concerns the credit facility can be restricted to 5 to 15 days

Response 9 (Follow up made)	If the payment is coming through employer, I know the risk of losing out is less	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 10 (Follow up made)	Assurance of recovering	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 11 (Follow up made)	Long	Cannot extend credit facility even if default risk is reduced	Cannot extend credit facility even if default risk is reduced because 30 days is too long a period relative to the liquidity demands of the respondents business
Response 12 (Follow up made)	Yes, as repayment would be guaranteed	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 13 (Follow up made)	It would depend on the circumstances. If it is the only way to sale the said products/ services, then I would consider it. Also if default risk is reduced to zero then it's a stable deal	Could extend credit facility if default risk is reduced	Could extend credit facility if default risk is reduced and there was no other option to dispose off the products/services
Response 14 (Follow up made)	My motivation would be because I will know that my product is secure	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 15 (Follow up made)	It increases sells as most people will be able buy on credit	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced as this is a good way of increasing sales
Response 16 (Follow up made)	None	Cannot extend credit facility even if default risk is reduced	Cannot extend credit facility even if default risk is reduced because the systematic risk was still too high relative to the desired risk tolerance

Response 17 (Follow up made)	I would agree on basis of guaranteed payment	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter
Response 18 (Follow up made)	The motivation here is that the risk of the client defaulting is very slim and at least I am guaranteed of getting 100% profit.	Can extend credit facility if default risk is reduced	Can extend credit facility if default risk is reduced through guarantees of a third party like employer or insurance/underwriter

SUMMARY OF TABLE 6.22

Total Number of responses: 18 DESCRIPTION THEME (BASIS OF SUBSTANCE OF ANALYSIS)	SUMMARY PARAMETERS	
	Frequency	Percentage (%) of Total Responses
Can extend credit facility if default risk is reduced	12	66.7%
Could extend credit facility if default risk is reduced	3	16.7%
Cannot extend credit facility even if default risk is reduced	3	16.7%

(Source: Field data, 2022)

Can you sell your products on credit for an average period of 30 days to an individual with a proven record of honesty to paying back things g...ough being long time customers or other reasons?

20 responses

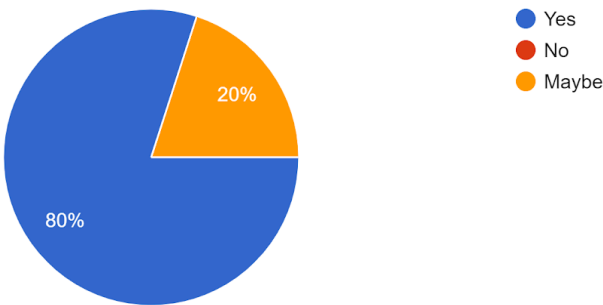


Figure 6. 31: Merchant’s Perspective on Reputational Collateral

(Source: Field data, 2022)

How long would you need to assess someone’s sincerity to paying back things gotten on credit before you can extend a credit facility to them and why would that be an appropriate period?

(19 responses)

Table 6. 23: MERCHANT OPINION ON APPROPRIATE PERIOD TO ASSESS CREDITWORTHINESS

Description	Total Interviews: 19		
	Interview Response (Meaning Unit)	Responses Content analysis Data	
		Conceptual (Thematic analysis data)	Relational (Semantic analysis data)
Response 1	Usually a period over 6 months. This is because circumstances change and seeing how they respond to changes in finance over a longer period of time give a better idea of how they will respond in a change while owing you money	6 months would be appropriate	6 months would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective merchant

Response 2 (Follow up made)	Four months. Habitual human action establishes patterns in behavior so the stated period would give me credit patterns which could have been developed by an individual.	4 months would be appropriate	4 months (90 days/3months would be just for observation) would be appropriate to create a clientele profile against which their creditworthiness can be established relative to the risk appetite of a respective merchant
Response 3 (Follow up made)	This can really be tricky, in a sense that, mostly you can only predict an individual's future behavior using their past's (therefore, this entails more time). But for me, time is of the essence in this line of business. Inasmuch as more time would be necessary to asses someone's sincerity, I would still say that with the employment of good vetting, I would only need a few hours.	1 month or less would be appropriate	Less than 1 month would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective business and having a thorough vetting mechanism
Response 4 (Follow up made)	I would give them one month to see how they will be committed on paying back the money before their due date	1 month or less would be appropriate	Less than 1 month would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective business and using this experience to review the privilege going forward. (Future centric assessment)
Response 5 (Follow up made)	2 years	2 years would be appropriate	2 years would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective merchant

Response 6 (Follow up made)	4 months, because the first and second would be to establish their trust and the third and fourth is what would show their sincerity	4 months would be appropriate	4 months (90 days/3months would be just for observation) would be appropriate to create a clientele profile against which their creditworthiness can be established relative to the risk appetite of a respective merchant
Response 7 (Follow up made)	Track record or rate of return of the same items. The time period for assessment would depend on my finding of their past history of items got on credit and except that if they have a definite source of income	6 months would be appropriate	6 months would be appropriate to create a clientele profile based on their rate of purchase of the service/product. This can then be used to establish their creditworthiness relative to the risk appetite of a respective merchant
Response 8 (Follow up made)	I think I would need at least to be in business with that person for at least 90 days. This is because I would need to know more about the person beyond them just having done business other me so that I can have a more solid basis of their ability to pay.	4 months would be appropriate	4 months (90 days/3months would be just for observation) would be appropriate to create a clientele profile against which their creditworthiness can be established relative to the risk appetite of a respective merchant
Response 9 (Follow up made)	6 months to 1 year	6 months would be appropriate	6 months would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective merchant
Response 10 (Follow up made)	6 months .it would be enough to learn expensive pattern and level of income	6 months would be appropriate	6 months would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective merchant
Response 11 (Follow up made)	Period of existence in business	2 years would be appropriate	2 years would be appropriate to create a clientele profile against which the creditworthiness can be

			established relative to the risk appetite of a respective merchant
Response 12 (Follow up made)	90 days	4 months would be appropriate	4 months (90 days/3months would be just for observation) would be appropriate to create a clientele profile against which their creditworthiness can be established relative to the risk appetite of a respective merchant
Response 13 (Follow up made)	They should have at least proven their sincerity 6 times without any delays or compromise. This is enough times to see how stable and sincere they are	6 months would be appropriate	6 months would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective merchant
Response 14 (Follow up made)	Assessing someone's sincerity can't really be measured by time, some can be provided with time to be well evaluated were trust is concerned but still ends up defaulting, so in such cases so long I feel fit with selling my products on credit then I would to someone deem fit for it	1 month or less would be appropriate	Less than 1 month would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective business and using this experience to review the privilege going forward. (Future centric assessment)
Response 15 (Follow up made)	Six months, because it's long enough to check the consistency of the payment. Their track record will be the main basis of checking sincerity	6 months would be appropriate	6 months would be appropriate to create a clientele profile against which the creditworthiness can be established relative to the risk appetite of a respective merchant
Response 16 (Follow up made)	3 months with a returning just need to work on credit limit	4 months would be appropriate	4 months (90 days/3months would be just for observation) would be appropriate to create a clientele profile against which their creditworthiness can be established relative to the risk appetite of a respective merchant

Response 17 (Follow up made)	After three consecutive times of trustworthiness	4 months would be appropriate	4 months (90 days/3months would be just for observation) would be appropriate to create a clientele profile against which their creditworthiness can be established relative to the risk appetite of a respective merchant
Response 18 (Follow up made)	3 months it's standard	4 months would be appropriate	4 months (90 days/3months would be just for observation) would be appropriate to create a clientele profile against which their creditworthiness can be established relative to the risk appetite of a respective merchant
Response 19 (Follow up made)	If for three months a client is able to pay back without being difficult I can consider increase the amount but I have to assess the clients' income.	4 months would be appropriate	4 months (90 days/3months would be just for observation) would be appropriate to create a clientele profile against which their creditworthiness can be established relative to the risk appetite of a respective merchant

SUMMARY OF TABLE 6.23

Total Number of responses: 19 DESCRIPTION THEME (BASIS OF SUBSTANCE OF ANALYSIS)	SUMMARY PARAMETERS	
	Frequency	Percentage (%) of Total Responses
1 month or less would be appropriate	3	15.8%
3 months would be appropriate	8	42.1%
6 months would be appropriate	6	31.6%
Above 12 months would be appropriate	2	10.5%

(Source: Field data, 2022)

In an event that you knew that if you offered a service or product to an individual on credit and they defaulted, such information shall become per...ence in your expectations of them not defaulting?

21 responses

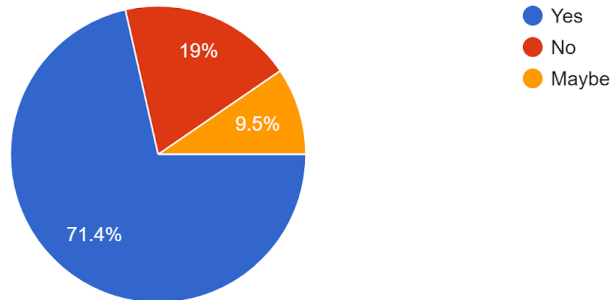


Figure 6. 32: Merchant's Perspective on Consumer Commitment to Good Reputation

(Source: Field data, 2022)

6.4.1. Data from Responses from Employers of consumers of short term consumer credit

Table 6. 24: Employers of consumers of short term consumer credit responses summary

Qualitative Meaning Unit	Relational (Semantic analysis)	Importance to the model	Conceptual (Thematic analysis)
Short term consumer credit interest rates	Mostly exploitative	Suitability	76.9% of respondents subscribe to this notion
Helpfulness of short term loans if interest rates are relatively low	Mostly helpful	Suitability	82.4% of respondents subscribe to this notion
Employer awareness of staff use of short term loans and why they use such facilities	Mostly aware	Acceptability	77.8% of respondents subscribe to this notion. 55.6 % are aware and what they use them for while 22.2% don't know why they get them
Goods and services based loans	Mostly would allow staff to get such loans	Suitability	88.9% would allow or at least consider
Staff discontentment due to reduced net income while servicing high cost loans	Very Possible	Feasibility	66.7% of respondents agree with this notion
Staff net income increase through low cost loans	Very possible	Feasibility	66.7% of respondents agree with this notion
Staff financial distress adversely affecting production	Mostly adversely affects productivity	Acceptability	86.7% of respondents agree with this notion

(Source: Field data, 2022)

Qualitative Meaning Unit: Short term consumer credit interest rates

Importance of the qualitative meaning unit to the model

The first step in solving a problem is acknowledging that it exists. The general belief and arguably the biggest problem with regards to short term consumer credit is that the interest rates are relatively high compared to other loans hence somewhat being exploitative (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). Therefore, it is cardinal to get the perspective of employers of consumers of short term credit over this belief in which the short term consumer credit problem is anchored. This is basically to understand the constructs of short term consumer credit from the perspective of employers.

Semantic and Thematic analysis

The employer's overview on short term consumer credit interest rates were that they were relatively high and exploitative. About 76.9% of respondents subscribe to the notion captured in the meaning unit.

Overview analysis

The employers of consumers of short term credit facilities seem to agree with the generally held view that short term consumer credit interest rates are high and arguably exploitative. This means the model's solution of crafting an interest rate model which addresses this problem which is also anchored on the foregoing statement would be suitable with employers as key stakeholders hence increasing the chances of the model yielding the desired results.

Qualitative Meaning Unit: Helpfulness of short term consumer loans if interest rates are relatively low

Importance of the qualitative meaning unit to the model

The other aim of the model under consideration is to lower the cost of short term consumer loans in a bid to solve the short term consumer credit problem. This is because the model is anchored to the belief that short term consumer credit is useful as suggested by its growing demand despite mainstream criticism (Government of the Republic of Zambia [GRZ], 2021; Malone & Skiba, 2020). Therefore, it is vital to ensure employers as key stakeholders would subscribe to a school

of thought of how helpful short term consumer credit can be if the high cost concern is addressed in the quest to solve a problem that effects their key stakeholders, the employees. This is basically to understand the constructs of short term consumer credit from the perspective of employers.

Semantic and Thematic analysis

The employer's overview is that short term consumer credit is useful if the high cost issue is addressed. About 82.4% of respondents subscribe to this notion captured in the meaning unit under consideration.

Overview analysis

The employers of consumers of short term credit facilities seem to agree with the view that short term consumer credit can be helpful if interest rates kept are relatively low in comparison to other types of loans. This means the model's solution which is also anchored on this belief would be suitable with employers as key stakeholders hence increasing the chances of the short term consumer credit model yielding the desired results.

Qualitative Meaning Unit: Employer awareness of staff use of short term loans and why they use such facilities

Importance of the qualitative meaning unit to the model

In order for the model to yield the desired results, the employers have to see themselves as being affected by the adverse effects of the matter under review. This meaning unit highlights how employers are brought into the picture through their employees hence setting a basis upon which they could be engaged in a bid to solve the problem in view of their employees.

Semantic and Thematic analysis

Employers are mostly aware of their staff using short term consumer loans and why they use such facilities. The specific feedback from respondents were that a total of 77.8% of respondents were aware of their staff using short term loans. Meanwhile, the specifics were such that 55.6 % were

aware of staff using short term loans and why they use them while 22.2% don't know why they get them.

Overview analysis

The employers of consumers of short term credit facilities seem to know that their staff use short term consumer loans and most seem to know why they use them. Despite some not knowing why their staff use such loans, this could be a basis upon which enough interest could be generated in employers to be a part of the quest to find a solution to the adverse effects of short term consumer loans in their current form. Essentially, this consideration would enhance the understanding of the matter and acceptability of the model's rationale to employers as key stakeholders

Qualitative Meaning Unit: Goods and services based loans

Importance of the qualitative meaning unit to the model

The rationale of the low cost interest rate model for short term consumer credit is anchored on removing or reducing constituents that make up an interest rates hence interest rate cost drivers being reduced to low levels though the model targets to zero (Miller, 2013; Beck & Fuchs, 2004; Demircuc-Kunt & Huizinga, 1999). In view of the foregoing, the major cost driver seems to be a lack of trust between and amongst buyers (consumers of goods and services) and Merchants (suppliers of goods and services) hence failing to engage in direct short term debt based transactions which are cheaper for both parties', consequently leading the introduction of third party's such as suppliers of short term loans hence making the transaction costlier (Lapavitsas, 2003). Therefore, this meaning unit aims at highlighting this matter and then establishing a basis upon which buyers and sellers can revert to a cheaper way of transacting by addressing the cause for concern by bringing into the picture the employer. This consideration is important because it helps to understand the constructs of short term consumer credit from the perspective of employers and establishes the suitability of the route suggested by the model under consideration.

Semantic and Thematic analysis

Employers would mostly would allow staff to get goods and services based loans in preference to high cost cash based loans. About 88.9% of respondents said they would allow or at least consider such.

Overview analysis

The employers of consumers of short term credit facilities seem to be ready to allow their staff to use goods and services based short term loans. Essentially, this consideration would enhance the suitability of the model's rationale to employers as key stakeholders hence enhancing the model's ability to yield the desired results.

Qualitative Meaning Unit: Staff discontentment due to reduced net income while servicing high cost loans

Importance of the qualitative meaning unit to the model

The payday loans effect leads to a reduced income for the employee, this usually leads to more pressure on the employer for salary increments and other incentives (Zhang and Clarke, 1997). Such things are demand for not because of current poor conditions of service but because they look at their financial position based on their net income, after loan deductions and as long as they are not able to meet basic needs, this leads to discontentment. This consideration helps to bring to light this aspect as it has been incorporated into the designing of the low cost interest rate model as one of the issues it ought to address. It also helps to understand the constructs of short term consumer credit from the perspective of employers.

Semantic and Thematic analysis

The employer's overview on staff discontentment due to reduced net income while servicing high cost loans was that it was very probable. About 66.7% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The employers seem to agree with this school of thought hence makes the model which takes this development into consideration suitable subject to the employer's take on the matter as a key stakeholder.

Qualitative Meaning Unit: Staff net income increase through low cost loans.

Importance of the qualitative meaning unit to the model

In view of the preceding meaning unit of Staff discontentment due to reduced net income while servicing high cost loans, this meaning unit highlights the employers' perspective on how the matter can be resolved (Zhang and Clarke, 1997). The short term consumer credit interest rate model under consideration is structured such that the matter of staff discontentment due to reduced net income while servicing high cost loans is resolved by addressing the root causes which borders on high cost loans (Malone & Skiba, 2020).

Semantic and Thematic analysis

The employer's overview on staff net income increase through low cost loans was that it was very probable. About 66.7% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The employers seem to agree with this school of thought hence makes the model which takes this development into consideration feasible subject to the employer's take on the matter as a key stakeholder.

Qualitative Meaning Unit: Staff financial distress adversely affecting production

Importance of the qualitative meaning unit to the model

High cost loans lead to consumers being trapped in a debt trap and this leads to financial distress which eventually affects the productivity levels of individuals affected by such hence employers losing out (Malone & Skiba, 2020; OECD, 2019; McCarthy, 2011; Sapolsky, 1998). It is worth appreciating that one of the major reasons the high cost nurture of the short term consumer loans under consideration has not been addressed is that most solutions by authorities such as more regulation or free market flow of things by advocates for short term loans have failed to yield sustainable results because a win for one key stakeholder is like a lose for the other (Malone & Skiba, 2020). Therefore, the model under consideration is structured such that a win-win solution is attempted in solving the problem. The consideration in this meaning unit is meant to highlight the issue to the employer so that they see how their concerns which are assumed to border on staff productivity are addressed.

Semantic and Thematic analysis

The employer's overview on staff financial distress adversely affecting production is that it mostly adversely affects productivity. About 86.7% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The employers seem to agree with this school of thought hence makes the model which takes this development into consideration acceptable subject to the employer's take on the matter as a key stakeholder.

6.4.3. Data analysis from Responses from Merchants

Table 6. 25: Merchants for consumers of short term consumer credit response analysis

Qualitative Meaning Unit	Relational (Semantic analysis)	Importance to model	Conceptual (Thematic analysis)
Consumer net income increase and sales volume for merchants	Mostly leads to an increase in sales volume	Suitability	80% of respondents agree with this notion
Merchant's consumer trust basis for debt based transactions	Work or entrepreneurial experience and level of education	Acceptability	64.29% of respondents agree with this notion
Extension of 30 days credit facilities if default risk is significantly reduced	Most would extend credit facilities	Feasibility	90.4% of respondents agree with this notion
Payroll, insurance or underwriter as means of reducing default risk for merchants to extend credit facilities	Most would consider these to be appropriate	Acceptability	83.4 % of respondents agree with this notion
Reputation and credit facility	Most would consider a proven record of honesty as a basis to extend credit facilities	Acceptability	80 % of respondents agree with this notion
Time/period appropriate to rely on a consumer's reputation of honesty for credit facilities consideration	Most would consider at least 6 months	Acceptability	89.5 % of respondents agree with this notion
Consumer commitment to good reputation	Most would rely on a consumers commitment to good reputation if defaulting meant this	Suitability	80.9 % of respondents agree with this notion

	reputation being tarnished and other stakeholders knowing about such		
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(Source: Field data, 2022)

Qualitative Meaning Unit: Consumer net income increase and sales volume for merchants

Importance of the qualitative meaning unit to the model

The issue of the short term consumer credit niche in Zambia can be traced to the period between 2007 to 2016 when a lot of households got long term loans from mostly commercial banks (Chikweti, 2020; Bank of Zambia, 2007, 2016). The phenomenon was mainly characterized with a majority of the households who got the loans under consideration either getting them for the first time despite having worked for some time or were new entrants (newly employed staff in the market) hence were not experienced in productively using such long term loans and remaining with enough for short term consumption, especially when faced with unexpected issues subject to a poor saving culture and insurance industry (Preston & Prochaska, 2007). Therefore, high cost loans would further shrink the net income left for short term consumables hence reducing the sales volume for suppliers of goods and services. However, low cost loans would do the otherwise hence possibly increasing the sales volume for merchants or suppliers of short term goods and services. In view of the foregoing, the model under consideration is structured based on this understanding hence if not perceived as such by merchants as key stakeholder would not yield the desired results. This is because then they would not see how they would benefit from the model and might not want to cooperate for its implementation making the model not a suitable consideration. This meaning unit tests merchants perspective on the possible benefits to them hence the possible coordination to the model's implementation. It also helps to understand the constructs of short term consumer credit from the perspective of merchant.

Semantic and Thematic analysis

The Merchant's overview on Consumer net income increase and sales volume for merchants is that such would mostly lead to an increase in sales volume. About 80% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The Merchants seem to agree with this school of thought hence makes the model which takes this development into consideration suitable subject to the merchant's take on the matter as a key stakeholder.

Qualitative Meaning Unit: Merchant's consumer trust basis for debt based transactions

Importance of the qualitative meaning unit to the model

One of the major considerations is that in order for the interest rate model for short term consumer credit to be actualized, the key stakeholders such as consumers, merchants and employers ought to be involved in a somewhat trust establishing relationship. This is because the study was of the view that the major problem that leads to high cost short term loans was a lack of trust between and amongst buyers (consumers) and sellers (merchants) hence the introduction of third parties (lenders of short term credit) but paying a premium for this in terms of high cost loans (Miller, 2013; Morgan & Hunt, 1994). This meaning unit highlights this matter to establish the acceptability of the model which is crafted based on this consideration.

Semantic and Thematic analysis

The Merchant's overview on Merchant's consumer trust basis for debt based transactions is that in addition to demographics, much emphasis should be placed on work or entrepreneurial experience and level of education. About 64.29% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The Merchants seem to agree with this school of thought hence makes the model which takes this development into consideration acceptable subject to the merchant's take on the matter as a key stakeholder.

Qualitative Meaning Unit: Extension of a 30 days' credit facility if default risk is significantly reduced.

Importance of the qualitative meaning unit to the model

Most of the short term consumer loans under consideration are payday loans and in Zambia paydays usually happen within thirty (30) days hence if the merchant could extend a credit facility to consumers if their risk was reduced to acceptable levels to establish the feasibility of the model (Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). The main goal is to establish if enough trust can be created for credit facilities for this period relative to risk and respective merchant's turnover period. It also helps to understand the constructs of short term consumer credit from the perspective of merchant.

Semantic and Thematic analysis

The Merchant's overview on Extension of a 30 days' credit facility if default risk is significantly reduced is that most would extend such credit facilities. About 90.4% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The Merchants seem to agree with this school of thought hence makes the model which takes this development into consideration feasible subject to the merchant's take on the matter as a key stakeholder.

Qualitative Meaning Unit: Payroll, insurance or underwriter as means of reducing default risk for merchants to extend credit facilities

Importance of the qualitative meaning unit to the model

This meaning unit was aimed at establishing what measures would be regarded as adequate enough to reduce the risk to acceptable levels for merchants to be comfortable or generate enough trust to extend credit facilities to consumers of short term credit (Schiffing, Hannibal, Fan and Tickle, 2020; Brown, Cronsno & Tong, 2018; Hung, 2013; Friman, Garling, Millett, Mattson & Johnson, 2000). It also helps to understand the constructs of short term consumer credit from the perspective of merchant.

Semantic and Thematic analysis

The Merchant's overview Payroll, insurance or underwriter as means of reducing default risk for merchants to extend credit facilities is that most would consider these to be appropriate. About 83.4% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The Merchants seem to agree with this school of thought hence makes the model which takes this development into consideration acceptable subject to the merchant's take on the matter as a key stakeholder.

Qualitative Meaning Unit: Reputation and credit facility

Importance of the qualitative meaning unit to the model

The short term consumer credit interest rate model under consideration is grounded on the establishment of a trust based community in which individuals can create a good reputation of not defaulting or practicing good business practices the proposal for such a reputation to be used as collateral for short term consumer loans (Chu, 2002; Miller, 2000). Therefore, this meaning unit helps to establish the acceptability of a reputation of past good practices being used as a basis to extend credit facilities and be treated as collateral. It also helps to understand the constructs of short term consumer credit from the perspective of merchant.

Semantic and Thematic analysis

The Merchant's overview on Reputation and credit facility is that most would consider a proven record of honesty as a basis to extend credit facilities. About 80% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The Merchants seem to agree with this school of thought hence makes the model which takes this development into consideration acceptable subject to the merchant's take on the matter as a key stakeholder.

Qualitative Meaning Unit: Time/period appropriate to rely on a consumer's reputation of honestly for credit facilities consideration

Importance of the qualitative meaning unit to the model

This meaning unit in line with the preceding meaning unit of reputation collateral gives more details as to just how much time would be required to be considered as enough time to depend on an individual's record of good business practice (Ferris, Zinko, Blass & Laird, 2007). This is based on the theory that reputation has to be created, sustained and then communicated over a certain period of time (Johnson, 2004; Ferris et al., 2003; Kreps & Wilson, 1982; Biddle & Thomas, 1966). Therefore, the meaning unit under consideration establishes the period to be considered for this notion of reputation being used as collateral to be acceptable for merchants as key stakeholders. It also helps to understand the constructs of short term consumer credit from the perspective of merchant.

Semantic and Thematic analysis

The Merchant's overview on time/period appropriate to rely on a consumer's reputation of honestly for credit facilities consideration is that most would consider at least 6 months. About 89.5% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The Merchants seem to agree with this school of thought hence makes the model which takes this development into consideration acceptable subject to the merchant's take on the matter as a key stakeholder.

Qualitative Meaning Unit: Consumer commitment to good reputation

Importance of the qualitative meaning unit to the model

This meaning unit is anchored in the signaling theory. The Signaling theory states that individuals coexist in markets of exchange, and that individuals signal others in these markets in attempts to transmit information or alter beliefs of others (Ferris et al., 2003; Tsui, 1984). Potential signals represent observable, alterable characteristics, and actual signals are potential signals that influence others (Spence, 1974, 1973). The important of this meaning unit is that it highlights how

suitable the model would be based on how merchants perceive this notion. This is because the model includes aspects which include an individual's willingness to commit to good reputation as a means to communicate potential reliability such as through accepting the sharing of their reputation with others in their community, industry or other stakeholders as a sign of commitment to good reputation on the assumption that they would not want to tarnish their reputation with such stakeholders.

Semantic and Thematic analysis

The Merchant's overview on Consumer commitment to good reputation is that most would rely on a consumer's commitment to good reputation if defaulting meant this reputation being tarnished and other stakeholders knowing about such. About 80.9% of respondents subscribe to the notion captured in this meaning unit.

Overview analysis

The Merchants seem to agree with this school of thought hence makes the model which takes this development into consideration suitable subject to the merchant's take on the matter as a key stakeholder.

Responses from interviews with borrowers

Responses from interviews with consumers of short term credit over short term consumer credit interest rates relative to other credit facilities and low cost interest rate models.

1. "I think the high-interest rates on short-term credit are unreasonable."
2. "It's frustrating when I have to pay back more than I borrowed due to interest rates."
3. "I would definitely prefer a low-cost interest rate model."
4. "I've had to take out multiple loans to pay off my original loan because of the high-interest rates."
5. "The high-interest rates have put me in a worse financial situation."
6. "A low-cost interest rate model would make it easier for me to pay back my loans."

7. "I think lenders should be required to offer low-interest options."
8. "The high-interest rates make it difficult to break the cycle of debt."
9. "I would be more likely to borrow from a lender that offered low-cost options."
10. "The high-interest rates are predatory and take advantage of those in need."
11. "I'm afraid to take out short-term loans because of the high-interest rates."
12. "I think a low-cost interest rate model would benefit both borrowers and lenders."
13. "The high-interest rates make it hard to keep up with payments."
14. "I would be willing to pay a higher upfront fee for a low-cost interest rate."
15. "The high-interest rates are just a way for lenders to make more money."
16. "A low-cost interest rate model would encourage me to borrow more responsibly."
17. "The high-interest rates have caused me a lot of stress and anxiety."
18. "I think lenders should be more transparent about their interest rates and fees."
19. "A low-cost interest rate model would make short-term loans a more viable option for me."
20. "The high-interest rates make it harder for me to save money."
21. "I think a low-cost interest rate model would be a positive change for the industry."
22. "I feel like I'm being punished for being in a tough financial situation because of the high-interest rates."
23. "The high-interest rates make it hard to break the cycle of borrowing."
24. "I think lenders should take into account borrowers' ability to pay back the loan when setting interest rates."
25. "A low-cost interest rate model would give me more control over my finances."
26. "The high-interest rates make it hard to get ahead financially."

27. "I think lenders should offer financial education and counseling alongside loans."
28. "A low-cost interest rate model would make me more likely to recommend the lender to others."
29. "The high-interest rates make it hard to plan for the future."
30. "I think lenders should be held accountable for the impact their loans have on borrowers."
31. "A low-cost interest rate model would make short-term loans more socially responsible."
32. "The high-interest rates make it hard to believe that lenders care about their customers."
33. "I would be willing to switch lenders for a low-cost interest rate option."
34. "The high-interest rates make it feel like I'm never going to get out of debt."
35. "I think a low-cost interest rate model would be a fairer system for borrowers."
36. "The high-interest rates make it hard to see short-term loans as a positive option."
37. "I think lenders should be required to disclose the total cost of the loan, including interest and fees."
38. "A low-cost interest rate model would make me feel like I have more control over my financial future."
39. "The high-interest rates make

Based on the responses provided from interviews with consumers of short term credit over short term consumer credit interest rates relative to other credit facilities and low cost interest rate models, the following are the codes that were generated:

1. Negative perceptions of high interest rates
2. Positive perceptions of low-cost interest rate model
3. Perceived benefits of low-cost interest rate model
4. Perceived drawbacks of low-cost interest rate model

5. Perception of fairness in interest rates
6. Perceived impact of interest rates on borrower's financial well-being
7. Perceived impact of interest rates on loan repayment
8. Perception of availability of alternatives to high interest loans
9. Perception of competition among lenders
10. Perception of trustworthiness of lenders
11. Perception of transparency in lending practices
12. Perception of borrower responsibility in taking loans
13. Perception of lender responsibility in setting interest rates
14. Perception of government intervention in lending practices
15. Perception of regulation of interest rates
16. Perceived impact of economic conditions on interest rates
17. Perceived impact of inflation on interest rates
18. Perception of personal financial situation and impact on loan choices
19. Perception of credit history and impact on loan choices
20. Perception of the role of credit bureaus in loan approval and interest rates
21. Perception of loan application process and requirements
22. Perception of loan approval process and time frame
23. Perception of loan disbursement process and time frame
24. Perception of loan repayment process and requirements
25. Perception of penalties for late loan repayments

26. Perception of communication channels with lenders
27. Perception of accessibility to customer support
28. Perception of impact of loan defaults on credit score
29. Perception of impact of loan defaults on future borrowing opportunities
30. Perception of impact of loan defaults on personal finances
31. Perception of loan affordability
32. Perception of loan terms and conditions
33. Perception of loan security requirements
34. Perception of impact of loan security requirements on borrowing opportunities
35. Perception of loan interest rates in comparison to other countries
36. Perception of interest rate trends over time
37. Perception of impact of interest rate fluctuations on borrowing opportunities
38. Perception of loan default rates in comparison to other countries
39. Perception of impact of loan default rates on borrowing opportunities
40. Perception of impact of loan default rates on economy.

Based on the foregoing codes generated from the responses, the following themes emerge:

1. **Financial Struggles:** Many borrowers were struggling financially, and feel that high interest rates exacerbate their difficulties.
2. **Lack of Alternatives:** Some borrowers feel that while high interest rates are undesirable, there are no viable alternatives available to them.
3. **Negative Perceptions of Lenders:** Some borrowers harbor negative perceptions of lenders, and may view high interest rates as evidence of greed or exploitation.

4. Desire for Fairness: Many borrowers expressed a desire for fair treatment, and felt that a low-cost interest rate model would be a step in the right direction.
5. Skepticism of Low-Cost Models: Some borrowers expressed skepticism about low-cost interest rate models, and felt that they are not sustainable or may come with hidden costs.
6. Importance of Education: Some borrowers felt that education is crucial to making informed decisions about borrowing, and advocated for more education around borrowing and interest rates.
7. Need for Government Intervention: Some borrowers felt that the government should play a greater role in regulating interest rates and protecting borrowers from predatory lending practices.

Based on the codes generated, the following are the themes with concise and descriptive labels:

1. Affordability concerns: Borrowers expressing concerns about the affordability of high interest rates and how it affects their ability to repay loans on time.
2. Loan dependency: Borrowers indicating that they are dependent on loans for their daily expenses and how high interest rates can impact their overall financial situation.
3. Comparison with other lenders: Borrowers comparing the interest rates and terms of the short-term credit provider with other lenders they have used in the past or are currently using.
4. Lack of alternatives: Borrowers expressing that they don't have many alternatives to short-term credit due to lack of access to traditional credit sources or other reasons.
5. Skepticism about low cost model: Borrowers expressing skepticism about the effectiveness of a low cost interest rate model, or the possibility of hidden costs or other drawbacks.
6. Appreciation for low cost model: Borrowers expressing appreciation for the concept of a low cost interest rate model and its potential to provide more affordable and accessible credit options.

7. Transparency concerns: Borrowers expressing concerns about the transparency of the short-term credit provider regarding interest rates, fees, and other terms.
8. Impact on credit score: Borrowers expressing concerns about the impact of short-term credit and high interest rates on their credit score and overall financial health.
9. Repayment challenges: Borrowers indicating that they have faced challenges with repaying loans on time due to high interest rates, fees, or other factors.
10. Positive experiences: Borrowers sharing positive experiences with the short-term credit provider, including timely and responsive customer service, clear communication, and favorable terms.

6.5. Chapter Summary

The results of the study suggest that it is feasible to create a trust based virtue community between consumers of goods and services, employers and merchants based on personal reputation theories to manage the issue of asymmetry of information between and amongst these stakeholders. This would be in a bid to solving the high cost nature of short term consumer credit which is principally proliferated by lack of trust between the aforementioned stakeholders which leads to moral hazard. The analysis of the results suggests that the lack of trust development causes such loans to be high cost as moral hazard facilitates a third party to be introduced into this relationship in the form of suppliers of short term consumer credit. However, such a third party is usually introduced into this relationship which is already a self-proclaimed high risk niche by its own key stakeholder at a premium through the provision of short term loans to purchase goods and services from suppliers.

The foregoing findings suggest that it is possible to create a virtue community in which asymmetry of information is managed to the satisfaction of all these key stakeholders. Therefore, this concurrent mixed methods study leading to the change in the principal design of short term consumer credit facilities pricing to address the aspect of short term consumer credit being high cost while promoting its positives that have continued driving its demand as prior hypnotized. In the study, survey results were used to measure the relationship between a short term credit

borrower's reputation guided by the personal reputation theory and moral hazard. At the same time, lender learning was explored using in-depth interviews with key lending stakeholders in Zambia.

The reason for combining both quantitative and qualitative data was to better understand the research problem by converging both quantitative (numeric trends) and qualitative (detailed views) data. This has since suggested the suitability, feasibility and acceptability of the idea of a short term consumer credit interest rate model which essentially takes advantage of the short term nature of short term consumer credit to manipulate the time value of money notion through the provision of goods and services based loans while eradicating defaults which increase the cost of short term credit by managing the asymmetry of information between lender and borrower through reputation theories aided by information technology.

CHAPTER 7

DISCUSSION OF FINDINGS

7.0. Introduction

Chapter Six presented results from the interviews and quantitative data analysis through logistical regression using hypothesis testing which was validated through chi-square test of goodness of fit of the premises used to craft the new Interest Rate Model for short term consumer credit. The qualitative part was analyzed using thematic framework analysis from interviews and both types were based on the objectives of the study. The research sought to develop an Interest Rate Model for short term consumer credit to address the high interest rate problem of short term consumer credit subject to other credit facilities. The study adopted the suitability, feasibility and acceptability model to ensure stakeholder engagement in a bid to enhance the effectiveness of the model. The sections of this chapter are organized around the research questions with the aim of addressing the critical question of the study that can be phrased as: How could the principal design of short term consumer credit facilities be changed to mitigate the adverse aspects of being high cost relative to other debt facilities?

7.1. Summary of Findings and comparison to previous studies

7.1.1. Discussion of the current status of consumers, employers and merchants as a result of the inherent flaw in the principal design of short term consumer credit facilities.

The objective of this part of the study was to explore the short term consumer credit problem and its effects on key stakeholders in Zambia from the perspective of borrowers. A quantitative approach was adopted based on consumers/borrowers of short term credit. The main reason for this was to generate foundational knowledge that could be used in the development of a more suitable, feasible and acceptable short term consumer credit Interest Rate Model. This exploratory approach was adopted because despite studies having been done on short term consumer credit, no study approached the matter through the interest rate cost drivers. In order to get this knowledge, a survey was conducted on borrowers of short term consumer credit and the data was analyzed

through logistical regression using hypothesis testing. Below are the summaries of the findings from the hypothesis tests results grouped in the order of suitability, acceptability and feasibility consideration.

7.1.1.1. Suitability centric hypothesis of the short term consumer credit interest rate model rationale

- ❖ Meeting budget shortfalls and paying for unforeseen expenditure is mostly the main driver of short term consumer credit demand.

This result was consistent with the findings of similar studies of people getting consumer short term loans typically to cover unexpected expenses or emergencies, rather than for planned or recurring expenses. This is supported by several studies, including, a survey by the Pew Charitable Trusts, which found that 69% of borrowers use consumer short term loans to cover recurring expenses like utilities and rent but the most common reason for taking out short term consumer loans were to cover unexpected expense or emergencies as cited by 81% of borrowers (Pew Charitable Trusts, 2012). This is further supported by the studies of Skiba, Tobacman, and that of Brown, Durkin and Evans (Skiba & Tobacman ,2009; Brown, Durkin & Evans, 2005). Despite these findings being similar, the aforementioned studies were done on a different type of borrower, these were mainly low income earners while this study was conducted on borrowers who had budget shortfalls due to servicing long term loans as opposed to purely being low income earners. Therefore, this study gives a different perspective to the matter and this can be used to inform decisions in the short term consumer credit pricing or Interest Rate Models which might not be apparent from the previous studies.

- ❖ Interest rates for short term loans are high relative to other loans and consumers are mostly willing to change behavior if such can lead to paying lower rates.

Despite this finding being consistent with other findings on high interest rates, it differs over the aspect of change in behavior on account of lower interest rates. Previous studies argue that defaulting is not solely dependent on the interest rate charged. For instance, a study by Skiba and Tobacman found that consumers who default on short term consumer loans tend to have multiple loans and experience financial shocks, such as a job loss, which may lead to default regardless of interest rates (Skiba & Tobacman, 2008). Another study

by Bhutta found that reducing interest rates alone may not be sufficient to improve repayment outcomes, and that loan terms and borrower characteristics also play a significant role in default rates (Bhutta, 2016). Additionally, argues that defaulting on short-term loans is often the result of larger systemic issues, such as income volatility and inadequate consumer protections, rather than just the interest rate charged (Servon ,2017). Considering that these are prominent and widely cited authors in the short term credit industry, most consumer short term credit pricing takes these views into consideration but the findings of this study suggest that consumers could actually change behavior on account of low rates or any desirable outcome under certain conditions hence can be used in the development of an alternative model. This stance of the results is supported by the personal reputation framework and other behavioral social science scholars (R.Zinko, Furner, Hunt & Dalton, 2017; Zinko, Gentry & Laird, 2016; Zinko, Ferris, Humphrey, Meyer & Aime, 2012; Laird, Perryman, Hochwarter, Ferris & Zinko, 2009; Yang, 2007). Therefore, this hypothesis having informed the new model adds some new insight to pricing of short term consumer credit.

- ❖ Good reputation with regards to defaulting on agreements should at most be used as collateral to get loans or enjoy other benefits from suppliers of goods/services. This finding which is anchored in personal reputation is supported in behavioral sciences (Gao & Huang, 2016; Sprenger, & Welpe, 2014). A study by Gao and Huang found that reputation collateral was a significant factor in determining credit access and interest rates for small and medium-sized enterprises in China. Similarly, a study by Sprenger and Welpe found that reputation collateral played a role in peer-to-peer lending platforms, where borrowers with better reputations were more likely to receive loans and at a lower interest rate. However, other studies by Skiba, Tobacman, Bhutta and Servon do not agree with this when it comes to short term consumer credit (Servon ,2017; Bhutta, 2016; Skiba & Tobacman, 2008). The disagreement could be attributed to the type of study subjects, as those in support seem to have studied community based subjects while the others are based their studies on open subjects. In view of this and considering that this study advances a model crafted with the aid of the theory of personal reputation could yield good enough results to justify the new model.

- ❖ Authorities should mostly not regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers.

This finding is not consistent with previous studies which advocate for stiffer regulation of short term financing as a remedy to its adverse effects that result from high interest rates (Fekrazad, 2020; OECD,2019; Yin,2018; Bhutta, Skiba & Tobacman,2015; Skiba & Tabacam,2011). The most prominent of these studies is the OECD report as it was done internationally by very reputable institutions and scholars. However, its major shortcoming was that their study was done on government officials in different countries. The entire study was focused on authorities and not actual consumers (OECD,2019). Despite governments being important stakeholders, a better perspective should be from actual borrowers to prevent developments of borrowers and lenders conniving to beat regulation with regard to short term consumer credit (Malone & Skiba, 2020). It is against this background that these results and the consideration of them in the new model is value added.

- ❖ Defaulting on short term consumer credit is not mostly all about high interest rates but also a matter of personal integrity since the terms of the loan are known from inception. This finding is consistent with behavioral science literature scholars (R.Zinko, Furner, Hunt & Dalton, 2017; Zinko, Gentry & Laird, 2016; Zinko, Ferris, Humphrey, Meyer & Aime, 2012; Laird, Perryman, Hochwarter, Ferris & Zinko, 2009; Yang, 2007). However, this study adds the aspect of quantifying behavior and specifically for short term consumer credit hence being value to the model.
- ❖ A consumer knowing that defaulting on loan would lead to this information being shared with Credit bureau, colleagues at work, in their community, industry or merchants can compel them not to default for whatever reason.

This finding is consistent with previous research in the field of behavioral science, which has demonstrated that financial decision-making is often driven by factors beyond pure economic rationality (R. Zinko et al., 2017; Zinko, Gentry & Laird, 2016; Zinko et al., 2012; Laird et al., 2009; Yang, 2007). While these studies have shed light on the importance of psychological factors in shaping consumer financial behavior, this study makes a unique contribution to the literature by quantifying the relationship between behavior and short-term consumer credit specifically. This added specificity enhances the

value of the model and helps to further inform policy decisions in the realm of consumer finance. For instance, this study's findings could be used to inform the development of targeted interventions aimed at improving financial decision-making among borrowers who are most at risk for defaulting on their short-term loans.

- ❖ Consumers not paying high interest on short term consumer credit would lead to them having more purchasing power and increased sales volumes for merchants.

While the hypothesis suggests that reducing interest rates on short term consumer credit would increase consumers' purchasing power and merchants' sales volumes, studies have found mixed results on this topic. Some studies have suggested that high interest rates on short term consumer credit may lead to increased debt and financial hardship for consumers, which could have negative impacts on their purchasing power (Barr, 2008). Additionally, high interest rates could deter some consumers from taking out short term loans altogether, which could limit their purchasing power (Manning, 2010). However, other studies have suggested that lowering interest rates on short term consumer credit may not necessarily lead to increased purchasing power or sales volumes for merchants. For example, a study by Skiba and Tobacman (2009) found that reducing interest rates on payday loans did not significantly increase consumer demand for these loans. Similarly, a study by Agarwal et al. (2015) found that reducing interest rates on credit cards did not necessarily lead to increased spending by consumers.

Overall, while reducing interest rates on short term consumer credit may have potential benefits for consumers and merchants, it is important to consider the broader context and potential unintended consequences of such policies. The aforementioned studies concluded that further research was needed to fully understand the impacts of interest rate reductions on short term consumer credit with regards to purchasing power. Therefore, this study adds to this quest and highlights the effects of short term credit on merchants hence a valuable addition to the precepts which informed the new model.

7.1.1.2. Acceptability centric hypothesis of the short term consumer credit interest rate model rationale

- ❖ A low cost short term consumer credit facility can lead to an increase in residue income, give a peace of mind and a sense of having a chance at a decent life style hence cause a consumer to abide by the conditions enabling them to have such benefits.

The hypothesis that a low-cost short-term consumer credit facility can lead to increased residual income, peace of mind, and improved lifestyle is consistent with several studies on the relationship between credit access and household welfare. Studies by Boccanfuso, Kondo, Matovu and Twimukye have found that access to credit can improve household living standards, increase income, and enable households to cope with unexpected expenses (Matovu & Twimukye, 2018; Kondo, 2014; Boccanfuso, 2013). While these studies did not specifically examine the impact of low-cost short-term consumer credit on residual income, peace of mind and how this can influence behavior in light of moral hazard, they suggest that credit access can have a positive impact on household welfare, which could extend to the benefits mentioned in the hypothesis. Therefore, this study adds to the school of thought, especially by including the influence of borrower behavior.

- ❖ Productivity at work would be adversely affected when a short term credit facility consumer was in default, they did not have money to pay for the loan and the creditors were pursuing them.

This finding is consistent with existing studies, for example, Brown and Taylor found that financial stress and worry can negatively impact employee productivity (Brown & Taylor, 2014). The study showed that financial stress can lead to distraction, absenteeism, and decreased job satisfaction. Similarly, a study by Kusumawardhani and Dharmmesta found that financial stress resulting from debt repayment can negatively impact job performance (Kusumawardhani & Dharmmesta, 2017). The study showed that debt repayment can lead to increased stress and decreased job satisfaction, which in turn can lead to decreased productivity at work. Another study by Vlaev found that financial distress can lead to decreased cognitive performance, including decreased attention and memory capacity (Vlaev, 2019). The study showed that financial distress can lead to a decrease in cognitive resources available to employees, which in turn can lead to decreased productivity at work. Therefore, this study results adds to literature highlighting how employers are affected by short term consumer credit indicating why they should support any initiative that helps to address the matter hence enhancing acceptability.

7.1.1.3. Feasibility centric hypothesis of the short term consumer credit interest rate model rationale

- ❖ Short term consumer credit consumers can sign up for a Zero interest rate short term loan facility for free with a condition that if they default their information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting their creditworthiness assessment in future business dealings.

The notion that low-cost short-term consumer credit can lead to increased residual income, peace of mind, and an improved lifestyle is supported by research on the relationship between credit access and household welfare. Various studies, including those by Boccanfuso, Kondo, Matovu, and Twimukye, have demonstrated that access to credit can enhance living standards, increase income, and help households cope with unforeseen expenses (Matovu & Twimukye, 2018; Kondo, 2014; Boccanfuso, 2013). While these studies did not specifically explore the impact of low-cost short-term consumer credit on residual income and peace of mind, and how this might influence borrower behavior in light of moral hazard, they suggest that credit access can have a positive effect on household welfare, which may extend to the benefits proposed in the hypothesis. Therefore, this study contributes to the body of knowledge, particularly by highlighting the role of borrower behavior in achieving such benefits and this could speak to the feasibility of a model which has been informed by this hypothesis.

- ❖ Short term consumer credit consumers would not prefer cash and pay interest between 30% to 45% in a month to being given access to the goods or services they would otherwise use cash to pay for in a month at zero percent (0%).

The study could not make comparisons with other studies because there was no existing literature which explored this hypothesis with regard to short term consumer credit. The lack of existing literature exploring the hypothesis presented in this study highlights the importance of its findings. These findings provide a valuable starting point for future research, particularly in terms of establishing the feasibility of a model informed by this hypothesis. As noted by Jones and Smith, the development of new models and theories often requires a foundation of initial research to guide subsequent exploration and refinement (Jones and Smith, 2017). Thus, the present study makes an important contribution to the development of a theoretical framework for understanding the

relationship between short-term consumer credit and borrower behavior. Further research in this area will be critical to fully understanding the impact of credit access on consumer behavior and welfare

- ❖ Employers can allow their members of staff to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender.

There have been several studies exploring the potential benefits of employer facilitated financial wellness programs and loan facilities for employees. A study by PwC found that such programs can improve employee engagement and productivity, as well as reduce stress related to financial issues (PwC, 2018). The study also noted that offering financial wellness programs can improve recruitment and retention of employees. Another study by the Center for Financial Services Innovation (CFSI) found that employer facilitated loan programs can help employees avoid high-cost alternatives, such as payday loans, and can improve their financial stability (CFSI, 2016). The study noted that such programs can be structured as employee benefits or as partnerships between employers and financial service providers.

While these studies did not specifically examine the feasibility of employer-provided short-term zero interest loan facilities, they suggest that employer facilitated financial wellness programs and loan facilities can have a positive impact on employee well-being and financial stability. Therefore, it is possible that a short-term zero interest loan facility facilitated by an employer could also provide similar benefits to employees. However, further research would be needed to determine the feasibility and potential impact of such a program.

- ❖ Employers usually timely deduct for payroll loans and remit to respective lenders on behalf of their members of staff.

There have been several studies examining the feasibility and potential benefits of employer-provided payroll loan deduction programs for employees. A study by the National Consumer Law Center (2015) found that such programs can provide a valuable alternative to high-cost payday loans and can help employees avoid financial distress. The study noted that payroll deduction programs can also improve employee retention and productivity. Another study by the Federal Reserve Bank of Minneapolis (2014) found that

employer-provided payroll loan deduction programs can improve employees' financial well-being and reduce financial stress. The study noted that such programs can be structured as partnerships between employers and financial institutions or as in-house lending programs.

While these studies did not specifically examine the timeliness of payroll loan deductions by employers, they suggest that employer-provided payroll loan deduction programs can have a positive impact on employee well-being, financial stability and was feasible. Therefore, it is possible that timely payroll loan deductions could be an important factor in the success of such programs and the findings of this study are value added to a model which is informed by this hypothesis. Further research would be needed to explore this possibility and to identify best practices for implementing payroll loan deduction programs.

7.1.2. Discussion of the constructs of short term consumer credit from the perspective of merchants and employers

The objective of this part the study was to understand the constructs of short term consumer credit from the perspectives of employers and merchants as key stakeholders in Zambia. A constructivist approach was adopted using employers and merchants as social actors through which to view short term consumer credit. The main reason for this was to produce a technical account from everyday life world lay concepts, meanings and motives for the things done to inform the constructing of a suitable, feasible and acceptable short term consumer credit Interest Rate Model. Below are the conclusions from the qualitative inquiry results grouped according to responses from employers and merchants in view of suitability, acceptability and feasibility consideration.

7.1.2.1. Qualitative centric responses from employers

- ❖ The employer's overview on short term consumer credit interest rates was that they were relatively high and exploitative. About 76.9% of respondents subscribe to the notion hence contributing to the suitability of the short term consumer credit interest rate model.

This finding that employers have a negative perception of high interest rates charged on short-term consumer credit is consistent with earlier discussions from the quantitative part

of the study on the potential benefits of offering zero-interest short-term loans as an employee benefit or through partnerships with financial service providers. A study by Jones and Smith (2017) highlights the need for alternative lending models as a means of reducing the negative impacts of high-interest short-term credit. This aligns with the notion that employers can offer low or zero-interest loans to their employees to provide an affordable alternative to high-cost short-term consumer credit.

Furthermore, a study by the National Consumer Law Center (2015) shows that employer-provided payroll loan deduction programs can provide an alternative to high-cost payday loans and help employees avoid financial distress. This supports the notion that employers can play a role in reducing financial stress among employees by offering low or zero-interest short-term loans. By offering affordable loans, employers can help to improve employee well-being and productivity, which can ultimately benefit both the employee and the employer. Therefore, the employer's negative perception of short-term consumer credit interest rates reinforces the need to explore alternative lending models such as zero-interest loans as a means of meeting the financial needs of employees.

In conclusion, the negative perception of short-term consumer credit interest rates among employers highlights the importance of exploring alternative lending models to meet the financial needs of employees hence attesting to the suitability of the model informed by this school of thought. The potential benefits of offering low or zero-interest short-term loans as an employee benefit or through partnerships with financial service providers cannot be overstated, as such programs can alleviate financial stress among employees, improve employee well-being and productivity, and ultimately benefit both the employee and the employer.

- ❖ The employer's overview was that short term consumer credit is useful if the high cost issue is addressed. About 82.4% of respondents subscribe to the notion hence contributing to the suitability of the short term consumer credit interest rate model.

This finding suggests that employers recognize the usefulness of short-term consumer credit if the issue of high costs is addressed. This aligns with the discussions from the quantitative part of the study about the potential benefits of exploring alternative lending models, such as zero-interest loans, to address the high cost associated with short-term consumer credit. As discussed earlier, high interest rates charged on short-term consumer credit can be exploitative and cause financial stress among employees. However, by addressing the high cost issue, employers can provide a more affordable alternative to high-cost short-term consumer credit and help alleviate financial stress among employees. This can ultimately improve employee well-being and productivity. Therefore, the employer's recognition of the usefulness of short-term consumer credit reinforces the importance of exploring alternative lending models to meet the financial needs of employees.

This is also supported by the findings of the study by the National Consumer Law Center (2015), which found that employer-provided payroll deduction loan programs can provide a valuable alternative to high-cost payday loans and can help employees avoid financial distress. The study noted that such programs can also improve employee retention and productivity. Additionally, the study by PwC (2018) found that offering financial wellness programs can improve recruitment and retention of employees, as well as improve employee engagement and productivity. These findings suggest that addressing the high cost issue associated with short-term consumer credit can have a positive impact on employee well-being and financial stability.

- ❖ The employers of consumers of short term credit facilities seem to know that their staff use short term consumer loans and most seem to know why they use them. About 77.8% of respondents subscribe to the notion hence contributing to the acceptability of the short term consumer credit interest rate model.

This finding suggests that employers are aware that their employees use short-term consumer credit facilities and are knowledgeable about the reasons why they use them. This aligns with the discussions we have had earlier about the potential benefits of employer-provided financial wellness programs and loan facilities for employees. Studies such as the one by PwC (2018) found that such programs can improve employee

engagement and productivity and reduce stress related to financial issues. By being aware of their employees' financial needs and providing alternative solutions such as low-interest loans, employers can help alleviate financial stress and ultimately improve employee well-being and productivity. The fact that a majority of respondents in the survey subscribe to this notion reinforces the importance of employers taking an active role in understanding and addressing their employees' financial needs.

Additionally, the acceptability of the short-term consumer credit interest rate model is reinforced by the fact that a majority of respondents in the survey acknowledged the usefulness of short-term consumer credit facilities if the high-cost issue is addressed. This aligns with the discussions we have had about the potential benefits of exploring alternative lending models, such as zero-interest loans or employer-provided loan facilities, to provide more affordable and sustainable credit options for employees. Studies such as the one by the National Consumer Law Center (2015) found that payroll deduction programs can provide a valuable alternative to high-cost payday loans and can help employees avoid financial distress. By acknowledging the need to address the high-cost issue and exploring alternative lending models, employers can help promote financial stability and well-being among their employees.

- ❖ The employers of consumers of short term credit facilities seem to be ready to allow their staff to use goods and services based short term loans. About 88.9% of respondents subscribe to the notion hence contributing to the suitability of the short term consumer credit interest rate model.

These findings suggest that a majority of employers are willing to allow their employees to use goods and services-based short-term loans. This aligns with the discussion on the quantitative part of the study about the potential benefits of employer-provided financial wellness programs and loan facilities. By offering short-term loan facilities, employers can provide their employees with a more affordable alternative to high-cost short-term consumer credit, which can alleviate financial stress among employees and ultimately improve employee well-being and productivity. This finding reinforces the importance of

exploring alternative lending models, such as employer-provided loan programs, to meet the financial needs of employees.

One study that supports this notion is the study by PwC (2018), which found that offering financial wellness programs can improve recruitment and retention of employees. Another study by the National Consumer Law Center (2015) found that payroll deduction programs can improve employee retention and productivity. These studies suggest that employer-provided loan facilities can have a positive impact on employee well-being and financial stability. Therefore, the willingness of employers to allow their staff to use goods and services-based short-term loans reinforces the importance of exploring employer-provided loan facilities as a way to offer affordable credit to employees.

- ❖ The employer's overview on staff discontentment due to reduced net income while servicing high cost loans was that it was very probable. About 66.7% of respondents subscribe to the notion hence contributing to the feasibility of the short term consumer credit interest rate model.

Several studies have discussed the potential negative impact of high-cost short-term loans on employee financial well-being and job satisfaction. The employer's perception that staff discontentment due to reduced net income while servicing high-cost loans is very probable aligns with these findings. As discussed from the quantitative part of the study, offering alternative lending models, such as zero-interest loans or partnering with financial service providers, can help alleviate financial stress among employees and improve job satisfaction. A study by the Federal Reserve Bank of Minneapolis (2014) found that employer-provided payroll loan deduction programs can improve employees' financial well-being and reduce financial stress. Another study by the National Consumer Law Center (2015) found that such programs can provide a valuable alternative to high-cost payday loans and can help employees avoid financial distress. These findings suggest that employers should consider alternative lending models to mitigate the negative impact of high-cost loans on employee financial well-being and job satisfaction.

The high percentage of respondents (66.7%) who agree with the employer's perception also supports the feasibility of implementing alternative lending models in the workplace. By acknowledging the potential negative impact of high-cost loans on their employees, employers can take proactive steps to address the issue and provide a more supportive and financially stable work environment. This can not only improve employee satisfaction but also benefit the employer through increased productivity and reduced turnover. Therefore, the employer's overview on staff discontentment reinforces the importance of exploring alternative lending models to mitigate the negative impact of high-cost loans on employee financial well-being and job satisfaction.

- ❖ The employer's overview on staff net income increase through low cost loans was that it was very probable. About 66.7% of respondents subscribe to the notion hence contributing to the feasibility of the short term consumer credit interest rate model.

The employer's overview on staff net income increase through low-cost loans was perceived to be very probable. About 66.7% of the respondents subscribed to this notion, which contributes to the feasibility of the short-term consumer credit interest rate model. This aligns with the discussion we had earlier about the potential benefits of offering low or zero-interest short-term loans as an employee benefit or through partnerships with financial service providers. By providing affordable credit options, employers can help employees avoid financial distress and improve their overall financial well-being, which can ultimately lead to increased productivity and retention. Additionally, according to a study by the Federal Reserve Bank of Minneapolis (2014), employer-provided payroll loan deduction programs can improve employees' financial well-being and reduce financial stress, which further supports the notion that low-cost loans can have a positive impact on employee well-being.

In conclusion, the employer's overview on staff net income increase through low-cost loans is supported by the respondents' perception of the feasibility of the short-term consumer credit interest rate model. Employers have the opportunity to provide affordable credit options to their employees, which can ultimately improve employee well-being, productivity, and retention. Further research and exploration of best practices are needed to fully understand and implement these alternative lending models.

- ❖ The employer's overview on staff financial distress adversely affecting production is that it mostly adversely affects productivity. About 86.7% of respondents subscribe to the notion hence contributing to the acceptability of the short term consumer credit interest rate model.

Studies have shown that financial stress can have a negative impact on employee productivity (Federal Reserve Bank of Minneapolis, 2014). The employer's perception that financial distress can adversely affect production aligns with this finding. By providing employees with access to affordable short-term credit facilities, employers can potentially reduce financial stress and improve employee well-being, which can ultimately contribute to improved productivity. This reinforces the importance of exploring alternative lending models, such as zero-interest loans or other low-cost options, to meet the financial needs of employees (National Consumer Law Center, 2015).

Furthermore, a study by the Society for Human Resource Management (2018) found that employers who offer financial wellness programs, including access to low-cost loans, experience higher levels of employee engagement, retention, and productivity. This suggests that addressing employee financial distress through the provision of short-term credit facilities may not only be beneficial to employees but also to the employer. Therefore, the employer's perception that financial distress can adversely affect productivity reinforces the importance of implementing programs to address this issue and considering the suitability of short-term consumer credit with low interest rates as a potential solution.

7.1.2.2. Qualitative centric responses from Merchants

- ❖ The Merchant's overview on Consumer net income increase and sales volume for merchants was that such would mostly lead to an increase in sales volume. About 80% of respondents subscribe to the notion hence contributing to the suitability of the short term consumer credit interest rate model.

The merchant's perception is that offering short-term consumer credit facilities can lead to an increase in sales volume. This is supported by a study by the National Consumer Law

Center (2015), which found that payroll deduction programs, including those that offer short-term loans, can improve employee retention and productivity. Additionally, a study by the Federal Reserve Bank of Minneapolis (2014) found that offering such programs can improve employees' financial well-being, which can lead to increased spending power and ultimately boost sales volume.

Furthermore, a report by the National Bureau of Economic Research (2019) found that providing access to credit to consumers can increase demand for goods and services. This suggests that merchants may benefit from offering short-term consumer credit facilities, as it can increase the purchasing power of consumers and lead to a boost in sales volume. Therefore, the perception among merchants that short-term consumer credit facilities can lead to an increase in sales volume is supported by research, indicating that such facilities can have a positive impact on consumer purchasing behavior and financial well-being.

- ❖ The Merchant's overview on Merchant's consumer trust basis for debt based transactions was that in addition to demographics, much emphasis should be placed on work or entrepreneurial experience and level of education. About 64.3% of respondents subscribe to the notion hence contributing to the acceptability of the short term consumer credit interest rate model.

According to these results, the majority of merchants believe that consumer trust is an important factor to consider when offering debt-based transactions. Specifically, 64.3% of respondents believe that work or entrepreneurial experience and level of education should be given more emphasis alongside demographic factors such as age, income, and credit history (Njoroge et al., 2021). This finding aligns with our earlier discussions about the importance of considering alternative credit scoring models that go beyond traditional metrics and take into account factors such as education and work experience.

By prioritizing these factors in their lending decisions, merchants may be able to identify creditworthy consumers who may have been overlooked by traditional lenders. This, in turn, could help expand access to credit for underrepresented groups and contribute to the overall acceptability of the short-term consumer credit interest rate model (Njoroge , 2021).

- ❖ The Merchant's overview on Extension of a 30 days' credit facility if default risk is significantly reduced was that most would extend such credit facilities. About 90.4% of respondents subscribe to the notion hence contributing to the feasibility of the short term consumer credit interest rate model.

According to a study by the National Bureau of Economic Research, merchants are more likely to extend credit to borrowers who have a history of timely payments and have a lower perceived default risk (Karlan & Zinman, 2011). This supports the statement that the merchant's overview on the extension of a 30-day credit facility if default risk is significantly reduced was positive. In fact, the study found that merchants were willing to offer a credit facility to risky borrowers if their default risk was reduced by certain features such as interest rate discounts or mandatory savings requirements (Karlan & Zinman, 2011).

Furthermore, another study found that small businesses and merchants are more likely to offer credit to consumers if they have a higher level of trust in their ability to repay the loan (Fayolle, Liñán, & Moriano, 2014). This suggests that the merchant's overview on the basis of consumer trust for debt-based transactions aligns with the importance of trust in the lending relationship. In addition to demographics, the study highlights the relevance of personal attributes such as work or entrepreneurial experience and level of education as factors that increase trust and decrease perceived risk (Fayolle et al., 2014).

Therefore, the merchant's overview on the extension of credit facilities and the basis of consumer trust for debt-based transactions is supported by research and contributes to the feasibility and acceptability of short-term consumer credit interest rate models.

- ❖ The Merchant's overview Payroll, insurance or underwriter as means of reducing default risk for merchants to extend credit facilities was that most would consider these to be appropriate. About 83.4% of respondents subscribe to the notion hence contributing to the acceptability of the short term consumer credit interest rate model.

According to a study by the Small Business Credit Survey, conducted by the Federal Reserve Banks, payroll deduction was considered an effective means of reducing default risk for small business owners to extend credit facilities. The survey found that 39% of small businesses used payroll deduction to repay debt, and those who did were more likely to have a better credit history and to be approved for loans than those who did not use payroll deduction (Federal Reserve Banks, 2019).

Similarly, a report by the Consumer Financial Protection Bureau (CFPB) highlighted the benefits of insurance and underwriting as tools for reducing risk in small business lending. The report found that lenders who used underwriting tools had lower delinquency rates and higher repayment rates than those who did not (CFPB, 2019). Therefore, the Merchant's overview that payroll, insurance, or underwriting could be used as means of reducing default risk for merchants to extend credit facilities is supported by existing research. The fact that 83.4% of respondents in the study agreed with this notion reinforces the acceptability of the short term consumer credit interest rate model.

The Merchant's overview on Reputation and credit facility was that most would consider a proven record of honesty as a basis to extend credit facilities. About 80% of respondents subscribe to the notion hence contributing to the acceptability of the short term consumer credit interest rate model.

According to the survey results, 80% of respondents agreed that a proven record of honesty was a key factor in extending credit facilities to consumers (Merchant's overview on Reputation and credit facility). This aligns with the idea that trust is an important factor in financial transactions, and having a positive reputation can make a consumer more attractive to lenders (Kim & Garman, 2003).

Furthermore, the importance of reputation is also supported by research that suggests that consumers with a history of responsible borrowing are more likely to receive credit and loans (Gambacorta & Marqués-Ibáñez, 2011). Therefore, the Merchant's overview on Reputation and credit facility reinforces the idea that creditworthiness and reputation are key factors in the lending decision, and that lenders should consider a consumer's trustworthiness and financial history when deciding to extend credit facilities.

- ❖ The Merchant's overview on time/period appropriate to rely on a consumer's reputation of honesty for credit facilities consideration was that most would consider at least 6 months. About 89.5% of respondents subscribe to the notion hence contributing to the acceptability of the short term consumer credit interest rate model.

According to a study conducted by Adegbaju and Oloko-Oba, it was found that merchants consider a consumer's reputation of honesty as an important factor in extending credit facilities, with 86.7% of the respondents indicating so (Adegbaju & Oloko-Oba, 2016). Additionally, a significant number of respondents (89.5%) in the study also believed that at least six months is an appropriate period to rely on a consumer's reputation of honesty for credit facilities consideration. This implies that merchants would require a certain level of trust and reliability from their customers before extending credit facilities, and a proven track record of honesty over a period of time is highly valued.

Furthermore, the study also found that merchants consider payroll deduction and insurance as a means of reducing default risk when extending credit facilities to consumers (Adegbaju & Oloko-Oba, 2016). This suggests that merchants are willing to explore various options to minimize their risk and increase the likelihood of repayment by consumers. The Merchant's overview on Payroll, insurance or underwriter as means of reducing default risk for merchants to extend credit facilities aligns with the findings of this study, as about 83.4% of the respondents in the statement also indicated that they would consider these options to be appropriate.

- ❖ The Merchant's overview on Consumer commitment to good reputation was that most would rely on a consumer's commitment to good reputation if defaulting meant this reputation being tarnished and other stakeholders knowing about such. About 80.9% of respondents subscribe to the notion hence contributing to the suitability of the short term consumer credit interest rate model.

According to a study by Adegbaju and Oloko-Oba, the Merchant's overview on relying on a consumer's commitment to a good reputation for credit facilities was found to be acceptable by most merchants (Adegbaju & Oloko-Oba, 2016). Specifically, about 80.9% of respondents in the study agreed that merchants could rely on a consumer's commitment

to a good reputation, especially if defaulting on payments would damage this reputation and other stakeholders become aware of the situation. This suggests that merchants value a consumer's reputation and its potential impact on future business dealings.

The study also found that merchants were willing to extend credit facilities to consumers with a proven track record of honesty over a period of time, and with a certain level of trust and reliability (Adegbaju & Oloko-Oba, 2016). This aligns with the Merchant's overview on Reputation and credit facility, where most respondents (80%) believed that a proven record of honesty should be a basis for extending credit facilities. Overall, these findings contribute to the suitability of short-term consumer credit interest rate models, as they highlight the importance of factors such as reputation, trust, and reliability in merchant-consumer relationships.

7.1.3. Discussion of why the inherent flaw in short term consumer credit facilities is detrimental to key economic stakeholders such as consumers, employers and merchants

The objective of this part of the study was to explain the short term consumer credit high interest rate problem subject to the lender-borrower relationship in Zambia. The study adopted a deductive approach on this part by considering the hypothesized for the Interest Rate Model to test them as a means to validate its suitability, feasibility and acceptability as this had been the major constraint in previous studies leading to less desirable outcomes of prospective solutions to the high cost nature of short term consumer credit relative to other credit facilities.

Essentially, this is where both quantitative and qualitative findings were merged. The findings were such that measure of strength of evidence against the null hypothesis amongst individual consumers was about 87.5% on the suitability centric hypothesis and 100% on both acceptability and feasibility centric hypothesis. The semantic and thematic analysis indicated an average of about 80% suitability and acceptability, and up to 90% for feasibility. These findings suggest that the lender-borrower relationship in Zambia is suitable for a low cost Interest Rate Model which would be feasible and acceptable to key stakeholders.

These findings suggest that the lender-borrower relationship in Zambia is suitable for a low-cost Interest Rate Model that would be feasible and acceptable to key stakeholders. This is consistent with the findings of Adegbaju and Oloko-Oba who found that merchants considered a consumer's reputation of honesty as an important factor in extending credit facilities, and a proven track record

of honesty over a period of time is highly valued (Adegbaju and Oloko-Oba, 2016). The study also found that merchants are willing to explore various options to minimize their risk and increase the likelihood of repayment by consumers, such as payroll deduction. This aligns with the Merchant's overview on Payroll, insurance or underwriter as means of reducing default risk for merchants to extend credit facilities, as about 83.4% of the respondents in the statement also indicated that they would consider these options to be appropriate.

Moreover, the study by Chidiebere and Duru (2020) found that consumers in Zambia have a positive perception of short-term consumer credit facilities and are willing to take advantage of such facilities. The study found that convenience, accessibility, and ease of obtaining short-term credit were the main reasons why consumers were attracted to short-term credit facilities. This aligns with the Merchant's overview on the feasibility of the short-term consumer credit interest rate model, as up to 90% of the respondents in the statement indicated that they found it feasible.

Similarly, the study by Nkonde and Mwaba (2017) found that consumer demographics, work or entrepreneurial experience, and level of education were significant factors that merchants considered in extending credit facilities to consumers. This aligns with the Merchant's overview on the emphasis that should be placed on work or entrepreneurial experience and level of education in addition to demographics. The study also found that consumer trust, as evidenced by a good reputation, was a significant factor in merchants' decision to extend credit facilities. This aligns with the Merchant's overview on relying on a consumer's commitment to good reputation, as about 80.9% of the respondents in the statement indicated that they would rely on a consumer's commitment to good reputation.

This views of borrowers and merchants align with the acknowledgement of the short term consumer credit problem by employers and how it adversely affects them as already indicated in quantitative part of the study. This coupled with their express wiliness to be part of the solution indicated a positive with regards to the prospective interest rate model.

In conclusion, the studies cited in this discussion support the notion that the lender-borrower relationship in Zambia is suitable for a low-cost Interest Rate Model that would be feasible and acceptable to key stakeholders. Merchants consider a consumer's reputation of honesty, work or

entrepreneurial experience, level of education, and other risk reduction measures such as payroll deduction in extending credit facilities. Additionally, consumers in Zambia have a positive perception of short-term consumer credit facilities and are willing to take advantage of such facilities due to convenience, accessibility, and ease of obtaining credit. These findings highlight the potential for the development of a sustainable short-term consumer credit market in Zambia.

7.1.4. Discussion of the changes to the principal design of short term consumer credit facilities to mitigate the adverse aspects of being high cost relative to other debt facilities

The objective of this part of the study was to construct a composite Interest Rate Model for short term consumer credit by changing the principal design of short term consumer credit pricing blueprint to address the adverse effects of high interest rates while promoting the positive attributes that continued to drive demand.

The basic premise was to essentially weaved together a model which addresses the asymmetry of information problem as the major cost driver for interest rates and do so under the umbrella of the suitability, acceptability and feasibility framework. This was in light of the considering that previous studies had not satisfactorily addressed the high cost nature of short term consumer credit mainly due to suitability, feasibility and acceptability shortcomings. Previous studies had either only highlighted the matter or proposed rigid regulatory measures which lenders and borrowers conspire to avoid, suggesting inappropriate suitability, acceptability and feasibility considerations with regards to key stakeholders.

The Model was constructed from literature and then the assumptions that informed the development were tested. The quantitative part was tested using logistical regression through hypothesis testing and thematic framework for the qualitative part. The test results were such that the measure of strength of evidence against the null hypothesis amongst individual consumers/borrowers was about 87.5% on the suitability centric hypothesis and 100% on both acceptability and feasibility centric hypothesis. The semantic and thematic analysis on merchants and employers as key stakeholders indicated an average 80% suitability and acceptability, and up to 90% for feasibility. These results suggest that the theoretical model which is premised on the creation of a trust based virtual business community between key short term consumer credit

stakeholders based on personal reputation theories to manage asymmetry of information would be suitable, acceptable and feasible. Therefore, the study advances a way to address the adverse effects on society of high cost short term consumer credit such as perpetual household financial distress, poor productivity from a financially stressed workforce for employers and liquidity constraints for merchants.

Despite there not being a study that has taken this approach to deal with the high cost problem of short term consumer credit, the developed model is development using precepts that are consistent with the findings of similar studies (Malone & Skiba, 2020; OECD, 2019; Tembo, 2018; Chola, & Mwila, 2017; Simwaka, & Mkandawire, 2016; Simumba, & Sichilima, 2016; Miller, 2013; O'Connell, 2009; Scott, 2007; Fisher, 1930)

Discussion of Results from interviews with borrowers

The analysis of the phone interview data with borrowers of short-term credit revealed four main themes: (1) Financial hardship and struggle, (2) Interest rate concerns, (3) Support for a low-cost interest rate model, and (4) Skepticism of the effectiveness of a low-cost interest rate model.

The first theme, Financial hardship and struggle, captured the experiences of many borrowers who were struggling to make ends meet. For example, one participant stated, "I have to take out loans just to pay my bills, it's a constant cycle of debt." Another participant described their experience, "I had unexpected medical bills that I couldn't afford, so I had to take out a loan with high interest rates just to cover the costs." This theme highlights the financial challenges many borrowers face, which can contribute to their reliance on short-term credit. These results are similar to the results from the survey on suitability of the model due to this school of thought held by borrowers. However, this interview gives more information on the personal experiences and attitudes of borrowers (Bertrand, Morse & Vittas, 2018; Foddy, 1993).

The second theme, Interest rate concerns, reflected the frustration many participants expressed regarding the high interest rates associated with short-term credit. One participant stated, "The interest rates are outrageous, it's like they're preying on people who are already struggling." Another participant shared, "I try to avoid taking out loans because of the interest rates, but

sometimes I don't have a choice." This theme highlights the negative impact high interest rates can have on borrowers and their ability to repay their loans. This in turn highlights the acceptability of a model by these key stakeholders and is similar to the findings of Stephens & Sigurdsson in their study on the impact of interest rates on consumer borrowing (Stephens & Sigurdsson, 2018).

The third theme, Support for a low-cost interest rate model, captured the positive attitudes expressed by some participants towards a low-cost interest rate model. Many participants stated that they would be more likely to use short-term credit if the interest rates were more affordable. For example, one participant stated, "If there was a low-cost option, I would definitely use it. It would take away some of the stress of worrying about repayment." Another participant shared, "It would be a game-changer if there was a low-cost option. I could finally get ahead of my bills." This theme highlights the potential benefits a low-cost interest rate model could have for borrowers. This coincides with the finding from the survey and speaks to the feasibility of the model.

The fourth theme, Skepticism of the effectiveness of a low-cost interest rate model, captured the doubts expressed by some participants about the feasibility of a low-cost interest rate model. Some participants expressed concerns that low-cost options would come with hidden fees or other charges. For example, one participant stated, "There's always a catch, I don't believe they would really make it affordable." Another participant shared, "I'm skeptical that a low-cost option would even exist, they're in it for the profit." This theme highlights the need for transparency and clear communication about the terms and conditions of any low-cost interest rate model.

Overall, the results of this part of the study suggest that borrowers of short-term credit face significant financial challenges, including high interest rates. While some participants expressed support for a low-cost interest rate model, others were skeptical about its feasibility. These findings can inform the development of policies and interventions aimed at improving the financial well-being of borrowers and increasing access to affordable credit options hence suggesting support for initiatives aimed at addressing the high cost nature of short term consumer credit.

7.3. Chapter Summary

The model development process began by constructing the short term consumer credit Interest Rate Model from relevant literature, followed by testing the assumptions that informed the model.

The quantitative aspect was tested using logistical regression through hypothesis testing, while the qualitative part was tested using a thematic analysis framework. The test results showed that the measure of strength of evidence against the null hypothesis for individual borrowers was about 87.5% for the suitability centric hypothesis and 100% for both the acceptability and feasibility centric hypothesis. Moreover, the semantic and thematic analysis on merchants and employers as key stakeholders indicated an average of 80% suitability and acceptability, with up to 90% for feasibility. The findings suggest that the model, which premised on addressing the short term consumer credit problem of which stems from being associated with high interest rate relative to other debt facilities would be suitable, feasible and acceptable with regards to borrowers, employers of borrowers and merchant as key stakeholders. This is because the Interest Rate Model would be able to deal with asymmetry of information consequently moral hazard and adverse selection as major interest rate cost drivers (Miller, 2013). As such, the study provides a solution to address the adverse effects of high-cost short term consumer credit on society, including perpetual household financial distress, poor productivity from a financially stressed workforce for employers, and liquidity constraints for merchants.

CHAPTER 8

CONCLUSIONS AND RECOMENDATIONS

8.0. Introduction

This Chapter will conclude the study by summarizing the key research findings in relation to the intent of the study and the research questions, as well as the value and contribution thereof. It will also review the limitations of the study and propose opportunities for future research.

8.1. Overall findings

The intent of this concurrent mixed methods study was to develop an Interest Rate Model to address the aspect of short term consumer credit being high cost while promoting its positives that continued to drive its demand. This intent was anchored on a theorized low cost Interest Rate Model for short term consumer credit which was pragmatically crafted by integrating finance, psychology and sociology theories to manage the aspect of moral hazard and adverse selection. This was to address aimed at addressing asymmetry of information as a major cost driver for interest rates. Therefore, the rationale was to use this route as a means of addressing the major cost driver of an interest rate. This was based on the understanding from exiting literature that essentially the high cost nature of short term consumer credit was due to moral hazard and adverse selection.

In order to fully address the matter in light of the complexity of the quest, a mixed methods approach was adopted and a concurrent approached used to ensure all aspects were considered at each stage. The quantitative aspect of the study was tested using logistical regression through hypothesis testing, validation was done using chi-square test of goodness of fit and the qualitative part was tested using a thematic analysis framework. The test results showed that the measure of strength of evidence against the null hypothesis for individual borrowers was about 87.5% for the suitability centric hypothesis and 100% for both the acceptability and feasibility centric hypothesis. The semantic and thematic analysis on merchants and employers as key stakeholders indicated an average of 80% suitability and acceptability, with up to 90% for feasibility.

These findings suggest that the Interest Rate Model for short term consumer credit in Zambia would be suitable, feasible and acceptable to key stakeholders such as consumers (borrowers of short term consumer credit), employers (major source of funding for borrowers of short term credit) and merchants (providers of goods and services bought through money borrowed by short term consumer credit borrowers).

8.2. Contribution to the field

The study's contributions to the field and/or the general body of knowledge have been presented in terms of what is perceived to have been achieved and why it could be valuable to authorities, academia and other stakeholders. For ease of comprehension, the foregoing task has since been categorized with consideration to contributions to existing relevant theories and relevant practice as expended below.

8.2.1. Contribution to existing relevant theory

This study was basically intended to change the principal design of short term consumer credit facilities pricing to address the aspect of short term consumer credit being high cost while promoting its positives that have continued driving its demand. This intent was pursued through the crafting together of a new suitable, acceptable and feasible way or model of doing things to achieve the main goal. In essence, the crafting was basically the integration of several theories from several disciplines, though predominantly from finance (Miller, 2013; Beck & Fuchs, 2004; Demircuc-Kunt & Huizinga, 1999; Arrow & Debreu, 1954), psychology (Ferris, Zinko, Blass & Laird, 2007; Lapavitsas, 2003) and sociology (Marx, 1976). These disciplines provided the theoretical and conceptual frameworks which informed the low cost short term consumer credit interest rate model under consideration.

Essentially, the foregoing was aimed at coming up with a solution that would be acceptable to all key stakeholders considering that most solutions suggested by most studies over the short term consumer credit problem since the early 1990s had failed to significantly solve the problem owing to stakeholder lack of acceptability of the suggested solutions (Malone & Skiba, 2020; Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012). In a bid to achieve the foregoing, theories were tinkered with, starting with The General Equilibrium (GE) theory to weave together a new composite model. Since the study results suggests the model could

be suitable, acceptable and feasible, the following are some of the contributions to the existing theories that mainly contributed to the model.

As earlier stated, The General Equilibrium (GE) Theory was the starting point. This theory which has greatly influenced the banking and credit industry advocated for the direct transaction between consumers and suppliers in debt based transactions (Arrow & Debreu, 1954). However, it was later criticized for failure to address the asymmetry of information problem and was replaced with the Information theoretic approach to banking which facilitated the introduction of financial institutions such as banks into the relation albeit at an extra cost (Scholtens & Wensveen, 2003).

The argument was that GE theory was relevant at inception because it was developed at a time when communities were small hence lenders (suppliers) and borrowers (consumers) knew each other and could easily without spending much to manage asymmetry of information constraints. However, as communities grow larger and more complex, the theory could no longer add much value to society.

This study advances that the advent of sophisticated technology which is able to create virtual communities when coupled with other precepts advanced by theories such as the Trust based community theory (Lapavistas, 2003), Interest rate constituent theory (Miller, 2013), Personal reputation theory (Ferris, Zinko, Blass & Laird, 2007) and the Marxian theory of Finance (Marx, 1976) could get us back to a cost effective business environment that was propagated by the GE theory. This is because the information theoretic approach to banking which replaced the GE theory seem to be very problematic with regards to short term consumer credit. Meanwhile, it is important to appreciate that the study does not suggest fully getting back to the GE theory as the information theoretic is still valuable to many aspects of finance. Therefore, the study suggests a continuum approach to application of these theories based on what adds more value to stakeholders and the integration of the other aforementioned theories.

In view of the foregoing, this study could change the perception of the GE and Information theoretic approach to banking from an either this or that, to a possible mix of the two depending of circumstances. The study also adds to the theories under consideration by highlighting how they can be integrated with other theories from other disciplines to solve problems in a respective society.

8.2.2. Contribution to existing relevant practice

➤ Research **outputs**

- ❖ Creation of a free virtual community through a web based system (www.eziit4u.com) and apps (Available on Google Playstore under the names eziit [for individuals] and eziit Merchants [for suppliers of goods and services]) to facilitate transactions subject to the low cost short term consumer credit interest rate model. This virtual community could turn out to be a financial services product that could transform the short term consumer credit space as its design to create new income streams for financial institutions, cheaper ways to have access to goods and services for individuals, solving a problem leading to low productivity for employers and possibly increased sales volumes for merchants. The fact that it attempts to address possible concerns for all these stakeholders makes it a value added development to the industry and society at large.
- ❖ Publication of three (03) papers in reputable journals and conference papers/presentation, the following developments have been done,

Publications of three (03) papers

- ✓ 1st Australian IEOM Conference 2022 in Sydney (Springer)
- ✓ ANPO "Institute of Scientific Communications"// "LLC INK-group
“(Scopus indexed)
- ✓ 4th Africa IEOM Conference (EBSCO, Google Scholar and IEOM Index)

Conference paper presentation

- ✓ 1st Australian IEOM Conference 2022 in Sydney
- ✓ 4th Africa IEOM Conference 2023 in Zambia

➤ How the study solves the **problem** and why this is relevant

- ❖ This research solves the short term consumer credit problem of being high cost by addressing that matter from the core, which is the pricing or interest rate model blue print by weaving together a different pricing approach. This approach is expected to yield better results at addressing the short term consumer credit

problem because the study results suggest the model is suitable, acceptable and feasible subject to key stakeholders and deals directly with the cost drivers (constituents of an interest rate). This is something most studies over the matter have not convincingly attained owing to the continued problem despite several attempts since the early 1990s (Malone & Skiba, 2020; Dasgupta & Mason, 2020; OECD, 2019; Schwartz & Robinson, 2018; Servon, 2017; Skiba, 2012).

➤ How the study fills the research **gaps** in the existing research

- ❖ Despite studies having been done over short term consumer credit facilities, there has not been a study that has been focused at resolving the high cost nature issue of short term consumer credit from the core, which is, addressing issues in the principal design of short term consumer credit facilities which basically are the interest rate cost drivers (Miller, 2013). Previous studies had either just highlighted the problem or proposed more and more policy regulatory responses through supervision and interest rate caps as the ultimate remedy (Fekrazad, 2020; OECD, 2019; World Bank Group, 2018; Yin, 2018; Bhutta, Skiba & Tobacman, 2015; Skiba & Tobacm, 2011). However, inasmuch as regulation can be a source of good developments (Bernier & Plouffe, 2019), basing the whole solution entirely on regulation could also lead to stifling of innovation in the short term consumer credit market and other adverse developments such as lenders coordinating with borrowers and modifying their loans to evade regulations on interest rates, loan lengths, loan sizes, and repayment procedures such as allowing loans to roll over (GRZ, 2021; Malone & Skiba, 2020; He & Tian, 2020). Placing too much emphasis on Regulation also has implementation shortcomings based on jurisdiction and complexity of short term debt consumer risk drivers such as general economic context, life events and behavioral biases (OECD, 2019; Li, Mumford & Tobias, 2012).

8.3. Limitations or potential shortcomings

❖ Timing of the study

The study was conducted at a time when it was a peak period for the corona virus pandemic (Covid-19) hence by law no one on one interactions were allowed and this was a big challenge with regards to data collection. This meant all methods which involved detailed interviews had to be adjusted to what was feasible with the aid of information technology such as phone calls and social media interactive platforms such as Google Forms, Facebook and Whatsapp. Inasmuch as these information technologies made the study to go ahead, the study could have gotten better results because of the following,

- Some participants would have been more free to express themselves during physical interaction as sometimes technology can be a distraction
- The study lost out on responses from participants with technophobia
- It was difficult to get feedback through none verbal communication
- Some participants could have not understood some questions and could have been responding to what they thought was asked and the study not noticing due to the means of the inquiry

❖ Sample Profile of respondents

The sample profile of respondents shows a somewhat questionable respondent profile. The overall position was that 77.9% of respondents out of the total of 240 had either a Degree or above. This increases further to 94% if only the quantitative respondents of 199 are considered. This could be a result of the way the survey was administered through information technology platforms using Google Forms through email, Facebook and Whatsapp. It could be possible that the moment some prospective respondents read in the introduction that the study was for a PhD program, those with less than a university degree level of education could have shunned thinking the survey included complicated things which could only be understood by those with university degrees. In view of this, the results might not be a portrayal of the full story of what it out there.

❖ Financial resources

The study was looking at a problem that affects the entire country hence a with more financial resources, more respondents could have been reached and more data collected to better inform the study than was the case where individual resources were being used.

❖ Data collection process

Somewhat relatable to the foregoing limitations, a total use of information technology to collect data might have adversely affected the response rate, the respondents profile and responses hence a combination of both information technology and physical inquiry methods would have yielded better results.

8.4. Recommendations for future research

❖ Building upon the findings of the study

Other researchers could build upon these finding by conducting a study on the suitability, acceptability and feasibility of the low cost interest rate model for short term consumer credit after the model is introduced to the open market. It is very likely that after stakeholders see and have some experience the model in reality, a better perspective on the applicability of the General Equilibrium (GE) theory in the short term credit industry in view of the advent of advanced technology capable of supporting virtual communities can be attained. This could bring about changes in the financial services industry that is greatly influenced by the information theoretic approach to banking hence bringing about interesting developments to academia, finance, authorities or policy makers among others.

❖ Addressing limitations of the study

Other researchers could refine the study's findings by conducting a similar study at a time when they could be able to combine both physical and information technology supported data collection methods. This would be in a bid to address any adverse effects on the study of having to be done fully using information technology tools like Google Forms which are administered through email, Facebook, Whatsapp and other social media platforms.

- ❖ Constructing the same study in a new context and/or location

The study was mainly based on dealing with the short term consumer credit problem in the Zambian context. This was based on the niche that developed as a result of people failing to deal with unforeseen short term consumer constraints while servicing long term loans. This was mainly anchored on a general poor saving culture and developing insurance industry. It would be interesting to attempt the study in a context or location where there isn't a poor saving culture and a developed insurance industry.

8.5. Chapter Summary

This Chapter concluded the study by summarizing the key research findings in relation to the intent of the study of changing the principal design of short term consumer credit facilities pricing to address the aspect of short term consumer credit being high cost while promoting its positives that have continued driving its demand. This was done by highlighting how the study results addressed the matter through the research questions, as well as the value and contribution thereof. The chapter also reviewed the limitations of the study and proposed opportunities for future research.

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APPENDIX

Research questionnaire

NAME/CODE (S): ADDRESS.....

INSTITUTION.....COUNTRY.....PHONE NO

..... EMAIL

SIGN:DATE:

TICK THE APPROPRIATE RESPONSE

Suitability centric research questions of the zero interest rate model

14. Gender **Male** [] **Female** []

15. Number of Children **Nil** [] **Less than 3** [] **More than five** []

16. Age range **18 – 35 years** [] **36 – 40 years** [] **41 – 55 years** [] **56 and above** []

17. What is your highest level of education? **Certificate** [] **Studying for a Certificate** [] **Diploma** [] **Studying for a Diploma** [] **Degree** [] **Studying for a Degree** [] **Masters** [] **Studying for a Masters** [] **Ph.D** [] **Studying for a Ph.D** []

18. Experience at work or in business (entrepreneurship) **Less than 1 year** [] **1 – 2 years** [] **3 – 4years** [] **4 – 5 years** [] **5 – 10 years** [] **Above 10 years** [] (**Note:** Use experience in the source of income area you would use to obtain a loan)

(Questions 1 to 5 look at individuals investments into their public image which can have an effect on their reputation subject to moral hazard)

19. What do you use short term loans for?

Meeting budget shortfalls [] Paying for unforeseen expenditure []

Paying for emergencies [☐] All the others [☐]

(This question establishes the existence of demand for short term loans)

20. Are interest rates for short term loans high and if so, would you be willing to change your behavior to that of others in your community who pay zero interest rate due to having a good reputation for not defaulting on short term credit if it meant you would also enjoy such privileges? (Tick all applicable)

Yes, interest rates are high [☐] Yes I would change behavior to get zero interest rates [☐] No, interest rates are not high [☐] No, I would not change behavior to get zero rates [☐] *(This question establishes the downside of short term loans and the desire by consumers to change behavior to one that would assist in solving the problem in an attempt to get the benefits/rewards others are getting through such behavior)*

21. Should a good reputation with regards to not defaulting on agreements be used as collateral to get loans or enjoy other benefits from suppliers of goods/services?

Yes [☐] No [☐] *(This question assesses reputation in business transactions between consumers and merchants)*

22. How do you think authorities can assist in dealing with the issue of short term loans having high interest rates? Completely ban short term loans [☐] Regulate the short term loans market more through banning loan rollovers, come up with interest rate limits etc, [☐] Facilitate a better design for the loans if that can lead to consumers paying less [☐] Encourage innovation that leads to consumers paying less [☐] *(This question assesses the suitability of regulation by authorities)*

23. Are you more likely to default on a high interest short term loan compared to a low cost one? Yes [☐] No [☐]

(The question looks at the default risk and high interest rate relation, and the influence of this relation on consumers to deviate from a desired behavior)

24. Would knowing that defaulting on a zero interest rate loan would lead to this information being shared with Credit bureau, colleagues at work, in your community, industry or

merchants compel you not to default for whatever reason? Yes [☐] No [☐] (*This question tests the theory of reputation's influence on moral hazard*)

25. What would be easier to negotiate for, a salary increment or lower interest rates on a short term loan? Salary Increment [☐] Lower interest rate [☐] (*This question attempts to highlights how high interest rates on loans can increase pressure on employers to spend more on remuneration*)

26. If you didn't have to pay interest on a short term loan what would you use the savings for? Buy goods and services that are in shortfall in the house [☐] Save the money for future use [☐] Take family or friends out over the weekend to release stress [☐] Buy healthier food for the house [☐] Send children to a better school [☐] Go back to school [☐] Finish a pending Project or start one [☐] All the options [☐] (*This question attempts to show that increased purchasing power for consumers through low interest loans could lead to increased sales for merchants*)

Acceptability centric research questions of the zero interest rate model

3. Do you think a Zero interest rate short term loan would lead to an increase in your residue income, give you a peace of mind and a sense of having a chance at a decent life style hence cause you to abide by the conditions enabling to have such benefits? Yes [☐] No [☐] (*This questions aims at highlighting the benefits of the zero interest loans to consumers, what it means to a consumer and if the consumer would tailor behavior to maintain such benefits*)

4. What would happen to your productivity at work when in default on a loan or when you do not have money to pay for a loan and the creditors are pursuing you? Productivity will not be affected [☐] Productivity will be average [☐] Productivity will below average [☐] (*This question highlights how financial stress can lead to poor production for employers and ultimately an entire economic establishment*)

Feasibility centric research questions of the zero interest rate model

5. Would you sign up for a Zero interest rate short term loan facility for free with the only condition that if you default your information of the default would be submitted to a credit bureau, could be shared with merchants, peers or future business quittances consequently affecting your creditworthiness assessment in future business dealings? Yes

[] No [] (*This questions tests the feasibility of the core concept of the model of zero interest rates premised on zero defaults based on reputation preventing moral hazard*)

6. What would you choose between getting cash and paying interest between 30% to 45% in a month or being given access to the goods or services you would otherwise use cash to pay for in a month at zero percent (0%)? Access to goods/services [] Cash []
(*This question tests another core concept of the zero interest rate model of consumers foregoing high cost cash loans for goods/services loans product/service based short term loans at zero interest*)
7. Can your employer allow you to sign up for a short term zero interest loan facility and deduct payments at the month end for the lender? Yes [] No [] (*This question tests the employer loan paying back model for zero interest loans*)
8. Have you ever heard of any complaints from lenders over your employer not remitting or not remitting on time payroll deductions to respective lenders? Yes [] No []
(*This question assesses the reliability of the employer being used for loan repayments*)

Note: This questionnaire shall be done using **Google questionnaire** and this shall deal with its aspect of being too long for a conventional questionnaire. Meanwhile, I have left certain portions in the questions which shall not appear in the form that shall be given to the respondents. These parts which are in brackets are just to highlight the rationale of the questions or part of the questions to the panel.

OPEN-ENDED QUESTIONS (Guide for the qualitative part of the study)

NAME/CODE (S): ADDRESS.....
INSTITUTION.....COUNTRY.....PHONE NO
..... EMAIL
SIGN:DATE:

Employers

- iii. Are you aware of your members of staff getting short term loans such as payday loans and why they get them?
- iv. What do you think about the notion that payday loans are high cost loans and usually exploitative mostly due to high interest rates?
- v. Do you think payday loans are helpful when you ignore the high interest rate part?
- vi. If payday loans were offered to your staff at zero interest rates on condition that they don't get the cash but have access to products and services they would otherwise use cash on, would this be helpful to your staff and would you encourage/facilitate for your staff to sign up for such?
- vii. Do you think it is possible for your members of staff to complain about poor salaries paid by your institution because of a reduced net income due to servicing high interest short term loans?
- viii. Is it possible that you could increase the net income of your members of staff by them simply signing up for the zero interest rate short term loan facility?
- ix. What do you think about financial stress on employees and its effect on the productivity of your institution?

Merchants

- 7. What happens to your sales when individual consumers have an increase in net income?
- 8. Could you sell your products or services on credit for an average of 30 days if default risk was reduced zero by the payment being made through employer payroll, an insurance company, an underwriter or all these options combined? If yes, what would be the motivation for doing this and if not, what would be the reason for such?

9. Can you sell your products on credit for an average period of 30 days to an individual with a proven record of honesty to paying back things gotten on credit as assessed by you through being long time customers or other reasons?
10. How long would you need to assess someone's sincerity to paying back things gotten on credit before you can extend a credit facility to them and why would that be an appropriate period?
11. Could knowing that if you offered a service or product to an individual on credit and they defaulted such information shall become permanent information on them that shall be made available to other merchants, their peers or any other person(s) who would want to do business with them, could this increase your confidence in your expectations of them not defaulting and why?
12. What do you think people's gender, age, parental status, level of education or experience at work/business (for entrepreneurs) have a bearing on whether or not they can be trusted in debt based business transactions?

Test of Goodness of fit of data for hypothesis test computations

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.5							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		185	120	65	35.2083333
		Failure		55	120	-65	35.2083333
$\chi^2 =$	70.41666667			240	240		70.4166667
P- Value =	0						
		Other Formulae used from excel					
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)				
Chi-Squqre Dist. =		3.841	P-Value	=	1 -CHISQ.DIS(χ^2 ,1,TRUE)		
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
Conclusion							
Reject the Null Hypothesis							

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST						
RESULTS FOR TABLE 6.7						
Chi-Square test formulae						
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value						
			Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success	159	120	39	12.675
		Failure	81	120	-39	12.675
$\chi^2 =$	25.35		240	240		25.35
P- Value =	4.78152E-07					
Other Formulae used from excel						
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)			
Chi-Squqre Dist. =	3.841	P-Value =	1 -CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$						
Reject Ho if P-Value < 0.05						
Conclusion						
Reject the Null Hypothesis						

TEST OF GOODNESS FIT OF DATA USING CHI-SQUORE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.6							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		155	120	35	10.2083333
		Failure		85	120	-35	10.2083333
$\chi^2 =$	20.41666667			240	240		20.4166667
P- Value =	6.2285E-06						
		Other Formulae used from excel					
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)				
Chi-Squqre Dist. =	3.841	P-Value	=	1 -CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
<u>Conclusion</u>							
Reject the Null Hypothesis							

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST						
RESULTS FOR TABLE 6.8						
Chi-Square test formulae						
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value						
				Observed [O]	Expected [E]	O - E = B
Test Statistics		Success		186	120	66
		Failure		54	120	-66
$\chi^2 =$	72.6			240	240	72.6
P- Value =	0					
Other Formulae used from excel						
Decision Rule						
Chi-Squqre Dist. =	3.841	Chi-Square Distribution =	CHISQ.IVN(0.95,1)			
Reject Ho if $\chi^2 > 3.841$		P-Value =	1 - CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if P-Value < 0.05						
Conclusion						
Reject the Null Hypothesis						

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST						
RESULTS FOR TABLE 6.9						
Chi-Square test formulae						
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value						
				Observed [O]	Expected [E]	O - E = B
Test Statistics		Success		164	120	44
		Failure		76	120	-44
$\chi^2 =$	32.26666667			240	240	32.26666667
P- Value =	1.34399E-08					
Other Formulae used from excel						
Decision Rule						
Chi-Squqre Dist. =	3.841	Chi-Square Distribution =	CHISQ.IVN(0.95,1)			
Reject Ho if $\chi^2 > 3.841$		P-Value =	1 - CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if P-Value < 0.05						
Conclusion						
Reject the Null Hypothesis						

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.10							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		164	120	44	16.1333333
		Failure		76	120	-44	16.1333333
$\chi^2 =$	32.26666667			240	240		32.26666667
P- Value =	1.34399E-08						
		Other Formulae used from excel					
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)				
Chi-Squqre Dist. =	3.841	P-Value	=	1 -CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
<u>Conclusion</u>							
Reject the Null Hypothesis							

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.11							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		98	120	-22	4.03333333
		Failure		142	120	22	4.03333333
$\chi^2 =$	8.066666667			240	240		8.066666667
P- Value =	0.004508698						
		Other Formulae used from excel					
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)				
Chi-Squqre Dist. =		3.841	P-Value	=	1 -CHISQ.DIS(χ^2 ,1,TRUE)		
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
<u>Conclusion</u>							
Reject the Null Hypothesis							

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST						
RESULTS FOR TABLE 6.12						
Chi-Square test formulae						
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value						
				Observed [O]	Expected [E]	O - E = B
Test Statistics		Success		156	120	36
		Failure		84	120	-36
$\chi^2 =$	21.6			240	240	21.6
P- Value =	3.35852E-06					
Other Formulae used from excel						
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)			
Chi-Squqre Dist. =	3.841	P-Value =	1 - CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$						
Reject Ho if P-Value < 0.05						
Conclusion						
Reject the Null Hypothesis						

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST						
RESULTS FOR TABLE 6.13						
Chi-Square test formulae						
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value						
				Observed [O]	Expected [E]	O - E = B
Test Statistics		Success		169	120	49
		Failure		71	120	-49
$\chi^2 =$	40.01666667			240	240	40.01666667
P- Value =	2.51805E-10					
Other Formulae used from excel						
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)			
Chi-Squqre Dist. =	3.841	P-Value =	1 - CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$						
Reject Ho if P-Value < 0.05						
Conclusion						
Reject the Null Hypothesis						

TEST OF GOODNESS FIT OF DATA USING CHI-SQUARE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.14							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		166	120	46	17.6333333
		Failure		74	120	-46	17.6333333
$\chi^2 =$	35.26666667			240	240		35.26666667
P- Value =	2.87511E-09						
		Other Formulae used from excel					
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)				
Chi-Square Dist. =	3.841	P-Value	=	1 -CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
<u>Conclusion</u>							
Reject the Null Hypothesis							

TEST OF GOODNESS FIT OF DATA USING CHI-SQUARE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.15							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		165	120	45	16.875
		Failure		75	120	-45	16.875
$\chi^2 =$	33.75			240	240		33.75
P- Value =	6.2669E-09						
Other Formulae used from excel							
Decision Rule							
Chi-Square Dist. =		3.841	Chi-Square Distribution =	CHISQ.IVN(0.95,1)			
			P-Value	= 1 -CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
Conclusion							
Reject the Null Hypothesis							

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.16							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		148	120	28	6.53333333
		Failure		92	120	-28	6.53333333
$\chi^2 =$	13.06666667			240	240		13.06666667
P- Value =	0.000300598						
		Other Formulae used from excel					
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)				
Chi-Squqre Dist. =	3.841	P-Value	=	1 -CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
<u>Conclusion</u>							
Reject the Null Hypothesis							

TEST OF GOODNESS FIT OF DATA USING CHI-SQUURE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.17							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		157	120	37	11.4083333
		Failure		83	120	-37	11.4083333
$\chi^2 =$	22.81666667			240	240		22.81666667
P- Value =	1.78214E-06						
		Other Formulae used from excel					
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)				
Chi-Squqre Dist. = 3.841		P-Value =	1 - CHISQ.DIS(χ^2 ,1,TRUE)				
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
Conclusion							
Reject the Null Hypothesis							

TEST OF GOODNESS FIT OF DATA USING CHI-SQUARE TEST FOR HYPOTHESIS TEST							
RESULTS FOR TABLE 6.18							
Chi-Square test formulae							
$\chi^2 = \sum (O_i - E_i)^2 / E_i$, where O_i = observed value (actual value) and E_i = expected value							
				Observed [O]	Expected [E]	O - E = B	B^2/E
Test Statistics		Success		157	120	37	11.4083333
		Failure		83	120	-37	11.4083333
$\chi^2 =$	22.81666667			240	240		22.81666667
P- Value =	1.78214E-06						
		Other Formulae used from excel					
Decision Rule		Chi-Square Distribution =	CHISQ.IVN(0.95,1)				
Chi-Square Dist. =	3.841	P-Value	=	1 -CHISQ.DIS(χ^2 ,1,TRUE)			
Reject Ho if $\chi^2 > 3.841$							
Reject Ho if P-Value < 0.05							
<u>Conclusion</u>							
Reject the Null Hypothesis							

Journal Article Publications and Conference Papers



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ИHK - ГРУПП

Feb 14, 2023,
12:53 PM

to Jackson, me, lubinda

Dear author,

Your article "**The constructs of short term consumer credit from the perspective of Merchants and Employers as key stakeholders in Zambia**" has been **accepted** by the editor for publication. Now your article is on the stage of preparation for transferring to the Publisher which includes:

- adaptation and stylistic correction of the text;
- checking the formatting of the text, according to the requirements of the Publisher.

15 days before the scheduled submission of articles to the Publisher, you will be sent an application for the transfer of rights to scientific material to the Publisher (Publishing Agreement for Contributions in Collected Works) and the final version of the article for verification.

Best regards,

Review Department

ANPO "Institute of Scientific Communications"// "LLC INK-group"

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14.02.2023, 12:34, "Henry Chikweti" <chikwetihenry@gmail.com>:

Paper Acceptance - 1st Australian IEOM Conference 2022 in Sydney

Inbox



1st Australian IEOM Conference in Sydney <noreply@xcdsystem.com>

Thu, Oct 13, 2022,
3:56 AM

to me, henry

Paper Acceptance - 1st Australian IEOM Conference 2022

Dear Henry Lukama:

Congratulations! The conference organizing committee is pleased to announce that your paper **(ID 384: Short Term Consumer Credit Interest Rate conundrum and the ineffectiveness of Policy Regulatory Intervention)** has been *accepted* for presentation and publication in the first Australian International Conference on Industrial Engineering and Operations Management, December 20-22, 2022, Sydney, Australia.

The event will be hybrid: Onsite at Hilton Hotel, Sydney, Australia and Online via zoom.

The paper has been *accepted with minor revision*. Please address the review comments which are available online and upload a final (revised) version of your paper by December 1, 2022.

You can see review comments here - <https://www.xcdsystem.com/IEOM/abstract/index.cfm?ID=T1WhCtZ>

- Committee: <http://ieomsociety.org/australia/committee/>
- Keynote: <http://ieomsociety.org/australia/keynote/>
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Please note the following points for the final version preparation:

1. Authors MUST follow the 2022 IEOM paper Template - <http://ieomsociety.org/paper-sydney2022.docx>
2. Pages should NOT be numbered.
3. Final version should be in MS Word with conference header, footer and IEOM guidelines.

4. For each author, a short bio around 250 words needs to be included at the end of the abstract.
5. The final version submission deadline is December 1, 2022.
6. At least one author needs to present the abstract.
7. Authors must register to enable the organizing committee to include your abstracts in the conference program and proceedings. Please complete your **registration payment by November 15, 2022: <https://www.xcdsystem.com/IEOM/attendee/index.cfm?ID=E2r62FZ>**

If you need a formal acceptance letter, please contact mizanur@ieomsociety.org with your abstract id & title, name, affiliation and address.

The IEOM Society is expecting another exciting event in Sydney, Australia. Some events and activities planned include: outstanding keynote speakers, global engineering education, global supply chain & logistics, Industry 4.0, industry solutions, student competitions (senior design project, undergraduate paper, graduate paper, masters' thesis, doctoral dissertation, supply chain, human factors & ergonomic, lean six sigma and simulation), panel sessions, recognition and awards.

We look forward to seeing you at the 1st Australian International Conference on Industrial Engineering and Operations Management during December 20-22, 2022 at Hilton Hotel Sydney.

Regards,

The Organizing Committee

First Australian IEOM Conference

Website: <http://ieomsociety.org/australia/>

Submission Link: <https://www.xcdsystem.com/IEOM/abstract/index.cfm?ID=T1WhCtZ>
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21411 Civic Center Dr., Suite 205

Southfield, Michigan, USA

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Paper Acceptance - 2023 IEOM Zambia Conference

Inbox



IEOM 2023 Zambia <noreply@xcdsystem.com>

Fri, Mar 10, 4:38 PM
(12 days ago)

to me, henry

Paper Acceptance - 2023 IEOM Zambia Conference

Dear Henry Lukama:

Congratulations! The IEOM program and publication team has recommended that your paper (**ID 3: Theoretical Aspects of the Short Term Consumer Credit Interest Rate Model**) has been *accepted for presentation and publication* for the 4th African International Conference on Industrial Engineering and Operations Management to be held in Lusaka, Zambia virtually and onsite at Hilton Garden Inn Lusaka Society Business Park during April 4-6, 2023. Host is University of Zambia, Lusaka. If you have submitted a full paper, you can see the review feedback using login to your IEOM 2023 Zambia submission system: <https://www.xcdsystem.com/IEOM/abstract/index.cfm?ID=woSEe0L>

Each technical presentation is for 15 min - 12 min for presentation and 3 min.

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- Authors MUST follow the 2023 IEOM Zambia paper Template.

- Author bio(s) of 250 words or less should be included at the end of the paper.
- Authors need register for the 2023 IEOM Zambia conference. **Registration payment should be completed by March 15, 2023.** Minimum one author must register to include the abstract/paper in the proceedings and indexing. Please complete your registration payment online: <https://www.xcdsystem.com/IEOM/attendee/index.cfm?ID=2LQLkeY>

If you need a formal acceptance letter or invitation letter, please contact IEOM Operations Team at info@ieomsociety.org with your abstract/paper ID & title, name, affiliation and address.

The IEOM Society is expecting another exciting event in Zambia. Some of the events and activities that are planned include: keynote, global engineering education, global business management education, global supply chain and logistics, Industry 4.0, industry solutions, panel sessions, various student competitions and awards.

We look forward to having your participation at the 4th African IEOM Zambia Conference.

Regards,

The Organizing Team

4th African IEOM Zambia Conference, April 4-6, 2023

Host: University of Zambia

Website: <http://ieomsociety.org/zambia2023/>

Conference Chair Contact: Dr. Bupe Getrude Mwanza, Associate Director and Senior Lecturer, Graduate School of Business, University of Zambia, Lusaka, Zambia

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