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Short Term Consumer Credit Interest Rate Conundrum and the Ineffectiveness of Policy Regulatory Intervention

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Abstract

The main objective of this study was to explore the short term consumer credit high interest rate conundrum and the infectiveness of policy regulatory interventions. The study develops an alternative model which addresses the major interest rate cost drivers subject to stakeholder engagement through suitability, acceptability and feasibility assessment. This was because previous studies have arguably unsuccessfully attempted to solve the matter through policy regulation albeit without satisfactory stakeholder engagement hence the shortcomings. Detailed Action Research Model was used. Multivariate data from 8000 short term consumer credit stakeholders was analysed using Google Forms analytics, Advanced Microsoft Excel Statistics Analysis Package (AMESAP) and N vivo. The 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 on merchants and employers as key stakeholders indicated about 80% suitability and acceptability, and about 90% for feasibility. These findings suggest that the alternative model informed by key stakeholder engagement would be more appropriate to address the adverse effects of high cost short term consumer credit than regulation.

Keywords
Short-term Consumer Credit, High Interest Rates, Policy Regulatory ineffectiveness

1. Introduction
The high interest rates and exploitative tendencies associated with short term consumer credit relative to other credit facilities have attracted a lot of attention from policy makers because of leading to high household indebtedness and consumer financial distress (Malone and Skiba, 2020; OECD, 2019; Schwartz and Robinson, 2018; Servon, 2017; Skiba, 2012). The other cause for concern is that demand for short term credit continues growing hence stakeholders interpreting this as also a possible increase in the related adverse effects (Servon, 2017; Bhutta, Skiba and Tobacman, 2015; Stegman, 2007). It is against this background that stakeholders have been searching for solutions in various ways albeit without much success as suggested by the continuous global outcry (Malone and Skiba, 2020). The most suggested solution seems to be inclined towards regulation but this has been pursued since the advent of short term credit such as payday loans in the early 1990s with little success (Servon, 2017).

This study advances that the failure to satisfactorily deal this conundrum has been due to failure to address the cost drivers which are embedded in the Interest Rate and poor stakeholder engagement by policy makers who have adopted a reductionism methodology in policy formulation (Miller, 2013; Ackerman, 1999; Arrow and Debreu, 1954). Therefore, inasmuch as regulation can be part of the interventions, the consumer reductionist methodology ends up leading to adverse developments such as lenders conniving with consumers to modify 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 and Skiba, 2020; He and Tian, 2020; Bernier and Plouffe, 2019). Under this methodology, regulation also has implementation shortcomings based on jurisdiction and complexity of short term credit consumer risk drivers such as general economic context, life events and behavioral biases (OECD, 2019; Li et al. 2012).

1.2. Reductionism Methodology in Policy formulation

Reductionism Methodology refers to the economics construct of Methodological individualism (Karacimen, 2013). This is where economists try to explain social reality in terms of cost–benefit considerations of individuals. This is usually based on the hypothesis of rational individual behavior where individuals are expected to act to maximize their utilities. This school of thought enables formal modelling and anchors mainstream economics as it allows the application of mathematical methods to express different economic dynamics in terms of mathematical formulations. The challenge of this way of looking at things is that it is anchored on aggregating rational choices of representative agents in an economy and the results used as a basis for policy formulation. However, there are two (02) major problems with reductionism in terms of methodological individualism hence making policy regulatory intervention inadequate with regards to short term consumer credit.

The First problem is over deducing macro-analysis from the aggregation of individual actions. This is problematic because such an analysis assumes independent individual actions and yet in reality there is no such "individual" whose demand function is representative of the demand function of the whole society (Ackerman, 1999). This is because Socioeconomic and institutional environments have significant effects on individual behavior. Of course individual choices are not entirely determined by socioeconomic and institutional contexts. However, 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, while individuals have real choices, they are also influenced by their environment and should not be treated as "asocial, ahistorical, rational individual of standard economic theory, but as a social individual situated within a proper social and historical context" (Fine and Milonakis, 2009).

On the other hand, even if one accepts that there exists a heuristic "representative individual" form of human behavior from which societal behavior can be derived, there still exists the problem of aggregation, which is the second major flaw of methodological individualism (Karacimen, 2013). Karacimen advances that individuals are interdependent and social interactions may result in complex outcomes that cannot be estimated by summing up their individual actions. Likewise, macroeconomics has distinctive characteristics of its own as habits, customs, and routines are socio-culturally and historically determined and have an impact on the aggregate level as well as on individual actions (Hodgson, 1998). Therefore, analysis of macro-level phenomena should not start from microeconomic postulates otherwise, such would lead to developments such as lenders conniving with consumers to evade regulation (GRZ, 2021; Malone and Skiba, 2020; He and Tian, 2020; Bernier and Plouffe, 2019). This methodology's other major shortcoming is that it is at best reactive hence high cost by default unlike a proactive intervention such as addressing that cost drivers in an Interest Rate as guided by the Interest Rate Model (Miller, 2013).

1.3. Objective

To explore the short term consumer credit high interest rate conundrum, the infectiveness of policy regulatory interventions and developing an alternative short term consumer credit Interest Rate Model.

2.Literature Review

2.1. 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 and Ireland, 2014; Mashkin, 2013; Gorder, 2009; Trainer, 1987; Fisher, 1930).

2.2. Interest Rate Model

A model is a set of concepts that describe the intricate of an ideology. The interest rate model from which contemporary models are derived basically highlights activities which essentially are cost drivers. These cost drivers are as expressed in Figure 1, below, costs of funds, overhead costs (e.g. administrative, outreach and processing costs), risk premium, profits and taxes (Miller, 2013; Beck and Fuchs, 2004; Demirguc-Kunt and Huizinga, 1999).

Profit: Compensation for service provider (lender) and it is possible for a lender to have a very small profit margin and yet still have a high interest rate subject to its setup and how well the other components are managed.

Risk perceptions: Contingency for defaults or Non-Performing Loans (NPLs)

Overhead costs: Processing, Outreach and General administration costs.

Cost of Funds: The cost lenders pay to borrow the funds they then lend out.

Taxation: Provision for the influence from explicit and implicit taxation

The constituents of an interest rate are as depicted in the illustration below (Figure 1):

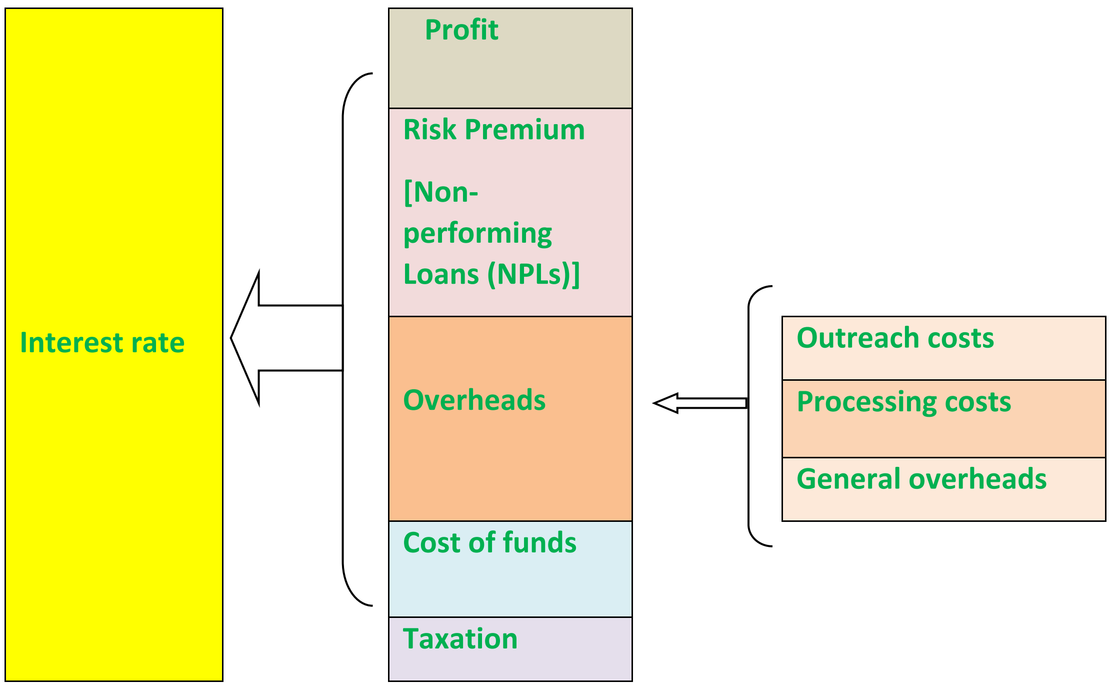

Figure 1. Breakdown of interest rate

2.3. Short term consumer Credit

A formal short term credit industry as distinct from the banking industry in the form of "payday loans" or its other various forms such as cash advance loans or payday advance loans prominently begun to emerge around the world in the early 1990s and grew to almost USD$50 billion from the late 1990s to the mid-2000s (Servon, 2017; Bhutta, Skiba and Tobacman, 2015; Stegman, 2007). This short term consumer credit industry primarily involves the provision of an unsecured, small, short-term personal loans based on one's short term future income such as the immediate monthly income (Schwartz and Robinson, 2018).

The main driver of short term consumer credit demand is premised on the ability to provide households with short term liquidity in a flexible manner (Islam and Simpson, 2017). On the other hand, concerns over its arguably exploitative nature due to high interest rates and the conditions that follow when a borrower fails to pay have continued growing (Schwartz and 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) to the payday lender and insufficient fund fees by the borrower's bank while still owing the full amount of the original post-dated cheque.

Schwartz and Robinson ultimately argued that the foregoing developments end up trapping consumers into debt traps leading to financial distress. Therefore, the major concern about payday lending stems in large part from its rapid growth which could imply increasing problems hence generating concern amongst policy makers, academia and other stakeholders (Servon, 2017). The growth is projected to continue because the general economic environment seems to favor the growth of short term consumer credit in most countries. Servon advances that this would be due to three (03) key changes, (1) the reduced availability of consumer credit, (2) changes in the banking industry that made banks to stop servicing this space, 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. Meanwhile, all these are explicit in developed countries while more intertwined in developing countries like Zambia.

2.4. Short Term Consumer Credit in Zambian

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). These statistics highlights a phenomenon that changed the financial services landscape in Zambia and could mirror a similar development in other developing countries. 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.

The genesis of the whole development can be traced to the period, 2007 to 2016, when a lot of households got long term loans from mostly commercial banks. These loans were characterized with a majority of the households who got them 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 (Bank of Zambia, 2007, 2016). The other aspect was that most of these loans were not invested in money generating ventures (at least not in the immediate sense) despite reasonably reducing the respective borrower’s net income after the commencement of loan deductions.

The long term loans under review were mostly gotten by two (02) types 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 first type, 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. The second type 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, or due to the fact that the household goods were not generating any income. This reduction in net income, coupled with a poor saving culture and a less developed insurance industry in Zambia lead to such people failing to deal with unforeseen short term financial demands. This led to the creation of a niche of borrowers for short term loans who were servicing long term loans with other financial institutions.

The other development was that despite the foregoing 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 albeit at high interest rates in view of the risk.

3. Theoretical Framework

3.1. Hypothetical appropriate Model other than policy regulatory Measures

A hypothetical solution to the problem could be in the creation of a trust based virtual community in which key stakeholders like employers, individuals and merchants could be able to transact. This should hypothetically help in taking advantage of the short term nature of short term consumer credit to deal with asymmetry of information, addressing the interest rate cost drivers and removing money lenders (financial institutions) by providing goods and services based loans. The rationale is to find a way to allow consumers to access goods and services without first having to borrow cash based high interest loans hence the critical need to deal with the trust constraint. This is because the trust problem aids the coming into the picture of a third party to manage this trust problem in the form of lenders and at a high cost (Li, Wang, Liu and Hu, 2020; Isaeva, Gruenewald and Saunders, 2020; Morgan and Hunt, 1994).

3.2. Lack of Trust Phenomenon

In order to appreciate the rationale of the hypothetical appropriate Interest Rete Model, it is cardinal to understand the dynamics of the Lack of Trust phenomenon. The credit industry seems to 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

This is a development that can be attributed to the evolution of markets from the industrial revolution as earlier advance. Basically it refers to the exaggeration or withholding of vital information in a transaction to the disadvantage of the other party (Akerlof 1970, Varian 2000, Eaton 1999). When such a development persists in different transactions in a market, it ends up creating a general perception of moral hazard in the respective market and ends up influencing stakeholder decision making under what is known as adverse selection (Barbosa andMarcal ,2011).

Adverse Selection

This is better explained by starting with a question, *'is it feasible that all consumers in a market can exhibit moral hazard traits for merchants to either completely stop extending credit facilities or significantly reducing them?'* Very unlikely as suggested by the existence of merchants who still extend some credit facilities to a select few of their customers. However, when a majority exhibit moral hazard, this ends up affecting the entire market or industry and 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 (Akerlof ,1970). In Akerlof's illustration using the automobile industry, 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). This cause a fault in this market and describes the Adverse Selection phenomenon (Varian, 2000). In light of this understanding, 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. All this was because on average, due to the adverse selection effect subject to moral hazard, a consumer could not be trusted hence the Lack of Trust phenomenon.

3.3. The Interest Rate Conundrum

An interest rate has constituents and there is a cost attached to each of these constituents (Miller, 2013). Therefore, reducing an interest rate implies reducing cost drivers. However, by the very nature of the risk profile of payday loans consumers, it would be very difficult or impossible to reduce costs to levels that would warrant such loans to be low cost enough to deal with the adverse effects of short term consumer credit. Therefore, an appropriate solution to the problem should be one only involving parties who would not require interest in the sense of the current model. This takes us back to the consumers and merchants "Trust" constraint. Therefore, the main task becomes to solve the "Lack of trust" problem between and amongst consumers and merchants. This would then position us to solve the final problem of ensuring that once that trust is not only created, but 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.

3.4. Trust and Reputation

Developing and Maintaining trust can 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 difficult because trust in commerce is usually centrally governed by isolated market players. This means information is not shared and if it is, it's usually not at a scale big enough to diffuse the effects of adverse selection. Therefore, no value is gotten from the good reputation created with one company to another. This inability to transfer trust from one establishment to another is what allows moral hazard to perpetuate as the ability to punish fraudulent stakeholders is consequently significantly reduced. It is against this background that the study develops an Interest Rate Model by creating an information sharing trust based platform/community premised on General Equilibrium assumptions of perfect information and complete markets.

3.5. Theoretical framework of appropriate Model for short term consumer credit

The framework advances consumers directly borrowing goods/services from Merchants and paying back with no interest. This section theorizes how the model would achieve the forgoing without disadvantaging any key stakeholder by removing the conventional interest rate cost drivers.

1. Cost of funds

   Lenders usually use funds provided by third parties who expect a return covering their opportunity cost and this is ultimately paid by the borrower through the interest rate. Therefore, by not giving out cash based loans this cost driver is eliminated. This is possible because 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. Therefore, the model facilitates for consumers to have direct access to the merchant's goods/services hence avoiding high cost cash. Meanwhile, the merchant who facilitates this is already compensated through the market price of the respective good/service hence feasible not to demand for more as long as default risk is managed through the virtual platform.
2. Profit

   This is compensation to the lenders for facilitating the whole loan arrangement and bearing the risk involved in the transaction. However, through this prospective Interest rate model, there shall be no funds to be facilitated owning to the direct Consumer – Merchant relationship through the virtual community hence no further compensation would be required.

3. Overheads

   This is composed of outreach, processing and general overhead costs. However, due to the none cash based loans made possible through the proposed model aided by a virtual market, all these aspects are by default removed.

4. Non-Performing Loans (NPL)
   The concept of NPL is premised on the premise of defaults and borrowers compensating the lenders for this risk. However, since the interest rate model under consideration manages this risk through the virtual community with near perfect information and complete market phenomenon, this at best arbitrary cost is no longer necessary hence would no longer exist.

3.6. Informal sector and why this is very important

The sustainability of the proposed model depends in large on how much of the population it influences because of adverse selection being a market wide phenomenon hence those in the informal sector are considered under the Reputation Collateral theory. Therefore, the model's virtual community shall provide a platform through which those not in formal employment could trade directly with merchants until they build "***Reputational Collateral***".

Reputational collateral

Information has value and this is the basis upon which "Reputation" from past good business practices can be a valuable intangible asset which can be used as collateral over time (Chu, 2002; Miller, 2000). The norm in most markets, especially in developing countries has been that despite there being trustworthy consumers, very few benefit from their good business practices as there is usually no basis upon which to track their good consumer/business practices. Consequently, each time they transact in the market place, they are treated just like any other potential defaulter and end up not benefitting from their good consumer practices.

It is against the foregoing, that the model under consideration has an information sharing component which tracks transactions and shares this information with other stakeholder as a basis on which they could benefit from good practices or compel them not to engage in bad practices in fear of jeopardizing future transactions. This information sharing is developed from the credit bureau concept and the modifications are because not much value is gotten from bureau as they usually provide centralized information to a select few stakeholders. Therefore, when those who have access to such information are considered relative to the entire market place, they turn out to not be spread wide enough to adequately address a market wide phenomenon such as adverse selection.

4. Conceptual Framework

This framework is the basis for the creation of a virtual community in which the Lack of Trust constraint is solved through reputation of good practice aided by the perfect information and complete market phenomenon. In view of this, the conceptual framework lays out the development and sustainability of an environment with predictable stakeholder behavior to actualize the rationale of the appropriate Interest Rate Model for short term consumer credit. It is against this background that the study adopted the Theory of Personal Reputation in Organizations as highlighted in Figure 2, 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 and Laird, 2007; Ferris et al., 2003). Therefore, Figure 2, gives a visual representation to enhance appreciation of the origin of the core concept of creating and sustaining an environment in which the proposed model can be feasible. In view of the foregoing, reputation was the study's independent variable and its constituent theories such as Social comparison, Self-regulation, Signaling, Social information processing, contagion and communication theories save as intervening or mediating variables. Moral Hazard is then adopted as the dependent variable.

Conceptual Framework

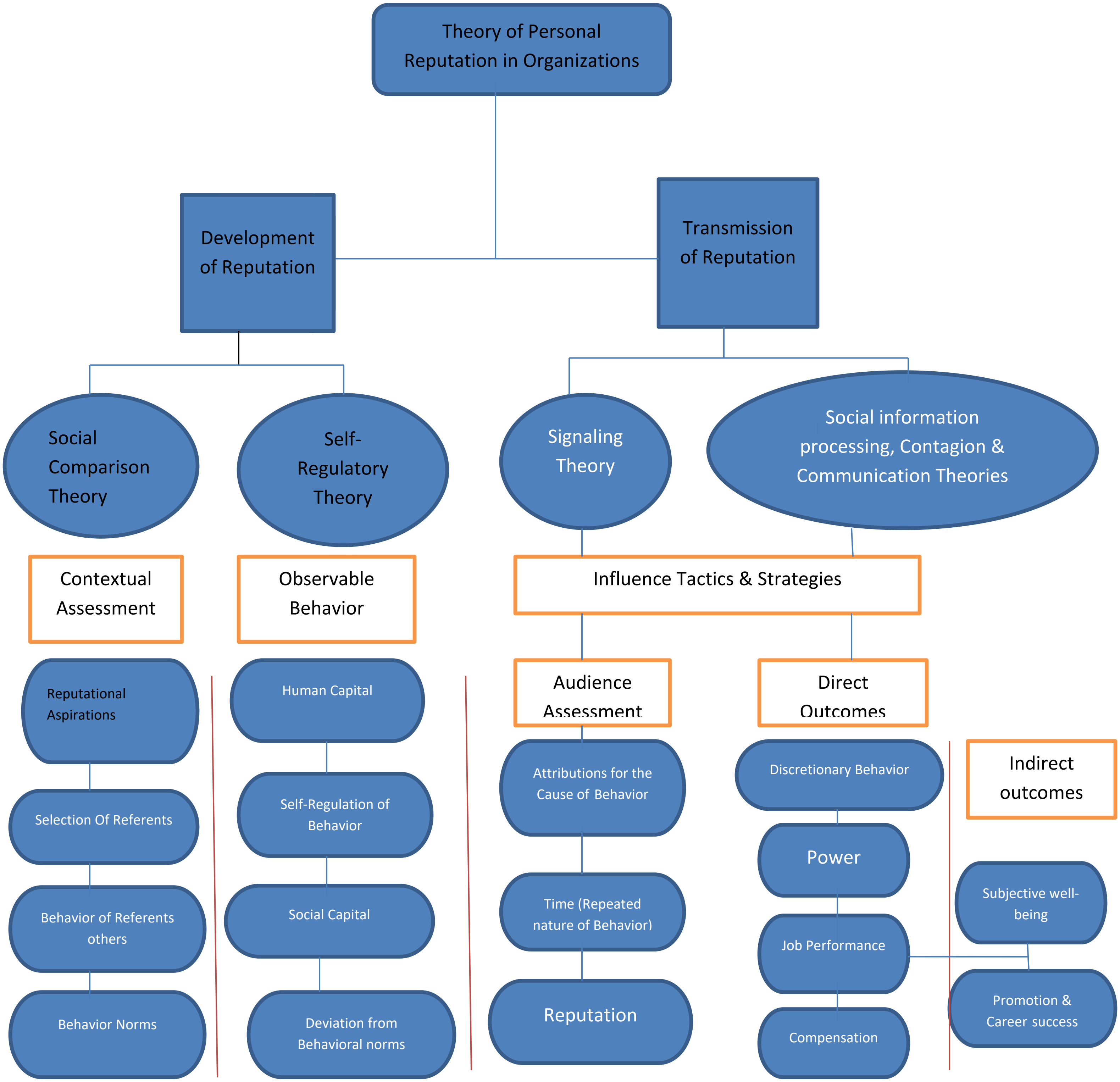

Figure 2. Theory of Personal Reputation in Organizations

4.1. Research Hypotheses

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

Short term consumer credit demand driver hypothesis

H_0: Meeting budget shortfalls and paying for unforeseen expenditure is mostly not the main driver of short term consumer credit demand.

H_1: 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

H_0: 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.

H_1 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

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.

Regulation of short term consumer credit hypothesis

H_0: Authorities should mostly regulate short consumer credit through banning them, regulating interest rates or banning things such as rollovers.

H_1: 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

H_0: 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.

H_1: 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

H_0: 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.

H_1: 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

H_0: 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.

H_1: 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

H_0: 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.

H_1: 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

Consumer behavior and benefits hypothesis

H_0: 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.

H_1: 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

H_0: 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.

H_1: 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

Personal reputation and moral hazard hypothesis

H_0: 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.

H_1: 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

H_0: 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%).

H_1: 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.

Qualitative part of the study overview

This part was based on the following talking points from whence the constructivist meaning units were generated (Creswell, 2007).

Employers

1. Awareness of staff use of consumer short term credit and reason for use
2. Opinion on payday loans being high cost and exploitative due to high interest rates
3. Opinion on payday loans being helpful when interest issues are ignored
4. Opinion on zero interest rate short term credit products and services based loans, and possibility of usefulness to staff.
5. Opinion on staff discontentment as a result of reduced income due to servicing high cost short term credit.
6. Opinion on increased staff net income due to having access to low/zero interest short term credit.
7. Opinion on financial stress on staff and its effect on productivity.

Merchants

1. Opinion on sales and consumer increase in net income relationship
2. Opinion on extension of a 30 days' credit facility if default was reduced to almost zero and motivation for the opinion.
3. Opinion of extending a 30 days' credit facility to an individual with a proven record of honesty to paying back things gotten on credit as assessed by themselves through being long time customers or other ways.
4. Opinion on how long it would take them to assess someone's sincerity to paying back things gotten on credit before extending a credit facility to them and why would that be an appropriate period.
5. Opinion on whether knowing that if they offered a service or product to an individual on credit and they defaulted such information shall become permanent information on them and shall be made available to other stakeholders could increase their confidence in expecting them not default.
6. Opinion on demography, experience at work/business (for entrepreneurs) influencing trust in debt based business transactions.

5. Methodology

Detailed Action Research Model was used. Multivariate data from 8000 short term consumer credit stakeholders was analysed using Google Forms analytics, Advanced Microsoft Excel Statistics Analysis Package (AMESAP) and N vivo.

The study enlisted potential respondents from Whence Financial Services short term consumer credit client stakeholders. The population under consideration was about eight thousand (8,000) stakeholders from nine (09) provinces of Zambia. Based on this population and random sampling using an online random number generator (www.random.org), 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 Raosoft (www.raosoft.com/samplesize.html) and is in line with Glenn's table (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%).

7. Data Presentation and Analysis

There were two types of data collected hence to be analysed and this comprised of quantitative as indicated in Table 1, for individual consumers, as well as qualitative data as indicated in Table 2, for employers and Table 3, for Merchants. Quantitative data was analysed using Google Forms analytics and Advanced Microsoft Excel Statistics Analysis Package (AMESAP). Univariate, bivariate and multivariate analysis was used to present the data. As for the qualitative data, thematic and sematic analysis was done using N Vivo.

Quantitative centric responses from Individual consumers of short term consumer Credit

The hypothesis testing was divided into suitability, acceptability and feasibility centric inquiries and the **P- Value** was used to measure of the strength of the evidence against the Null Hypothesis based on 5% confidence level as indicated in Table 6.0.

Table 1. 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%

Table 2. 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

Table 3. 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 honestly 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 reputation being tarnished and other stakeholders knowing about such	Suitability	80.9 % of respondents agree with this notion

Qualitative centric responses from Employers and Merchants

This part was centered on understanding the constructs of short term consumer credit from the perspective of merchants and employers.

Qualitative centric responses from employers

- The employer's overview on short term consumer credit interest rates was that they were relatively high and exploitative.
- The employer's overview was that short term consumer credit is useful if the high cost issue is addressed.
- 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.
- 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.
- The employer's overview on staff discontentment due to reduced net income while servicing high cost loans was that it was very probable.
- The employer's overview on staff net income increase through low cost loans was that it was very probable.
- The employer's overview on staff financial distress adversely affecting production is that it mostly adversely affects productivity.

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.
- 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.
- 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.
- 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.
- 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.
- The Merchant's overview on time/period appropriate to rely on a consumer's reputation of honestly for credit facilities consideration was that most would consider at least 6 months.

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.

7. Conclusion

The main objective of this study was to explore the short term consumer credit high interest rate conundrum, the infectiveness of policy regulatory interventions and developing an alternative short term consumer credit Interest Rate Model. Therefore, study developed an alternative model which addresses the major interest rate cost drivers subject to stakeholder engagement through suitability, acceptability and feasibility assessment. This was because previous studies had arguably unsuccessfully attempted to solve the matter through policy regulation albeit without satisfactory stakeholder engagement hence the shortcomings. The 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 on merchants and employers as key stakeholders indicated about 80% suitability and acceptability, and about 90% for feasibility. The overall findings suggest that the alternative model would be suitable, feasible and acceptable to key stakeholders. Therefore, the study contributes to relevant existing theory and practice by advancing a proactive possible solution to the short term consumer interest rate conundrum. The results basically advocate for market driven solutions such as addressing the interest rate cost drivers to market problems unlike policy regulatory measures which are based on the inadequate reductionist methodology. Therefore, the results suggest the foregoing approach to be the most appropriate approach as suggested by the positive suitability, acceptability and feasibility assessment feedback from key stakeholders.

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