

FEASIBILITY OF CONSUMER CREDIT BASED ON INCOME LEVELS OF PEOPLE IN AKSUM TOWN

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Abstract

Any good facility gives the bad experience if we utilize more than sufficient. But people never enjoyed the sweetness of consumer credit until now in some countries. The use of consumer credit is related to the eagerness of consumers to sacrifice future consumption in order to obtain greater satisfaction from current consumption. Low-income people wants to live in a society lavish with houses, cars, bikes, furniture and stuff lining the shelves in retail malls. The problem is money. Most low-wage workers and employees do not have enough to buy what they need, much less what their heart desires. The facility of Consumer credit brought glaring change in the people middle class life. All over the world, People slowly adopted the sweetness of consumer credit facility. Later on consumer credit became driving force behind the economies of most of the leading industrial countries. In 2007, the total debt owed by consumers only in the USA was \$13 trillion (\$13,009,000,000,000), of which \$9.8 trillion was on mortgages and \$2.4 trillion on consumer credit (personal bank loans, credit cards, overdrafts, and motor and retail loans). Consumer credit reaches to dominate the financial conditions of the nations. But still some under developed and developing countries are hesitating to introduce consumer credit through financial institutions. May be, Lack of awareness, Lack of strong legal frame work, week industrial policies, poor financial rotations etc., are causes behind this. Ethiopia is also not exceptional from this case. It is fastest growing country in African continent, people have good economic growth since 10 years. Still commercial banks and other financial institutions are not encouraging consumer credit in the nation. In this paper, the basic objective is identifying the healthy environment to introduce consumer credit in Axum town by the income levels of people.

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And we collected primary data source from 160 respondents by conducting oral, face to face interviews and group discussions. Secondary data information collected from books, journals and internet etc.

Keywords: Consumer, Consumer credit, income, financial institutions, Axum town

Introduction:

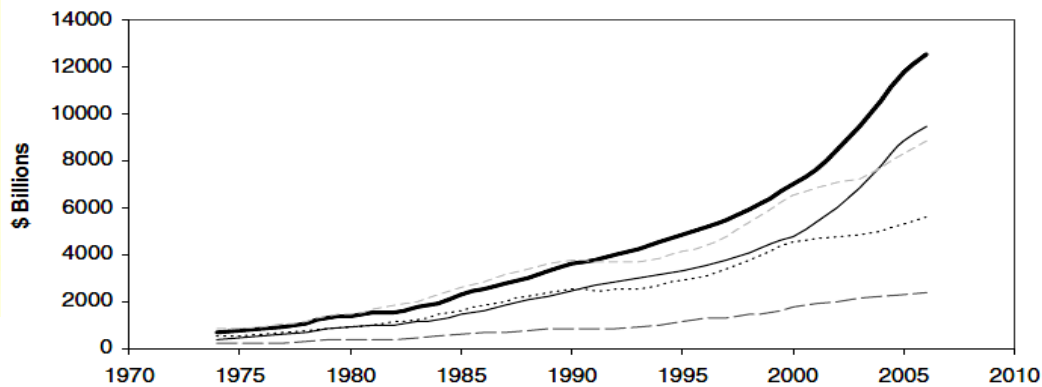
The word credit is derived from the Latin word *creditum* – to have trusted – and for 4000 years, people have trusted one another by lending money or goods. There is a Sumerian clay tablet dated from around 2000 BC which records the transaction of two farmers who have borrowed money against the harvest. After that in 17th century in the year of 1694 Bank of England was one of the first signs of the financial revolution which would allow mass lending. Over the next 150 years, banks began lending to the nobility and gentry. However, unsecured lending really started in the 1920s when Henry Ford and A. P. Sloan recognized that in order to sell cars to a mass market one had also to find ways of allowing consumers to finance their purchase, and so developed finance houses. With the introduction of the credit card in the 1950s and 1960s, consumers had a product that allowed them to use credit for almost all their purchases from snack food bites to airline flights. Now at the start of the twenty-first century consumer credit is the driving force behind the economies of most of the leading industrial countries. Without it, the phenomenal growth in home ownership and consumer spending of the last 50 years would not have occurred.

The UK and Germany are the European countries with the largest total amount of consumer credit. In the UK, the total debt outstanding passed 1 trillion pounds (£1,000,000,000,000) in July 2004 and by the end of 2007 it was over £1.4 trillion. Lending for house purchase accounts for £882 billion of this and consumer credit for £183 billion. This averages out at £17,891 (\$35,000) per person not far from the US figure, with £4000 of this coming from unsecured credit (£1300 on credit cards, £1890 on personal loans, and £810 on overdrafts and motor or retail finance). In other European countries the growth in consumer credit has not been at quite this level over the last decade or if it has it started from a much lower level. The following table shows this growth in unsecured consumer credit during the 1990s.

Unsecured consumer credit (in Euro Billions) in Europe in the 1990s

| Year | Germany | Belgium | Spain | France | UK | Italy |
|---------------|---------|---------|-------|--------|-------|-------|
| 1993 | 176.9 | 10 | 30.8 | 58.7 | 83.5 | 16.8 |
| 1994 | 186.1 | 9 | 32 | 60.2 | 90.9 | 17.4 |
| 1995 | 189.5 | 9.3 | 36.7 | 63.8 | 106.7 | 18.3 |
| 1996 | 198.8 | 9.6 | 38.6 | 69.3 | 121.2 | 20.4 |
| 1997 | 204.3 | 10.2 | 42.3 | 74.9 | 138 | 23.8 |
| 1998 | 216.7 | 11.1 | 52.3 | 80.8 | 159.8 | 28.5 |
| 1999 | 215.7 | 11.9 | 54.6 | 89.5 | 185.2 | 32.2 |
| 2000 | 226.6 | 12.2 | 58.6 | 97.8 | 186.2 | 38.5 |
| Per head 1993 | 2185 | 1000 | 788 | 1020 | 1438 | 295 |
| Per head 2000 | 2709 | 1192 | 1486 | 1651 | 3123 | 667 |

In case of America, Consumer debt has exceeded the national annual income for most of the period since 2000 and in 2007 household consumer debt was over 130% of disposal income. Although the total US consumer debt is the highest of all the countries in the world, some other countries approach this level on a debt per consumer basis. In Canada, for example, consumer debt is 813 billion Canadian dollars (\$666 billion), with 69% of it due to mortgages and 31% due to other forms of consumer credit. This means the consumer credit per household is 110% of the annual aggregated household income. The following graph shows the growth of consumer debt in America.



The total level of consumer credit in other countries does not match that in North America and Europe, but the growth in these areas is phenomenal. Recently China also started to use consumer credit for more than \$200 billion worth of transactions annually and the government is laying the legal frame work for setting up credit reference bureaus. Thailand and South Korea are

other examples where consumers have rapidly changed from a savings culture to a consumer credit one. South Koreans were still saving 30% of their gross domestic product (GDP) in the mid-1990s.

Methodology:

In this paper, primary data information collected from 160 respondents by applying ethnographic data technique under Qualitative research methodology. In this probable sample method again we stratified the 160 individuals in four different groups like Government employees, bank employees, private employees, and university employees. Most of the Secondary data information we have collected from internet and journals and books.

Consumer credit and availability:

Short term loans made to enable people to purchase goods or primary for personal, Family, or household purposes and Consumer credit is basically the amount of credit used by consumers to purchase non-investment goods or services that are consumed and whose value depreciates quickly. This includes Car, Auto, Two wheeler, Television, and other house hold furniture including personal money loans for education, medical etc. but excludes debts taken out to purchase real estate or margin on investment accounts. For example, a mortgage for purchasing a house is not consumer credit. However, the 22 inch television you put on your credit card is consider as consumer credit.

Two types of credit institutions are providing credit to consumers' namely Private Financial institutions and licensed financial institutions. In most of the cases consumers are avoiding the private Finance for consumer credit, because they should not transfer Asset rights to purchaser immediately and collects more documentation and interest charges from the customers Example: self financing companies, pawn brokers, loan sharks etc,. The remaining licensed credit institutions those who are legally approved by the Governments like Commercial banks, Saving loan associations, credit unions, consumer financing companies and life insurance companies etc, These are providing better services to consumers with reasonable interest rates.

The kinds of credit used by consumers are customarily classified into mortgage advances (named as consumer debt) and consumer credit. Consumer credit is, in turn, subdivided into open accounts, personal loans at banks, other personal loans, credit card facilities, and

installment sale transactions and lease transactions. Mortgage advances come in to existence when households enter into loans to buy homes and other fixed property and then offer the property concerned as security for the loan. The loan is repaid over a long period that ranges between 20 and 30 years, although shorter periods can also be arranged. These mortgage loans are providing by the commercial bank of Ethiopia and some other commercial banks in Ethiopia. In this paper we are not considering mortgage loans.

Consumer credit or short term credit is available to the people by different modes for full fill the various types of requirements and necessities.

- ✓ *Open accounts* of households: in this system, customer will receive the goods along with all the necessary documents and goods are shipped directly to the consumer who agrees to pay the Sellers's invoice at a future date, usually in 30 to 90 days. Purchases on open accounts enable consumers to separate the payment for goods and services from the time of actually receiving the goods or services. The purchase price must be paid in full on a predetermined future date or in installments over a period of time. Financing by way of open accounts is usually used for the purchase of durable and semi-durable goods and the rendering of consumer services.
- ✓ *Overdraft or Personal loans granted by banks*: When Existing bank account holders with drawn amount from the bank more than their deposited amount called as overdraft. Most of the cases this facility provides to current account holders by the banks. Repayment is normally required by the banks with in a fixed period. Personal loan also similar to overdraft facility. Those account holders who have some fixed deposits in the bank and who maintains strong financial bondage with banks for them banks is issuing personal loans on the basis of fixed time oriented repayment condition.
- ✓ *Other personal loans*: consist of loans granted to persons by long-term insurers where the surrender value of a policy serves as security for the loan (so-called loans against policies). Loans made to farmers to finance consumption expenditure are irrespective of the institution granting the credit, also classified as personal loans. However, loans entered into by farmers for the sale purpose of financing farming activities, are not regarded as part of outstanding consumer credit.
- ✓ *Credit card facilities*: These are made available by banks and offer consumers a very convenient method of making purchases and deferring the payment of the purchase price.

Debit balances on credit card accounts are usually payable within one calendar month after the cardholder's receipt of his account, but so-called budget facilities are also provided to postpone the payment over longer periods. The outstanding debt balances at the end of each calendar month, and not the total credit available, are taken into account in calculating total consumer credit.

- ✓ *An installment sale agreement* (hire-purchase agreement): is a transaction in terms of which goods or services are provided to the buyer, but where the purchase price is paid in installments over a period in the future. Although the purchaser takes possession of the goods, he does not become the owner and the seller is entitled to repossess the goods if the buyer does not comply with the provisions of the agreement. Installment sale transactions are used almost exclusively to finance the purchase of durable consumer goods of which the prices are high relative to the income of the credit-taker, and the expected economic lifetime of the goods is long, for instance three to five years.
- ✓ *Lease agreements*: These are transactions in terms of which goods are leased but where there is no arrangement that the debtor becomes the owner of the goods at any time during or after the expiry of the lease period. As the credit-taker or debtor does not acquire ownership in terms of the agreement, the outstanding commitments can perhaps strictly speaking not be regarded as consumer debt. The Statement of Generally Accepted Accounting Practices', however, lays down guidelines according to which the commitments of persons in terms of finance lease transactions are included in consumer debt. The finance lease agreement is regarded as an alternative for a credit sale transaction and all the risks and remuneration involved in the right of ownership of the asset concerned are transferred from the lesser to the lessee. However, the same considerations do not apply in the case of operating lease transactions, and the commitments in terms of these agreements should accordingly not be included in the estimates of the total consumer credit.

Importance of consumer credit:

One of the most important advantages of consumer is financial flexibility. It can provide financial relief to consumer. Expecting future requirements and abnormal expenses are major

task to everyone, and purchasing minimum house hold items like T.V, Refrigerator, Air conditioner, two wheeler, four wheeler and good furniture etc. essential for minimum satisfaction of the middle class people. In the days before, people often had to save for years to make major purchases. For example, if your car broke down, unexpected medical to family members or you needed a new refrigerator, it could hamper your ability to make ends meet. Credit allows consumers to spread out major costs over the course of months or years so they don't have to choose between buying a new transmission and putting food on the table. And it provides good repayment time facility for clear the credit.

Consumers can earn substantial benefits by using credit if they use it wisely. Many department stores and bike, car dealerships offer their customers advantageous financing options, including delayed payments and low interest rates. Credit cards often reward cardholders with cash-back offers, frequent flier miles and reward points. For consumers who resist the temptation to overspend and pay off their credit accounts each month, these perks and rewards amount to free money. Credit card earning frequent flier miles, for example, could end up buying you a free vacation. But if you fall behind on the credit card payments, you'll pay much more in interest than the rewards are worth.

Consumer credit plays major role to improve the saving potentiality of the people. Most of the middle class people are taking credit for purchasing the house requirements and they are paying attention to clear the loans by reducing their luxuries and unnecessary expenditure. This credit boosts the new strength to Bankers, manufacturers, whole sellers and retailers. People are able to purchase different type of items from the market. Directly or indirectly it shows impact to make more production cycles in the nation. Bankers also get more interest rates and quick money rotation. So many employment opportunities also we can create in the industrial and banking sectors on the name of production workers, managers, distributors, sales representatives, credit promoters, credit advisors, credit re-collection officers Etc., for Example, The Sparkassen-Finanzgruppe is the biggest consumer financial services provider in Germany today. Its workforce numbers more than 250,000 employees. As well as we can expect some technology developments in the product features for avoiding the competition. Manufacturers have to provide more facilities to the customers through product otherwise customers will not buy the product. Ultimately the final beneficiary is consumer.

Saving Potentiality of the people in Axum:

The International Monetary Fund (IMF) ranks Ethiopia as among the five fastest growing economies in the world. Its average GDP 10.8% indicates the real development of Ethiopia since 10 years. Every sector has been participating effectively for the development of national economy. Axum town is also not exceptional for contributing its share in the national Development. People have been achieving drastic changes in their living standards since 10 years. So many international standard restaurants constructed and thousands of university students are coming to Axum University from various places in the Ethiopia. People are sharing different cultures from national and international wise. Different type of businesses is expanding all over the Axum town. Tourism, banking and restaurants are providing more job opportunities to the people.

Axum is situated in central administrative zone of Tigray. Geographically Axum is located west of Adwa, East of WukroMaray, North of EdagaSelus and south of Roma at 1041 Km distance from Addis Ababa. It is one of the best holy places which have been attracting more tourists from national and international. According to Central Statistical Agency of Ethiopia (CSA), as of July 2012 (est.) the town of Axum's population was 56,576. The census indicated that 30,293 of the population were females and 26,283 were males. According to Axum city administration office of plan and finance development plan process (2010) In the Axum town, 2181 households were doing various types of businesses like restaurants, bars, merchants, grocery and art gallery etc. almost 4282 Households were doing non business activities like government, non government employees, farmers, priests and daily workers etc. and Ethiopian Commercial Bank, Wegagen Bank, Abyssinia bank, Anbesa Bank and Dedebit credit and saving institutions are giving better service to the people with more than 200 employees. Additionally, the Axum University was established in 2006, at present almost 2000 employees are working in the university with various designations. The source of livelihood and backbone of Axum's economy are Agriculture, Tourism and trade respectively. The tourism sector ranked in second position, remaining businesses also have been showing greater performance to improve their incomes by attracting the tourists and local customers.

The above information discloses the economical structure, basic income sources of the people in Axum town. Most of the people are earning monthly incomes through agricultural, private businesses, other government and service sectors. In this paper, monthly incomes, saving

particulars collected from the public by stratifying the sample size of 160 respondents' viz., Government, Banking, private and university employees. And the paper could not consider respondents family position and their various type of expenditures. And choose the age of respondents those ages between 20 to 50 years. The following table exhibits the income level of the people.

Income Levels of the Respondents in Axum town (1 Ethiopian Birr equal to \$ 0.0476)

| Income level in ETB | Respondents in different organizations | | | | Total Respondents | % |
|------------------------|--|------|----------|-----------|----------------------|--------|
| | University | Bank | Pvt.Empl | Govt.Empl | | |
| 2,001-3,000 | 13 | 14 | 18 | 12 | 57 | 35.625 |
| 3,001-4,000 | 10 | 12 | 16 | 12 | 50 | 31.25 |
| 4,001-5,000 | 9 | 10 | 4 | 10 | 33 | 20.265 |
| 5,001-above | 8 | 4 | 2 | 6 | 20 | 12.5 |
| Total | 40 | 40 | 40 | 140 | 160 | 100 |

Almost 36% people income of all category is satisfying basic requirements of their food, cloth and house rent etc., below 3,000 birr income per month useful to barely sustain their life with minimum living standards. They cannot expect luxurious life and lavish expenditure. But minimum financial support and prestigious house items, like T.V, Good Furniture, and Two Wheeler are essential for disclosing their comfort life. People are ready to sacrifices a small part of amount from their incomes for achieving these facilities. The remaining 51% of people earns between 3,000 birr to 5,000 birr per month. This amount is not more than sufficient to fulfill all desires of middleclass but barely sufficient minimum 4 members in the family. These people have potentiality to save minimum 10% in their monthly income. Finally 12.5% people those who are earning per month 5,000 birr and above income they are in above middle class living standards but own house, motor bike, sufficient bank balances are dreamy things to them.

With in the span of past10 years, people incomes are increased almost double. Example, in 2009-10 average net salary of university employee per month 1,600 birr now it became 3,000 birr, in case of banks a newly joined employee with draws more than 3,000 (After tax) birr per month. Even Bajaj three wheeler (service taxi) owners are earning more than 2,000 birr per month. All middle class eagerly waiting for supporting hands to brighten their small desires which are immediately gives more satisfaction and entertainment.

In the process of data collection some respondents shared their views, Mr. Bekelle, Bajaj owner/driver who is giving services in Axum town said, “My earnings are more than 2,500 birr per month but I don’t have T.V. always I am watching foot ball game outside by paying 5 or 10 birr, it is uncomfoting to me but what shall I do? How can I pay 5,000 birr at-a-time for T.V”.

Another respondent Mr. Meshereh owner of General stores said, “I want to improve my business by 30,000 birr but it takes time at least 2 years through savings. Financially who will support me even though my earnings are 5,000 birr per month? And who knows in future my present estimation of 30,000 birr will sufficient?”

The above examples are clearly indicating their financial conditions but we should know about their saving potentiality. Because, before lending the money every financier has so many doubts on borrowers i.e. are they really capable to repay the loan? Have they sufficient saving potentiality? Their monthly incomes are constant or not? Have they any other financial source rather than monthly income? Etc. When lender has perfection about these all questions then he will agree to provide money to the borrower. The following table shows the saving potentiality of the people in Axum town.

Saving potentiality of the people in the Axum town (1 Ethiopian Birr equal to \$ 0.0476)

| Income Levels in ETB | Respondents Saving potentiality per month in ETB | | | | | | Total Respondents |
|----------------------|--|---------|---------|---------|----------|------------|-------------------|
| | 0-200 | 201-400 | 401-600 | 601-800 | 801-1000 | 1000 above | |
| 2,001-3,000 | 30 | 18 | 6 | 3 | Nil | Nil | 57 |
| 3,001-4,000 | 15 | 16 | 13 | 4 | 2 | Nil | 50 |
| 4,001-5,000 | 4 | 9 | 13 | 5 | 1 | 1 | 33 |
| 5,001-6,000 | 2 | 3 | 7 | 3 | 3 | 2 | 20 |
| Total Resp... | 51 | 46 | 39 | 15 | 6 | 3 | 160 |
| % Percentage | 31.875 | 28.75 | 24.375 | 9.375 | 3.75 | 1.875 | 100 |

Author noticed that the 31.875% of people savings are below 200 Birr per month from all type of income levels. Saving minimum 200 birr per month is not a difficult task to middle class those incomes are less than 3,000 birr per month. 30 respondents reacted positively for their savings 200 birr per month, but a few numbers of respondents were partly assured for these

below 200 savings. Remaining respondents those who are earning more than 3,000 birr can easily save minimum 200 birr per month.

Almost 53% respondents are located between 200 to 600 birr savings per month. This saving area is more important to estimate the saving potentiality of middle class in the Axum town. The information exhibits average saving potentiality is 400 birr per month. This amount saves by the people after completing the basic requirements in the home like food, cloth and rent etc. these people are eligible to repay small loans perfectly from their savings. And their psychological behavior stands between rich and poor status. Sincerely they will put efforts to achieve their color full dreams. But it's hard to save 400 birr per month to few people those who are in less than 3,000 income level per month.

Nearly 15% respondents are representing more than 600 birr savings per month. This savings are maximum difficult to people those are earning below 4,000 per month. The remaining percentage of people capable to take loans for personal purpose and also for prestigious, luxurious items, because they have high potential to repay loans at least 600 birr per month and at the same time they are suitable for Consumer debt and consumer credit loans.

The above analysis is not more than sufficient to financial institutions, but it provides basic idea on people saving potentiality in the Axum town. As per above information, most of the people are eligible to take small loans from 5,000 birr to 50,000 birr. If financial institutions or whole sellers will provide minimum 5000 birr loan to people those who are in between 2,000 to 3,000 birr per month, they will happily purchase small things what they heart desires i.e. T.V, Refrigerator or utilize for any other personnel celebrations, school fesses and medical proposes. Financial institutions have to concentrate on upper middle class people because they have more saving potentiality for repay the loan. Almost 50% of respondents in the Axum town has capacity to clear below 20,000 birr loan by installments, because their monthly average saving strength indicating 400 birr. 40 to 60 month installment period is sufficient to them for clear the loan. 15percent of people have assuring about their 600 and above monthly saving capacity. Financial institutions confidently provide loan up to 50,000 to them.

Conclusion:

This paper provides basic idea about income levels of the people in Axum town. Providing consumer credit is not an easy task to financial institutions. It depends on so many legal formalities and strong financial background of the consumer. This paper could not consider down falls of consumer credit in various countries. Up and downs are very common every ware in any field. But still consumer credit is playing major role in the world economy. People are strongly believes that today happiness is more than sufficient to tomorrows richness. Because of this, people are ready to scarify future consumption for present happiness. If commercial banks and other financial institutions are providing small support through consumer credit, people can see new sparks in their middle class life. We know our long journey starts with single step. Initially, financial institutions have to believe the consumers and give respect to their whole heart feelings. No one can achieve all things at-a-time, without support of someone there is no achievement in human life. Financial institutions have to understand this for giving the better financial support to the middle class with strong legal frame.

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