Credit Usage, Hire Purchase Costs, and Consumer Protection in Retail Institutions in Botswana[1]

Olukunle Iyanda (Ph. D)
Professor of Marketing, Department of Marketing, University of Botswana, Gaborone, Botswana
e-mail: iyanda@mopipi.ub.bw
Simangaliso Biza-Khupe
Department of Accounting and Finance, University of Botswana, P. O. Box 00701, Gaborone, Botswana
e-mail: Biza-Khu@mopipi.ub.bw

Abstract
This paper analyzes credit purchase practices in Gaborone, Botswana. Adopting a survey and a disguised interview technique, data was collected and analyzed on the usage rate of credit purchases. The hire purchase, which was the most popular form of credit, was examined in greater detail with respect to the costs of hire purchase, their comparison with other types of consumer credit, the compliance of hire purchase sellers to the hire purchase laws. It concludes with policy change recommendations on hire purchase and personal loan transactions.

Key words: Consumer Debt; Hire Purchase; Credit Sales; Micro Finance; Personal Loans.

INTRODUCTION

The role of consumer debt or credit in the consumption-centred quest to attain the good life has been described as difficult to overstate (Bernthal, Crockett and Rose, 2005). But consumer debt is two-faced. On the one hand, the use of credit facilities in purchases can be mutually beneficial to both the buyer and the seller. For the retailer, it helps to promote sales, as buying on credit constitutes an enhancement of the buyer's purchasing power, thereby increasing demand, turnover, and, consequently, profitability (Federal Reserve Bank of Chicago, 1997; Beal and McKeown, 2006; Leonard, 2008; Einzig, 1956). From the consumer perspective, availability of credit increases the purchase convenience and raises the level of consumption and welfare of the buyer, as he is able to buy and consume now at a level only feasible at a future higher level of income (Chang and Hanna, 1992; Bernthal *et al.*, 2005; Kilborn, 2005). Since the level of living and wellbeing is largely influenced by the quantity and quality of consumption, the availability of credit facilities therefore raises the consumer's standard of living and facilitates individual lifestyles.

At the national economic level, credit purchases can accelerate the pace of growth and development. First, the increase in spending has the effect of increasing the multiplier effect on income in addition to encouraging aggregate investment (Einzig, 1956). Increased income raises the level of expenditure further thus setting in motion a virtuous cycle of growth in consumption, investment, income, and development (Lee, 1964; Einzig, 1956). Debt also helps to sustain such growth by making it possible for consumers to resist the downward adjustment of their consumption during a fall of their income (Lee, 1964).

On the other side of debt, however, credit availability may encourage the adoption of an ideology of "entitlement" which deempahasizes the Protestant ethic "and embraced the

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acquisitive spirit of modern consumerism" (Bernthal *et al.*, 2005, p 143) whereby the consumer uses credit to acquire all the good things of life. That ideology may ultimately lead the consumer to the "debtor's prison … the accumulation of substantial debt relative to the ability to repay" (Bernthal *et al.*, 2005, p 137). Already, there are warnings that Botswana may be approaching such a level of household indebtedness that is undesirable, with bank credit alone rising from P 5 billion to P 17 billion between 2001 and 2009 (Mmegionline, 2010). Added to the bank credit are borrowings from unregulated micro-finance houses that are very popular with the poor. An over-indebted consumer may become bankrupt and suffer a reversal in his level of consumption and wellbeing.

These two faces of debt motivate this study, the objectives of which are to investigate the types of credit used by Gaborone residents, and to analyze the practices (cost, legal compliance, default, and consumer protection) related to one particular type of debt, the hire purchase, against which allegations of abuse are frequently made (Consumer Watchdog, 2008)

The rest of this paper is organised into five sections. The next section is a review of the literature on various types of consumer credit, detailing the growth and consequences of its availability and usage. The second section describes the methodology of the study while the third section presents the findings of the study. The conclusions of the study are presented in Section 4 while the last section analyzes the policy implications of the findings.

LITERATURE REVIEW

Consumer credit is an umbrella term that covers several credit products. Ison (1979) identifies five different types of credit product as a) transaction credit – this is defined as instalment credit arranged between buyer and seller for the purchase of a particular item. It includes hire purchase, conditional sale, and credit sale; b) account with seller – an arrangement whereby the buyer maintains an account, ordinary charge account or a revolving account, with a seller to which costs of various purchases are debited; c) credit card– an arrangement where the buyer uses a multi-purpose credit card issued by a company which then pays the cost of purchase, usually at a discount to the seller; d) loans –taken by a buyer from a financial institution to finance a purchase, and e) cheque trading – an arrangement similar to credit card. A cheque trader issues a number of cheques to a customer which the latter can use to make purchases in listed shops provided the customer. The customer pays back the cheque trader instalmentally.

Most studies however seem to concentrate on the first three types of consumer credit, with various studies analyzing different aspects of the credit type. For example, in the early years, efforts were concentrated on the theoretical economic analysis of consumer credit and the macroeconomy (Crick, 1929; Meade, 1938, Haberler, 1942; Cox, 1948, Einzig, 1956). Relatively more recent writings have examined the relationships between consumer credit and life styles (Bernthal *et al.*, 2005), and family life cycle stages (Baek and Hong, 2004), bankruptcy (Kilborn, 2005), segmentation (Lawson and Todd, 2003) legal (Uvieghara, 1996; Diemont and Aronstam, 1982) and credit attitude (Chien and DeVaney, 2001).

Consumer debt levels and non-business bankruptcy trends indicate that consumers are increasingly getting over-committed and overly-dependent on credit to supplement their consumption patterns. Among the Organisation for Economic Cooperation and Development (OECD) countries, the ratio of total household debt to income is reported to have risen from 80 percent or lower two decades ago, to at least 120 percent in Canada and Germany, more than 130 percent in Japan, and 180 percent in the Netherlands (Worthington, 2006). Most recent studies indicated that consumer over-indebtedness continued to increase at an alarming rate (Beder, 2009; Crotty, 2009). In South Africa, debt/income ratio is estimated at 86 percent while bank debt/income ratio in Botswana (excluding borrowings from micro-finance houses and other informal loan institutions) was estimated at 31 percent (Mmegionline, 2010). Although the ratio in Botswana is low, it consisted mainly of unsecured loans spent on consumption purchases.

The phenomenon of increased consumer over-indebtedness and bankruptcy is encouraged by attractive and innovative credit products and improved banking services that offer reward packages for using debt instruments without due consideration to its consequences. Also, the advent of telephone and internet banking and the availability of credit at the point of purchase have increased the accessibility of consumer credit and the speed at which loans can be obtained (Brown *et al.*, 2005).

Africa is embracing the use of consumer credit facilities, for the purchase of goods and services. Advances in technology and the development of smart cards have facilitated the diffusion of modern credit facilities usage globally. In Kenya, for example, Vesely (2005) estimated that in 2005 alone, about 500,000 new credit cards would be added to the 100,000 already in circulation. The availability of credits cards and other forms of consumer credit is changing purchase and consumer behaviour, as buyers' purchase and consumption of goods and services are no longer constrained, at least in the short run, by current income. Buyers may also indulge themselves by buying what they ordinarily could not afford.

Proponents of financial regulation have argued that the 'playing field' in consumer credit markets is not level, but skewed in favour of financial retailers. In particular, it is argued that financial retailers have over the decades exploited the information asymmetry prevalent in consumer credit markets. In this regard that regulatory intervention has been advocated.

Many governments have heeded the advice by instituting financial regulations and other legal instruments which oblige lenders to disclose specified minimum financial information to borrowers prior to their committing themselves to a credit contract. Generally, these laws compel lenders to disclose information on the annual percentage rate of finance charges, declare calculations on interest charges, the amount of repayments, other fees and charges, and other non-price information details (Lee and Hogarth, 1999; Malbon, 2001). There are many examples of such laws in the US, Europe and the Pacific[1.]

The wisdom of the approach lies in creating transparency in the operations of lenders on matters relating to service availability, price and lending terms and conditions, thereby arming consumers with information that would enable them make informed credit decisions (Berlin and Mester, 2004; Braucher, 2004; Brown *et al.*, 2005; DeMong and Lindgren, 1999). With consumers choosing competitively, the market competitiveness improves, consumer exploitation is curtailed and credit markets improve on their efficiencies (Kilborn, 2005; Malbon, 2001). The degree of success that has been achieved by these interventions remains a subject for debate.

The Botswana government has enacted similar laws directed at both creating an informed-consumer-driven market and curtailing the exploitative tendencies of product and financial retailers. Examples of such laws in Botswana are the Control of Goods (Marking of Goods) Regulation, 1974, the Consumer Protection Act, 1998, and the Hire Purchase Act (1961). For example, the Hire Purchase Act specifies the responsibilities and rights of both the seller and the buyer in a hire purchase transaction. Of particular interest is the requirement that the agreement of purchase should include a statement of a) the cash price of the goods, b) the hire purchase price of the goods, the amounts separately specified, which are payable in addition to the actual price of the goods, c) the amount paid by the buyer in money or in goods in pursuance of the provision of the Act stipulating a minimum payment, d) the amount of each of the installments by which the purchase price is to be paid, and e) the date, or the mode of determining the date, by which each installment is payable.

The Act however does not address one of the most probable areas of abuse: *i.e.* the maximum rate of interest on debt chargeable by sellers. There is limited understanding of the climate of consumer credit markets in Botswana, and an evaluation of the extent to which the government's regulatory intervention has served its intended purpose hardly exists. Ironically, this area has remained unexplored despite the overwhelming evidence pointing to the importance of consumer credit to the world economy, particularly considering that a direct link has been made between the most recent Global Financial Crisis and consumer debt (Crotty, 2009; Hodson and Quaglia, 2009). A better understanding of the consumer credit markets and the efficacy of the existing financial regulatory regimes would be instrumental in improving market efficiency.

A few conclusions could be drawn from many of the economic studies of consumer credit. First, consumer credit represents an income enhancement, thereby increasing current aggregate demand beyond that dictated by current income. Secondly, consumer credit represents a committment on future income, when the borrowings have to be repaid. Three, the amount of new consumer credit has to be sufficient to offset the repayment if the economy is not to go into a recession. Fourthly, the playing field between the credit seller and the buyer is not level, necessitating the intervention of government in enacting laws to regulate credit transactions.

Consumer credit is thus an important determinant of individual economic well-being and macroeconomic development. But practically all the studies on this important subject have been of developed countries. The attempt in this paper is to bridge this gap by conducting a study of consumer credit practices in a developing country, howbeit focussing on hire purchase practices in Botswana.

METHODS

The study adopted a survey research design, using two data collection techniques, a personal interview and a disguised interview. Three questionnaires were developed for the survey. The first was used to collect data from consumers. In the absence of a sampling frame of all organisations in Gaborone, a combination of judgment and convenience sampling techniques was utilized to select 17 major employers in Gaborone from which 271 respondents were selected on the same bases of convenience and jugdment in order to achieve a fair representation of gender and income categories.

The second questionnaire was targeted at 22 major Gaborone retail outlets, selected on convenience basis. The response rate was 59 percent (13 retail outlets). The targeted respondent in the retail outlets was the branch/store manager, and they constituted 85 percent of the actual respondents, with the remaining 15 percent being either the regional or financial managers. The retail outlet sample elements were drawn from the main shopping malls in the city to cover the various groups that control most of the outlets as well as the type of goods sold. The third questionnaire was used to collect data on loan/credit practices and conditions of the six commercial banks and 10 of about 20 existing micro-finance establishments in Gaborone, both of which provide personal loans to customers.

The second data collection method was a disguised interview in which one of the researchers posed as a potential hire purchase buyer in five selected retail outlets in order to obtain information on hire purchase practices. The selection of the retail outlets for the disguised interview technique ensured that the five were subsidiaries of the different groups or holding companies. As such, the sample of five represents a high percentage of the less than a dozen holding companies that control most of the retail trade in the city. The disguise was necessary to elicit information that would otherwise have been considered too “sensitive” or “confidential” for disclosure. While the respondents to the questionnaire were branch managers, the disguised interview was directed at sales assistants who normally draw up sales agreements with hire purchase customers. The interviews were unstructured and informal and were directed at information related to a specific good on the shop floor, which the researcher/buyer expressed interest in purchasing on hire purchase terms. Responses were thus spontaneous and unrehearsed in contrast to the formal questionnaire where respondents might give socially or legally correct responses. Information obtained through the disguised interview related to the cash price of the goods, the installment payment, the length of repayment period, and the various charges to be paid.

Data collected from consumers included their demographics, usage of credit facilities, and experience with hire-purchase transactions. Hire purchase was singled out for analysis in view of generally observed higher rates of interest charged and its potentials for customer abuse (Consumer Watchdog, 2008). Data analysis utilized the SPSS to compute frequencies and test for differences in the costs and charges by different outlets.

One challenge that was encountered in the survey was the reluctance or inability of respondents to provide data. Among the retail outlets, there was a reluctance to divulge information on sales statistics. Only six (46 percent) of the 13 surveyed outlets provided data after much persuasion, while one (7.6 percent) provided inconsistent un-usable data, and the remaining six (46 percent) were not able to provide any information either because they considered the information too sensitive for disclosure or because the information was not available in their units. Respondents explained the non-availability of information from subsidiaries in terms of the fact that final accounts were prepared and maintained in a consolidated fashion at their head offices. The same reluctance was experienced with individual respondents. As would be observed from the different numbers of responses to different questions, many respondents did not provide the information sought from them. Perhaps a different method of data collection, for example, a mailed questionnaire rather than a personally administered one, may provide better motivation for higher responses to all questions.

FINDINGS

Profile of the sample

The profile of the respondents in the consumer survey is annexed in appendix A. The number of responses to various questions differs, ranging from 198 to 251 of the 271 respondents approached. In general, the response rate was between 87 and 89 percent on all questions. Because contact was made mostly during office hours, 95 percent of respondents were employees while self-employed and unemployed people made up the remaining five percent. All the 13 retail outlets surveyed sold furniture (lounge and bedroom suites, wall units, *etc*), household appliances such as entertainment appliances (Hi-Fi, television, home theatre systems, *etc*) and kitchen appliances (refrigerators, microwave ovens, cookers etc). Only three outlets sold personal computers and accessories in addition to the item categories above. These items were the ones usually sold on hire purchase or other credit terms.

Access to Credit Facilities

Although credit facilities normally take the five forms described above, this study did not treat credit cards as "credit sales" as the credit on cards is provided by the card issuing company rather than by the retailer. Purchases paid for by credit cards are therefore not subject to the additional charges levied on hire purchase or on store credit accounts. Credit card usage was not analyzed beyond the issue of possession since, for the purpose of this study, purchases paid for by credit card were classified as cash.

TABLE 1
Consumers' Possession of Credit Facilities and Methods of Payment for Purchases (Percent)

No of Credit Cards Owned: (n = 249)	
None	42.6
1 card	57.0
2 – 3 cards	0.4
Store Credit Facilities (n = 251)	
Established	36.7
Not Established	63.3
Methods of Payment for Purchases (n = 198)	
Cash	51.5
Credit Card	8.6
Hire Purchase	28.3
Combination of Store Credit and Cash	11.6

Store credit facilities were more common, with about 37 percent of the 251 respondents enjoying such facilities. However, data from the retail outlets survey suggested that credit customers bought more than cash customers. Retail outlets reported that credit sales accounted for an average of about 84 percent of their total sales, although there were differences among the stores, with the percentage of credit sales varying from 65 to 90 percent of sales. The extent of use of credit facilities is reflected in the method of payment for purchases in stores. About 51 percent of the 198 consumer respondents paid for their purchases in cash while about 9 percent paid by credit card and over 28 percent made their purchases on hire purchase. The remaining 11.6 percent combined cash and credit payments. There seems to be a preference for hire purchase over credit cards, as over 28 percent of respondents bought on hire purchase as compared to almost 9 percent who used credit cards. The rest of this paper provides a comparative analysis of hire purchase costs with the costs of personal loans from financial institutions, and an evaluation of the extent to which hire purchase practices comply with the provisions of the Hire Purchase Act.

Although more than half of customers paid for their purchases in cash, credit sales still accounted for a disproportionately large percentage of stores' sales, with credit sales accounting for about 65 to 92 percent of the stores' sales turnover. Credit sales average was about 84 percent of total sales. The high proportion of credit sales provides a support for the catalytic effect of credit facilities on consumption, demand, and investment.

TABLE 2
Retail Outlets Hire Purchase Sales as a Proportion of Total Sales, 2002 – 2004

Retail Outlet	Aggregate Sales (P '000)	Ratio of HP Sales (percent)
R01	8 780	90
R02	5 400	80
R04	4 998	86.8
R05	7 600	92.1
R06	4 000	88.2
R13	8 913	64.5

Default Rate
With hire purchase accounting for an average of 84 percent of total sales, credit risk becomes an important issue of concern to the industry. The rate of customers defaulting in their installment payments can be used as a good proxy for the level of risk. Table 4 shows that only about 5 - 17 percent of customers default on their hire purchase installment payments. The risk implied by this rate of default is in fact a little lower when the rate of repossession (0 – 1.96 percent) is taken into consideration.

TABLE 3
Rate of Customer Default, 2002 – 2004

	Retail Outlets			
	R02	R04	R06	R13
Total No. of Active HP a/c	1 107	2 345	6 500	7 634
Total No. of overdue and defaulted a/c	60	213	1 090	1 106
percent of overdue and defaulted a/c	5.42percent	9.08percent	16.77percent	14.49percent
Total no. of repossessions	4	-	17	150

Hire purchase customer defaults are due to various reasons. Among the frequent reasons for default given retail managers by defaulting customers are:

Over-commitment: Customers with high levels of debt-to-income ratio are considered to pose the highest default risk. Such customers are generally described as 'over committed'. Such high-risk customers were claimed to be not easily identifiable, as they have developed elaborate ingenious methods of concealing the actual extent of their financial commitments. Besides, credit verification agencies provide information on defaults and not on the level of financial commitment of customers. In addition, the pressure for meeting sales targets in a highly competitive market may create a conflict between the results of credit worthiness investigation and the urge to sell.

Increased Expenditure: The ever-increasing levels of financial burden resulting from such social commitments as funerals, weddings, etc have eroded the consumers' expendable income. HIV and AIDS-related ailments have been cited as a contributory factor to the increased financial burden of the working force.

Loss of source of income: Hire purchase customers are likely to default if they lost their source of income through retrenchment, resignation, dismissal, or retirement.

Relocation: Customers may relocate without communicating the new address of residence or employment to the store. This has been noted as particularly prevalent among customers relocating to remote areas in which the particular store does not have any form of presence.

Low priority: Hire purchase installments are accorded low priority in the monthly budgets of consumers. As a result, installment payments are likely to be the first casualty of any serious pressures on the customers' personal budget. For this reason, installments and interest on arrears then accumulate to unmanageable levels.

Hire Purchase Finance Charges

Two separate estimates of the finance charges relating to hire purchase transactions were carried out, using the dual methodology adopted in obtaining information from retail outlets. The first estimate utilized the information obtained from the survey of retail outlet managers, while the second was based on the data obtained through the disguised interview.

Ten of the 13 respondents (77 percent) to the survey provided the required information whilst the remaining 3 provided either incomplete or inconclusive information. Table 5 below presents the components of the charges levied on hire purchase customers, the aggregate annual nominal rate of the charges, and the calculated aggregate effective rate (EAR).

The HP finance charges of the various retail outlets were not significantly different (at 0.05 level) from one another. The charges ranged from a minimum of 31 percent to a maximum of 40.5 percent with the mean as well as the modal charge being 36 percent with a low 2.6 standard deviation of the mean. The fact that there was no real difference in the financial charges among the various retail outlets is particularly interesting considering the fact that neither the Hire Purchase Act nor any other legislation in Botswana actually prescribed an HP credit finance charge limit. A possible explanation of this consensus may be the fact that since a few holding companies actually control the retail outlets, a gentlemen's agreement or collusion was not unlikely.

In addition to the credit finance charge, nine out of the ten outlets offered a compulsory insurance policy package. The insurance charges differed significantly (at 0.05 level) among the various companies. The charges ranged from 3 to 52 percent of the cash-selling price of the goods. The wide range does not reflect the distribution of the data. Although the range was wide, the two extremes (3, and 52) were isolates, with about 67percent of the charges falling between a much narrower range of 12.5 and 23 percent. When the two extreme values were excluded from the test of significance, it was found that the insurance charges were not different among the companies.

Another charge, in addition to the two discussed above, levied by seven out of 10 outlet respondents is the overhead administrative charges prescribed either as a fixed amount or a given percentage of the merchandise's cash selling price. The fourth category of charges shown in Table 5 is delivery charges. Since this did not relate to terms of purchase and was not mandatory, it was not of interest to the analysis.

The table also presents the total nominal rates of charges and the effective aggregate annual rates (EAR) on hire purchase in Gaborone. The aggregate annual nominal rate ranged from 37 to 92.5 percent, with an average rate of 53 percent. The EAR was then calculated, using the

Brigham and Houston (2001) formula. The EAR ranged from 44 to 144 percent, although once again, these two values were extreme, as about 70 per cent of the EAR values fall between 60 – 76 percent, with a mean value of 69.5 percent and standard deviation of 28.4.

A survey of other financial institutions, the commercial banks and the microfinance institutions, was undertaken in order to compare the terms and conditions of personal loans with those of hire purchase. Six of the seven (86 percent) commercial banks and 10 of the estimated 20 -30 microfinance institutions were surveyed. The flat rate for the commercial banks varied slightly from 25-30 percent annually, with an average of about 29 percent. Banks would not disclose other details of their loan conditions to enable the effective rate to be calculated. But their flat rate of about 29 percent was, on the average, about half the 53 percent hire purchase nominal rates.

The conditions of the micro lenders were vastly different. These unregulated lenders charged exorbitant interests of 30 percent per month on loans ranging from a few hundred Pula to about P5, 000. Although ordinarily a short-term loan, however the repayment period could extend for as long as the borrower desired provided the interest was paid monthly. The pledge of the borrower's bank debit card as a collateral for the loan gives the lender a priority claim on the borrower's salary income, and thus ensures prompt payment of the interest.

Disguised Interview Results

Table 4 presents the data on hire purchase charges obtained from the disguised interviews of shop assistants in five judgmentally selected retail outlets. Care was taken to ensure that the five outlets were subsidiaries of different holding or parent companies. The five outlets also covered the two major retail sub-sectors, household furniture and appliances, and electronic appliances in which most hire purchases occur. Data collected include cash price, cash deposit required, amount of installments, and the period of payment. The installment payments include; a) hire purchase credit finance charge or interest rate, b) administrative, contract and any other overhead fees and expenses, c) Credit verification charges, and d) Insurance policy charges.

Of particular interest was data relating to the total amount of money a customer would be expected to pay for a particular identified commodity over and above the cash-selling price. This excess amount, for analytical purposes in this study, was defined as the Aggregate Nominal HP Finance Charge.

As in the survey data, all the outlets complied with the minimum cash deposit and the maximum period of payment provisions in the Hire Purchase Act. Table 6 suggests that different charges may obtain in the two retail sub-sectors covered, higher in the furniture trade than in the electronic appliances trade. The two electronic appliances retail outlets charged a relatively lower effective credit finance rate of about 27 percent per annum as compared to the other three outlets in furniture trade, which charged an effective annual rate ranging from 101 to 125 percent.

TABLE 4
Hire Purchase Charges by Retail Outlets

Charges	Retail Outlets by merchandise				
	TV	Bedroom Suite	Dining Suite	Lounge Suite	Video Projector
Cash Price (P)	3 699	3 499	7 000	8 000	8 859
Deposit (P)	370	525	700	800	1 772
Monthly installment (P)	181	276	541	597	481
Repayment Period (Months)	24	18	24	24	18
[1]Aggregate Annual Nominal HP Finance Charge (percent)	24	72	84	72	24
[2]Aggregate EAR (percent)	26.82	101.22	125.22	101.22	26.82

The aggregate nominal hire purchase finance charges ranged from a low of 24 percent to a high of 84 percent, with an average rate of 55 percent as compared to the survey average of 52 percent. The calculated EAR ranged from 27 to 125 percent, with an average of 76 percent. The EAR average (76 percent) for the disguised interview data is also higher than that (69 percent) for the survey data. This was as expected; given the likelihood of the responses to the survey to be more influenced by social and legal desirability while those of the disguised interview were real operational HP contract terms.

Consumer Protection

The Botswana Hire Purchase Act (1961) (HPA) was enacted to protect the consumer against possible exploitation by retailers. Among other provisions, the Act prescribes that any hire purchase agreement should cover only movables (except automobiles) whose price does not exceed P4000 (about $570), and that monthly installments shall not extend for a period of more than 24 months. In addition, all agreements should be in writing and the seller should disclose the price of the good if purchased for cash and state the hire purchase price, detailing the additional amounts payable.

The Act also imposed penalties for violation of some of the provisions. For example, Sections 3(2), 4(3), 9(4) and 13(2) imposed fines ranging from P50 to P100 (approximately $ 7 – 14) on violation of various provisions of the Act such as not stating in writing the cash price of the item, or failure to provide, on request by the buyer, updated statements of the HP account balances, or failure to return the goods purchased and reinstate the buyer's rights under the HP agreement after the buyer must have paid all outstanding arrears on the account within 21 days of the seller having repossessed the goods, or forfeiting 25 percent of the sale price if the transaction did not comply with the price disclosure provisions of the Act.

The study reveals that all the ten outlets for which data was available were in compliance with most provisions of the Act. The only exception with respect to the maximum period of installment payments indicated that the installment repayments extending to 36 months were for built-in kitchen fixtures and fittings, which could hardly be considered as movables. But the P4000 limit on the price of the product was not often observed. This however, in addition to the paltry fines imposed for violation, might indicate the need for revising the Act to reflect the rate of inflation that had taken place since it was enacted in 1961.

CONCLUSION

From these results, we draw the following conclusions:

a) Cash was still the more common means of payment for purchases in Gaborone, Botswana, used by about 52 percent of customers.
b) Although credit was less preferred, credit sales volume was much higher than cash sales
c) Retail outlets' hire purchase terms were in compliance with the provisions of the Hire Purchase Act with respect to price disclosure, period of repayment, written contract specification, and the guidelines for repossession.
d) The sums of penalty specified for violation of specified provisions of the HPA and the limit of the maximum price to which the Act applies are out of date given the rate of inflation since the Act was passed in 1961, almost fifty years ago.
e) Hire purchase charges varied among the various outlets and the type of goods sold, with furniture attracting much higher rates than household or electrical appliances.
f) The effective aggregate annual rates of charges were higher than the nominal rates as well as those often disclosed in promotional materials to potential customers.
g) The average hire purchase rates of interest were much higher than comparable rates charged on loans by commercial banks but lower than the interest rates of unregulated micro-finance institutions.

Policy Implications

The conclusions above raise several possible areas of policy changes relating to hire purchase transactions and personal loans. The first issue is the need to regulate the charges to hire purchase customers. Charges should be related to the lending rates in commercial banks, taking into consideration the risk of default. In this study, the risk of default was estimated at about 11 percent while the maximum lending rate in banks was 33 percent. It is difficult to justify hire purchase charges that exceed the sum of the ruling lending rate and the difference in the rate of default between the commercial banks and the retail outlets. Where the rate of default is higher for the retail outlets, the interest rate charged by the outlets should be higher than that of the banks, and vice versa. The study shows that current charges are almost twice this recommended rate. The Hire Purchase Act should therefore impose a ceiling on the rate of interest that can be charged on hire purchase transactions. Related to this issue is the difference in the rates of interest charged for various types of products. There is no justification for charging much higher rate of interest for furniture than for household and electronic goods. The latter is in fact more vulnerable to damage, technological and taste obsolescence than the former, thus making their repossession, in case of default, less valuable. Neither was there a significant rate of default or risk among the purchasers of the two categories of products. This finding thus underlines the need to review the Hire Purchase Act to remove the discriminatory charges on different categories of products.

The second policy implication is the substantial difference between the nominal and effective rates of interest. In a financially non-sophisticated economy and population, the need for full information on the real cost of hire purchase cannot be over-emphasized. It might prevent, or at least reduce, the incidence of un-informed purchase decision. The Act should therefore make it mandatory for sellers to disclose directly the real rate of interest on hire purchase transactions.

The preference for hire purchase over less expensive bank loans was the easy accessibility of the former. The knowledge of comparative costs of financing purchases might encourage buyers to seek personal loans from the banks as well as motivate banks to develop greater interest in this market niche by developing new products targeted at and more easily accessible to the market segment. Since loans from commercial banks are cheaper than hire purchase terms, it is more economical for buyers to obtain loans from commercial banks than to buy on hire purchase. But buyers use hire purchase because of its comparatively easier accessibility compared to cheaper bank loans, and its lower costs compared with micro-finance loans. Personal short term credit appears to be a lucrative market that is neglected by commercial banks. This market niche is then exploited by the micro lenders, which charge extortionist interest rates of as much as 30 percent per month! Banks need to develop a new product that taps into this neglected market and thereby save consumers from the extortion of the informal and unregulated "loan sharks".

Thirdly, the usurious rate of interest charged by micro-finance institutions operating in Gaborone and other towns all over the country also deserves attention of the consumer protection agencies. A flat rate of interest of 30 percent per month traps borrowers in penury and is detrimental to consumer wellbeing and poverty alleviation, which constitutes a major objective of the country's Vision 2016. In pursuit of this objective, it is desirable to bring the micro-finance institutions under some form of regulation, particularly in terms of the maximum interest rate they could charge. Given that these institutions often impose conditions that minimize default in repayment or in other loan service obligations; there is hardly any economic justification for the extortionist interest rates they charge.

Lastly, there is need to limit individual customer's aggregate credit facilities. The maximum credit limit could be related to the customer's gross income and life cycle profile. Such a limit is mutually beneficial to the retailer and the customer. It is capable of reducing the risks of hire purchase to the retailer through a decrease in the probability of the customer defaulting on his payment of installments. For the purchaser, such a regulation is capable of preventing over-commitment, and therefore defaults in payment with the consequent risk of loss of the goods bought to repossession. The success of this would depend on bona fide disclosure by hire purchase customers and the existence of an efficient and effective credit rating agencies in Botswana.

Given the importance of consumer credit to the growth of the economy and the wellbeing of the individual consumer, as well as the dangers of over-indebtedness, further detailed studies of the level of consumer indebtedness and its implications on the economy should be undertaken. Such studies should cover the debt portfolio of the individual consumer, the purpose of borrowing, the level of protection against unfair practices, and consumer understanding of the costs of borrowing.

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APPENDIX A
Consumer Respondents' Demographic Profile (percent)

Gender (n = 238)	
Male	36.7
Female	63.4
Age (years) (n = 241	
20 or <	0.8
21 – 30	30.8
31 – 40	44.4
41 – 50	16.6
51 – 60	6.2
➢ 60	1.7
Marital Status (n = 242)	
Single	48.3
Married	48.8
Divorced	1.7
Widowed	1.2
No. of Children (n = 235)	
0	21.3
1 – 3	68.1
4 – 6	10.6
Education (n = 236)	
Primary	2.1
Jnr. Secondary	12.3
Snr Secondary	9.7
Post-secondary	28.4
Professional	18.1
Degree	24.2
Post-graduate	15.3
Monthly Income (Pula*) (n = 235)	
< 2000.	17.4
2–4000.	24.3
4-8000.	40.0
8–15000.	15.7
> 15000.	2.6
[*P7 = US $]	
Employment Status (n = 241)	
Self-employed	2.5
Employee	95.0
Unemployed	2.5

Notes: *n = Number of respondents to each question.*
Percentages may add up to slightly more than 100 owing to rounding.

APPENDIX B

Charges (in percent) levied by Retailers on HP Customers, and Repayment Period

Charges	Retail Outlets R01	R02	R04	R05	R06	R07	R08	R09	R11	R13
HP Credit Finance Charge*	36	36	30.7	34	40.5	38	35	36	36	37
Administrative Charges**	-	P399	*0.4	*1.	*2.5	P45	*8.	-	-	P45
Insurance Charges*	22	22	22.9	3	52	10	12.5	12.5	12.75	-
Handling/Delivery Charges	-	P199	-	-	-	-	-	-		-
Max Repayment Period (Months)	24	24	36	12	24	24	18	18	18	24
Aggregate Annual Nominal. Rate[1]	58	58	53.6	37	92.5	48	47.5	48.5	48.75	37
Effective Aggregate Annual Rate (EAR)[2]	76.19	76.19	68.94	43.97	143.78	60.1	59.34	60.87	61.26	43.97

Notes:

*** Administrative charges are expressed as percent of the cash selling price, except in three cases where fixed one-off payments are charged*

**Figures are in percent of the cash selling price per annum.*

[1]*Aggregate Annual Nominal HP Finance Charge = the sum of HP credit finance and insurance charges as a percentage of cash selling price*

[2]*EAR=$[1 + (inom/m)]^m - 1$, Where: inom = Annual Nominal Interest Rate and m = Number of compounding periods per year*