



The Impact of Personal Loans on the Livelihoods of Civil Servants in Munali Constituency

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This study investigates the impact of personal loans on the livelihoods of civil servants in Munali Constituency, Lusaka, Zambia, within the broader context of increasing reliance on payroll-based lending in developing economies. Despite improved access to credit, concerns regarding over-indebtedness, reduced disposable income, and declining financial well-being persist. Using a quantitative cross-sectional design, data were collected from 220 civil servants across key public service sectors and analysed using descriptive statistics, regression modelling, and the Relative Importance Index (RII). The findings demonstrate that personal loans significantly influence livelihoods in both positive and negative ways. While loans facilitate access to essential services such as education, healthcare, and housing, they simultaneously contribute to financial strain through high repayment obligations and multiple borrowing cycles. Regression results reveal that loan size and loan multiplicity negatively affect livelihood outcomes, whereas financial literacy and flexible repayment structures improve financial well-being. The study contributes to the financial capability and development finance literature by providing empirical evidence from a Zambian context, where such studies remain limited. The study recommends targeted financial literacy interventions, regulatory reforms in payroll lending, and the redesign of loan products to align with borrower repayment capacity. These findings have important implications for policymakers, financial institutions, and public sector employers seeking to promote sustainable financial inclusion.

Keywords: Personal Loans, Civil Servants, Financial Well-Being, Livelihoods, Financial Literacy, Zambia, Payroll Lending

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1. Introduction

Access to personal loans has become an increasingly important component of financial survival among civil servants in Zambia, particularly in urban areas such as Lusaka. As the cost of living continues to rise and income levels remain relatively constrained, many civil servants rely on credit facilities to meet essential needs including education, healthcare, housing, and daily consumption. This growing dependence on loans reflects both the accessibility of credit and the financial pressures faced by public sector employees (BoZ, 2024). While personal loans provide immediate financial relief and enable individuals to address urgent needs, they also introduce long-term financial challenges. High interest rates, rigid repayment structures, and the increasing availability of payroll-based lending have contributed to a cycle of debt among many civil servants. As a result, borrowers often experience reduced disposable income, limited capacity to save, and increased financial stress (Akin, 2024). These conditions can negatively affect overall well-being and reduce the quality of life for individuals and their households (Friedline, et al., 2021). Globally, access to credit is widely recognised as a tool for financial inclusion and economic empowerment (Umeaduma, 2023). Credit enables individuals to invest in education, acquire assets, and manage financial shocks. However, the benefits of borrowing are highly dependent on how loans are utilised and managed. When borrowing is not supported by adequate financial planning and literacy, it can lead to over-indebtedness and long-term financial instability. This dual nature of credit—both beneficial and potentially harmful—is particularly evident in developing economies where financial literacy levels are often low (Karakurum-Ozdemir, et al., 2019).

In Zambia, the situation is further compounded by structural economic challenges such as low-income levels, high cost of living, and limited alternative income sources. Evidence suggests that a significant proportion of civil servants face financial difficulties, with many struggling to meet basic household needs, save for the future, or invest in long-term assets (Tembo, 2015). These financial constraints have increased reliance on personal loans as a coping mechanism rather than a tool for long-term financial growth (Zhongming, et al., 2020).

The expansion of payroll-based lending systems has significantly contributed to the ease of access to credit among civil servants. Financial institutions prefer lending to formally employed individuals because loan repayments can be deducted directly from their salaries, reducing the risk of default. While this system benefits lenders, it has also created an environment where borrowing is relatively easy and, in some cases, excessive (Qian, et al., 2021). Many civil servants therefore accumulate multiple loans, increasing their financial burden and limiting their ability to meet other financial obligations effectively. To mitigate the risks associated with excessive borrowing, regulatory measures such as the Banking and Financial Services Act have introduced limits on loan deductions, capping them at 60% of gross income to ensure that borrowers retain a portion of their earnings for daily expenses (Scott, et al., 2024). However, despite these interventions, many civil servants continue to experience financial strain, as loan repayments still consume a substantial portion of their income (Zikhali, 2017; BoZ, 2024). This raises concerns about the effectiveness of existing policies in addressing over-indebtedness. Another critical factor influencing the impact of personal loans is financial literacy. Studies indicate that low levels of financial knowledge contribute to poor borrowing decisions, inadequate financial planning, and difficulties in managing debt (Anong, et al., 2021; Karakurum-Ozdemir, et al., 2019). In Zambia, financial literacy remains relatively low, particularly among civil servants, which increases vulnerability to unfavourable loan terms and poor financial outcomes.

Beyond economic implications, personal loans also have significant social and psychological effects. Financial stress associated with debt obligations can negatively affect mental health, job performance, and overall well-being. Research shows that employees experiencing financial difficulties are more likely to suffer from anxiety, reduced productivity, and lower job satisfaction (Kolawole, 2021; Rahim, et al., 2020). These effects may extend beyond individuals to impact organisational efficiency within the public sector. Furthermore, the motivations for borrowing among civil servants are diverse and often necessity-driven. Loans are commonly used to finance education, healthcare, family responsibilities, and unexpected expenses.

In many instances, borrowing is also influenced by social and cultural expectations, which place additional financial pressure on individuals (Kamakia, et al., 2017). Consequently, personal loans have become embedded in the financial coping strategies of civil servants, functioning both as a support mechanism and a potential source of financial vulnerability. Despite the widespread use of personal loans, there remains a significant gap in empirical research on their comprehensive impact on the livelihoods of civil servants in Zambia. Existing studies have largely focused on access to credit and financial inclusion, with limited attention given to the broader economic, social, and psychological consequences of borrowing (Mammadov & Bhandari, 2023). This gap highlights the need for in-depth research that examines not only why civil servants borrow but also how borrowing affects their overall well-being.

This study addresses this gap by investigating the impact of personal loans on the livelihoods of civil servants in Munali Constituency. Specifically, it examines the purposes of loan acquisition, evaluates the effects of loans on financial well-being, and assesses the challenges associated with loan repayment. By adopting a multidimensional approach, the study contributes to a deeper understanding of the complex relationship between credit access and livelihood outcomes. The research further anchored on key theoretical frameworks, including the Financial Capability Framework, Social Exchange Theory, and the Capability Approach. These frameworks provided a comprehensive lens for analysing financial behaviour, borrowing decisions, and the broader implications of debt on individual well-being (Xiao, et al., 2022; Cook, et al., 2013). They emphasise the importance of financial knowledge, social interactions, and individual capabilities in shaping how personal loans influence livelihoods. In conclusion, personal loans play a critical yet complex role in the financial lives of civil servants in Zambia. While they offer opportunities for improving access to resources and enhancing living standards, they also pose significant risks when not properly managed. Understanding this balance is essential for developing policies and interventions that promote responsible borrowing, strengthen financial literacy, and enhance sustainable financial well-being among civil servants.

2. Research Methodology

2.1 Research Design

This study adopted a quantitative cross-sectional survey design to examine the impact of personal loans on the livelihoods of civil servants in Munali Constituency, Lusaka. The cross-sectional approach enabled the collection of data at a single point in time, making it suitable for analysing financial behaviour, borrowing patterns, and livelihood outcomes without requiring longitudinal follow-up (Wilmarth, 2021; Hossan, et al., 2023). The quantitative method was selected to allow for objective measurement and statistical analysis of relationships between variables such as loan acquisition, financial well-being, and repayment challenges. This approach also facilitated the application of analytical tools such as regression analysis and the Relative Importance Index (RII), enhancing the robustness of findings (Xiao, et al., 2022). Additionally, the study employed a multistage non-probability sampling strategy, which was appropriate given the structured nature of the civil service and the need to focus on specific occupational groups with high exposure to personal loans. This design ensured that the study effectively captured the realities of civil servants within the Zambian context.

2.2 Study Population

The study population comprised civil servants working within Munali Constituency in Lusaka District. Munali is a diverse urban constituency consisting of six wards: Chainda, Kalingalinga, Munali, Chakunkula, Kalikiliki, and Mtendere. The constituency includes key public service institutions such as schools, health facilities, and police posts, making it a suitable representation of Zambia's civil service workforce. The target population specifically included employees from three major public sector groups: teachers, healthcare workers (nurses), and police officers. These groups were selected because they represent a significant proportion of formally employed civil servants and are among the primary beneficiaries of payroll-based lending systems (Chituta, 2024; Mbuzi, 2024).

2.3 Sampling Design and Sample Size

The study utilised a multistage sampling technique, combining purposive and simple random sampling methods. In the first stage, purposive sampling was used to identify relevant occupational groups-

(teachers, nurses, and police officers) based on their exposure to personal loans and relevance to the study objectives (Nnaeme, 2020; Hossan, et al., 2023). In the second stage, respondents within these groups were selected using simple random sampling to ensure fairness and reduce selection bias. This approach improved the representativeness of the sample and allowed generalisation of findings within the study context. A sample size of 220 respondents was determined through the application of the simplified version of the Cochran's formula for finding the sample size. Cochran's formula is used in survey research to determine the minimum sample size, which can be used to achieve the desired level of confidence with the desired margin of error. The simplified version of the formula was applied as follows;

$$n_0 = \frac{Z^2 \cdot p \cdot (1 - p)}{E^2}$$

Where:

- n_0 = the sample size
- Z = Z-value (for 95% confidence level, $Z = 1.96$)
- p = estimated proportion of the population (assumed to be 0.5 for maximum variability)
- E = margin of error (set at 5% or 0.05)

2.4 Data Collection Methods

The study relied primarily on primary data, which was collected using structured questionnaires. The questionnaire was designed to capture key aspects of the study, including:

- Demographic characteristics of respondents
- Loan acquisition patterns and purposes
- Financial well-being indicators
- Loan repayment challenges
- Emotional and behavioural responses to debt

Structured questionnaires were preferred because they enable uniform data collection, facilitate quantitative analysis, and improve reliability across respondents. This approach is widely used in financial and livelihood studies due to its efficiency in collecting large volumes of data (Hossan, et al., 2023).

2.4.1 Data Quality Control

To ensure data quality, cross-checking procedures were implemented during data collection. This included verifying responses for completeness and consistency, thereby reducing errors and improving the reliability of the dataset.

2.5 Data Analysis and Presentation

Data analysis was conducted using statistical techniques to examine the relationship between personal loans and livelihood outcomes. The study employed;

- Descriptive statistics to summarise demographic data and loan usage patterns
- Relative Importance Index (RII) to rank the significance of loan purposes and challenges
- Regression analysis to determine the effect of personal loans on financial well-being

The use of regression analysis enabled the study to establish the strength and direction of relationships between variables, while RII provided a systematic way of prioritising factors influencing borrowing behaviour and loan outcomes. Findings were presented using tables, charts, and statistical summaries, ensuring clarity and ease of interpretation. This approach enhanced the analytical depth of the study and supported evidence-based conclusions.

2.6 Ethical Considerations

Ethical considerations were observed throughout the research process to ensure the integrity of the study and the protection of participants. Participation was voluntary, and respondents were informed of the purpose of the study before data collection. Confidentiality and anonymity were maintained by ensuring that no personal identifiers were linked to responses. Additionally, ethical clearance was obtained, and the study adhered to academic research standards as required by the University of Zambia. These measures ensured that the research was conducted responsibly and in accordance with established ethical guidelines.

3. Results and Discussions

3.1 Demographic Characteristics of Respondents

The study uses a sample of 220 Lusaka District civil servants, analysing gender, age, ministry, and years of service to provide a comprehensive socio-economic profile of loan beneficiaries and better understand personal loan trends and motivations.

3.1.1 Gender Distribution

Gender Distribution of Respondents

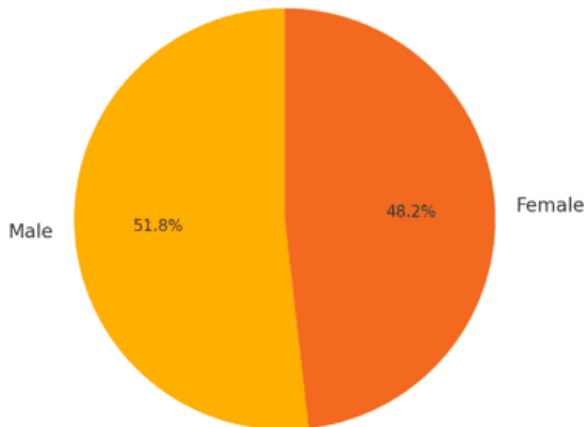


Figure 1: Gender Distribution

Male respondents slightly outnumbered females, but the distribution is largely balanced, indicating that personal loan usage among Lusaka civil servants is gender-neutral. Both men and women access loans due to shared financial pressures and institutional conditions. These findings align with Chituta (2024) and Mbuji (2024) who observed no gender difference in public worker microfinance use. Lu, et al. (2023) highlighted potential structural barriers for women accessing formal loans, especially in patriarchal environments while Hossain & Wadood (2020) found women may demonstrate stronger repayment behaviour.

3.1.2 Age Distribution

36.82% and 33.64% were 26–35 and 36–45 respectively. 20.91% were 46–55, 6.82% 18–25, and 1.82% 56+.

Age Distribution of Respondents

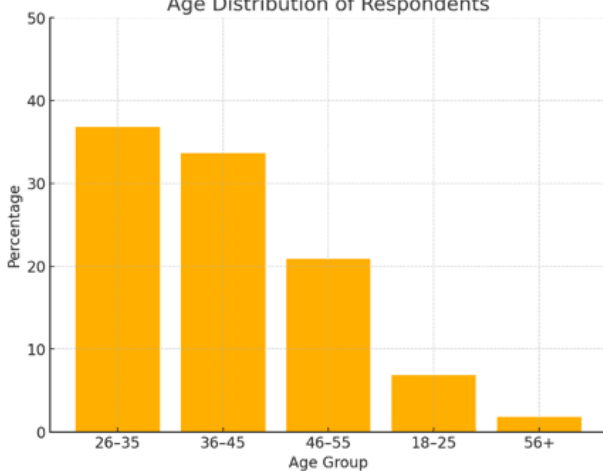


Figure 2: Age Distribution

Mid-career civil servants (ages 26–45) are the most

active borrowers, driven by family responsibilities, education costs, and asset-building needs, supported by stable incomes and better credit access. Loan uptake declines among older individuals (56+), likely due to retirement concerns and risk aversion, while younger individuals face limited access due to low creditworthiness. These findings align with Mbuji's (2024) and Lu, et al. (2023) while Ahmadpour, et al. (2020) and Buszko, et al. (2019) explain lower borrowing among older and younger groups, respectively.

3.1.3 Ministry of Employment

Most respondents came from the Ministry of Education (50%), followed by Health (30%) and Home Affairs (20%). Higher borrowing among Education staff reflects their larger workforce and wage pressures, while Health workers also show notable borrowing due to post-COVID financial strain. Home Affairs employees exhibit moderate borrowing, possibly due to smaller staff numbers and better alternative financing options.

Ministry of Employment-Distribution of Respondents

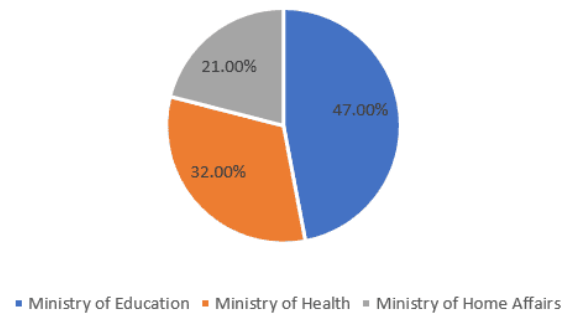


Figure 3: Ministry of Employment

Borrowing in Lusaka’s civil service is concentrated among Education and Health workers, reflecting financial strain linked to stagnant wages. Chituta (2024) highlights loan use among teachers for income-generating and education expenses, while Mhlanga & Ndhlovu (2020) report similar patterns among health workers during and after COVID-19. James (2021) attributes this trend to shrinking wages and limited fiscal reforms, confirming a broader structural borrowing pattern among key service delivery sectors.

3.1.4 Years of Service

The bulk of civil servants had 6–15 years of employment.

30.91% served 11–15 years, 27.73% 6–10 years, and 20.91% 1–5 years. 9.09% had worked 16–20 years, while 11.36% had worked above 20.

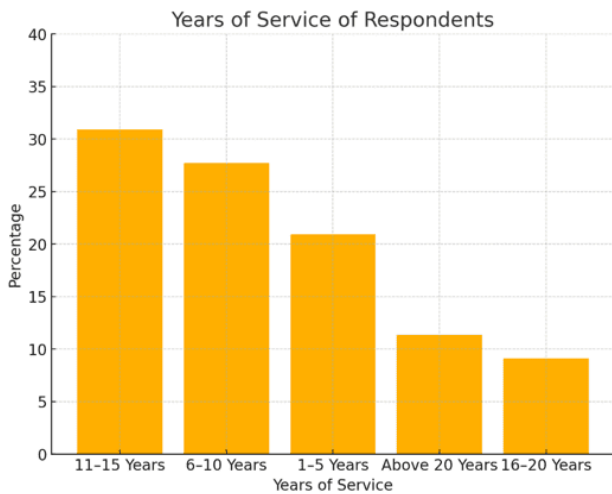


Figure 4: Years of service

Mid-level civil servants (6–15 years of service) are the most likely to borrow, driven by job stability, improved credit access, and increasing financial responsibilities. In contrast, those with over 20 years of service borrow less due to retirement considerations and reduced appetite for long-term debt, while early-career employees face limited access because of lower creditworthiness and financial experience.

Mbuzi (2024) showed that lenders favour mid-tenure civil servants due to their stable income and employment security. Similarly, Habib, et al. (2023) noted that years of service improve access to formal finance and support livelihood diversification. In contrast, Hossain & Wadood (2020) found that newer employees rely more on informal lending due to institutional barriers, while Sahu, et al. (2024), observed that more experienced workers tend to depend on accumulated assets rather than loans. Overall, this suggests that mid-tenure civil servants in Zambia are both the most financially pressured and the most attractive to lenders.

3.2 Purposes for Which Civil Servants Acquired Personal Loans

3.2.1 Distribution of Loan Types

Educational loans are the most common (32.27%) among the 220 civil servants, indicating a strong focus on human capital development such as education and training.

This is followed by business/investment loans (30.00%), reflecting entrepreneurial ambitions, and consumption loans (25.00%), which address immediate household needs. Other loans account for 12.73%. Overall, the pattern shows that civil servants balance long-term investment in skills and income generation with short-term financial demands.

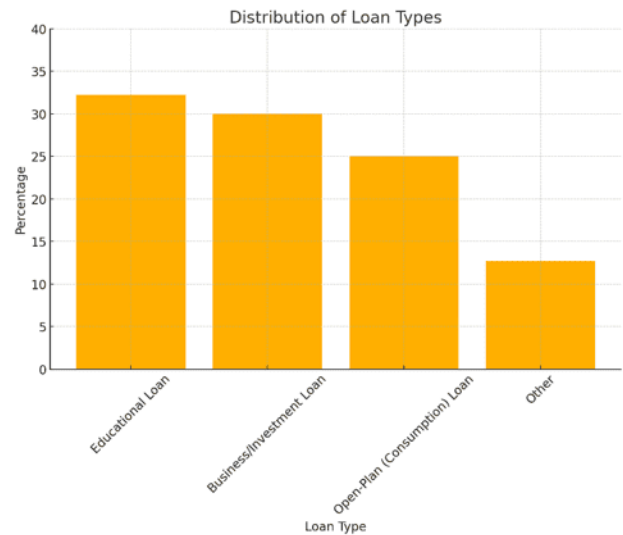


Figure 5: Distribution of Loan Types

Civil servants primarily borrow for education, reinforcing their focus on professional advancement (Chituta, 2024). Business and investment loans also feature prominently, supporting income diversification goals (Mbuzi, 2024). Despite dropping, 25% of borrowings are consumption loans, indicating household spending pressures (Hossain & Wadood, 2020). According to Lu, et al. (2023), livelihood capital investments promote public service credit uptake and commercial loan share. Habib, et al. (2023) claimed formal borrowers underreport consumption borrowing. The consumer loan quantity in this study reflects urban microfinance studies in Dhaka, suggesting that even salaried workers use credit for daily costs (Hossain & Wadood, 2020). These comparisons reveal civil servants borrow for career advancement and income diversification.

3.2.2 Purposes of Personal Loans

Personal loans are most often used for business and investment (38.18%), bills and consumption (27.73%), education (22.27%), and miscellaneous (11.82%).

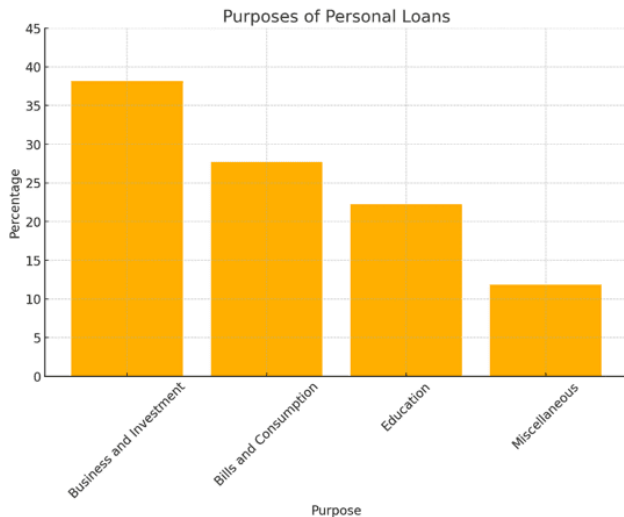


Figure 6: Purposes of Personal Loans

Over 25% of loans are used for bills and consumption, indicating household budget constraints, while miscellaneous borrowing reflects urgent financial needs. At the same time, a larger share (38.18%) supports investment purposes, aligning with findings by Mbuzi (2024) and Chituta (2024). This study and Habib et al. (2023) recommended undertaking credit driven economic activities for livelihood diversification. In contrast, Sahu et al. (2024) found lower consumption borrowing in different sectors, while Hossain & Wadood (2020) observed consumer borrowing being higher than investment in low-income urban areas and not in civil service sample studied. The findings of this study suggest that civil servants balance investment-driven borrowing with consumption needs, though investment remains more dominant.

3.2.3 Statistical Summary of Loan Purpose Responses

The analysis shows that borrowing is mainly investment-oriented (mean = 0.61, Agree), while borrowing for bills is less emphasized (mean = 0.38, Strongly Disagree). A Cronbach’s Alpha of 0.82 confirms strong internal consistency, indicating the measures reliably capture borrowing motives across respondents.

Table 1: Statistical summary of loan purpose responses

Item	Mean	Cronbach’s Alpha
Business & Investment	0.61	0.82
Bills	0.38	0.82

Civil servants predominantly favour investment-driven borrowing (mean = 0.61, Agree), while rejecting borrowing for bills or consumption (mean = 0.38, Strongly Disagree). The scale is reliable (Cronbach’s Alpha = 0.82), confirming strong internal consistency. These findings align with Chituta (2024) and Mbuzi (2024). However, Hossain & Wadood (2020) observed higher mean values for consumption-focused loans in slums, a demographic and contextual difference. Dichotomous metrics may understate complicated consumption motives, which may explain reduced bills, according to Habib et al. (2023).

3.2.4 Frequency of Loan Acquisition

Most respondents (43.18%) took 1–2 loans, indicating moderate borrowing, while a substantial share (39.09%) took 3–4 loans, and 17.73% had 5 or more loans. This pattern suggests that while many rely on limited borrowing, a significant minority engages in repeated borrowing, pointing to possible refinancing cycles or persistent financial shortfalls.

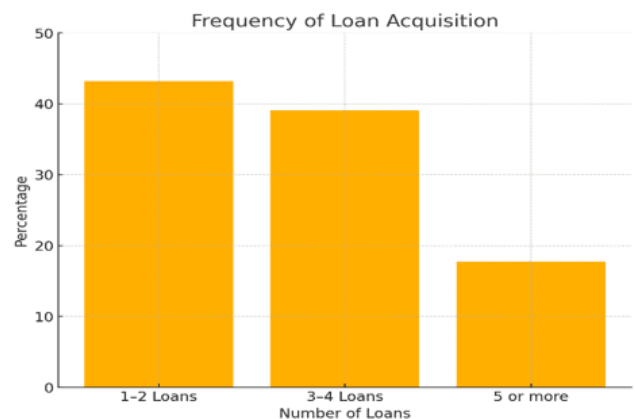


Figure 7: Frequency of Loan Acquisition

About 57% of respondents had taken more than two loans, indicating repeated borrowing and possible credit dependency or debt stacking. This may reflect refinancing of existing loans or phased funding for major needs like education and business development. The notable share with 5+ loans highlights growing debt exposure among civil servants. These findings align with James (2021), who links repeated borrowing to stagnant incomes, and Mbuzi (2024) reported similar multi-loan behaviour. Chituta (2024) related recurrent borrowing to educational strategic refinancing, supporting the findings. However, Lu, et al. (2023) warned that high loan frequency increases financial vulnerability.

The borrowing frequencies among salaried public sector populations imply credit dependency and refinancing.

Table 2: RII ranking of loan purposes

Purpose of Loan	Mean Score	RII	Rank
Business & Investment	3.82	0.764	1
Bills & Consumption	3.11	0.622	2
Education	2.89	0.578	3
Miscellaneous	2.27	0.454	4

Scale: Five-point Likert scale (1 = least important, 5 = most important).

The Relative Importance Index (RII) shows that business and investment borrowing is the top priority (RII = 0.764), highlighting civil servants’ focus on income diversification and long-term financial security. Bills and consumption rank second (0.622), indicating reliance on credit to manage liquidity pressures, consistent with findings by James (2021). Educational loans (0.578) remain important for professional advancement, though less prioritized than entrepreneurial activities (Chituta, 2024). Miscellaneous borrowing ranks lowest (0.454), suggesting limited use for emergencies. Overall, the findings align with Mbuli, showing that civil servants balance investment-driven borrowing with consumption needs, shaping their long-term financial sustainability.

3.3 Impact of Acquired Personal Loans on the Livelihoods of Civil Servants

3.3.1 Financial Status Before and After Acquiring Loans

A significant share of respondents moved into better categories, with 15.91% improving to very good and 18.64% improving to good. However, a smaller proportion experienced declines (e.g., 2.73% in very good and 4.55% in good), while some saw no change. Among those previously in poor conditions, more respondents improved (8.18%) than worsened (10.00%), though vulnerability remains evident.

Table 3: Financial status before vs after loan

Before \ After	Improved	Declined (Worse off)	No Change
Very Good	15.91%	2.73%	1.36%
Good	18.64%	4.55%	5.00%
Poor	8.18%	10.00%	1.36%

The findings reinforce that initial financial position strongly shapes loan outcomes. These findings support Chituta (2024), who showed that borrowing

tends to benefit financially stable civil servants more than vulnerable ones. Similarly, Lu et al. (2023) argued that pre-loan livelihood capital determines post-loan success. Habib, et al. (2023) further noted that asset-poor borrowers may misallocate funds, increasing vulnerability. Although Hossain & Wadood (2020) suggest that microfinance can support poorer households, this study finds limited evidence of such benefits.

3.3.2 Changes in Financial Well-being Indicators

The results show a clear improvement in financial capacity after taking loans. Mean scores increased for savings comfort (from 2.12 to 2.84, +0.72), investment capability (from 1.85 to 2.67, +0.82), and education affordability (from 2.44 to 3.05, +0.61). Post-loan responses shifted to “Neutral” for savings comfort and “Agree” for both investment capability and education affordability, indicating generally positive outcomes.

Table 4: Change in Financial Well-being Indicators

Indicator	Mean Before	Mean After	Mean Diff	Mode After
Savings Comfort	2.12	2.84	+0.72	Neutral
Investment Capacity	1.85	2.67	+0.82	Agree
Education Affordability	2.44	3.05	+0.61	Agree

The Mann–Whitney U test results indicate that the observed improvements are statistically significant ($p < 0.05$), confirming that personal loans had a meaningful positive effect on savings comfort, investment capacity, and education affordability. These findings are supported by Mbuli (2024), who observed increased savings and investment among civil servants after loan repayment. However, Sahu et al. (2024) cautioned that repayment pressures may undermine long-term financial sustainability despite improved investment capacity. Similarly, Nnaeme et al. (2020) argued that perceived improvements in affordability may be subjective and not necessarily reflect durable economic resilience.

3.3.3 Internal Reliability of Financial Indicators

The study confirms strong reliability in measuring post-loan livelihood outcomes. With a Cronbach’s Alpha of 0.84, exceeding the 0.80 threshold, the indicators (savings comfort, investment capability, and education affordability) demonstrate high internal consistency.

Table 5: Cronbach's alpha of financial livelihood scales

Scale Items	Cronbach's Alpha
Savings, Investment, and Education Affordability (Post)	0.84

The reliability score ($\alpha = 0.84$) confirms strong internal consistency, aligning with Lu et al. (2023) and Habib et al. (2023). While James (2021) cautioned that reliability may mask overlook qualitative nuances and unobserved factors influencing livelihood changes. The results still indicate a valid and dependable measure of post-loan livelihood outcomes.

3.3.4 Perceived Effect on Net Salary

Loan deductions generally reduce disposable income and increase financial strain, though a small proportion of civil servants still manage to save or meet household needs.

Table 6: Perceived effect on net salary

Effect	Percentage
Life is very difficult after deductions	8.18%
Still able to save	7.27%
Home management is very difficult	7.27%
Net salary inadequate	6.82%
Salary still sustains the household	6.36%

The results show that while personal loans help civil servants meet immediate financial needs, they significantly reduce disposable income due to rigid repayment terms. Many respondents reported financial strain, with only a few still able to save, indicating increased vulnerability, especially for those borrowing for essential expenses. These findings align with Chituta (2024), Mhlanga & Ndhlovu (2020), and Hoque, et al. (2021) all of whom highlight how loan repayments strain household finances. Hossain et al. (2020) further note that while loans may build assets, they often reduce liquidity.

Table 7: Implication Matrix of Loan Impacts

Impact Area	Indicator / Evidence	Direction	Implication
Financial Status	15.91% of "very good" improved; 10% of "poor" worsened	Mixed	Loans help stable earners but worsen vulnerable groups
Savings Comfort	Mean ↑ from 2.12 to 2.84 (+0.72)	Positive	Moderate improvement in ability to save
Investment Capacity	Mean ↑ from 1.85 to 2.67 (+0.82)	Positive	Strongest gain, indicating loans fuel asset growth
Education Affordability	Mean ↑ from 2.44 to 3.05 (+0.61)	Positive	Increased access to training and education
Net Salary Effect	8.18% "life very difficult"; 7.27% "still able to save"	Negative	Rigid deductions strain household income

Personal loans show a dual impact on civil servants' livelihoods. On the positive side, they improve investment capacity (+0.82), education affordability (+0.61), and moderately enhance savings comfort (+0.72), supporting income growth and professional development, as noted by Lu et al. (2023). However, outcomes are uneven. While some individuals in strong financial positions improve, others in weaker positions worsen, consistent with Habib et al. (2023). Loan deductions also strain net salaries, reinforcing findings by Chituta (2024) and James (2021).

Table 8: Regression Analysis of Loan Impacts on Livelihood Index

Variable	Co-efficient	Std. Error	t-Statistic	p-Value	Interpretation
Constant	1.2653	0.066	19.05	0.003	Baseline livelihood effect independent of loans
Loan Outcome (Predictors)	0.5576	0.026	21.05	0.002	Strong positive effect of loan-related outcomes

Model Fit:

- **R² = 0.996** (model explains ~99.6% of variance in livelihood index).
- **F-statistic = 443.1, p = 0.002** (highly significant).

The regression results show that loan-related outcomes strongly improve livelihoods, with a positive coefficient of 0.5576, indicating that gains in savings, investment capacity, and education affordability significantly enhance well-being. The very high R² (0.996) suggests the model explains nearly all variation in livelihood outcomes. This supports Mbuzi (2024), confirming that personal loans both enable and constrain livelihoods.

3.4 Civil Servants’ Challenges in Managing the Acquired Personal Loans

3.4.1 Mode of Loan Repayment

Loan repayment is dominated by automatic payroll deductions (72.73%), with fewer using manual repayment (15.45%) or a mixed approach (11.82%). Automatic deductions enhance lender security and reduce default risk, as noted by Chituta (2024) and Mbuzi (2024), but they also limit borrowers’ financial flexibility. Manual repayment offers more control but exposes borrowers to cash flow challenges, consistent with Habib, et al. (2023). Mixed methods reflect a balance between institutional convenience and personal budgeting(Lu, et al., 2023). Overall, the findings reveal a trade-off between repayment security for lenders and financial autonomy for borrowers, reinforcing concerns raised by Hossain & Wadood (2020) and Sahu, et al. (2024).

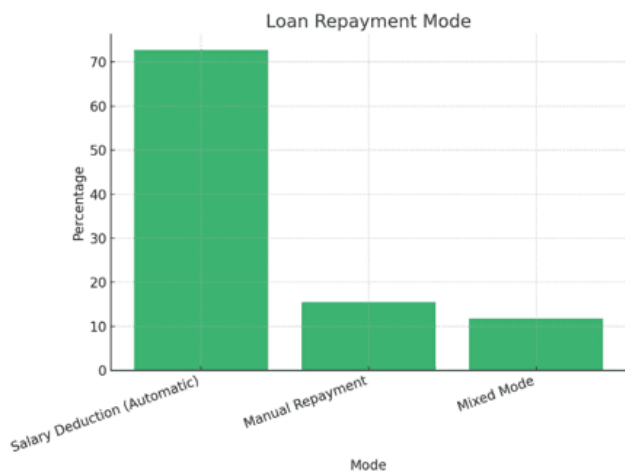


Figure 8: Loan Repayment Mode

3.4.2 Ability to Meet Monthly Financial Obligations

Only 20.91% consistently meet non-loan expenses, while 47.27% do so occasionally and 31.82% struggle, indicating that many civil servants face difficulty balancing loan repayments with everyday costs. This suggests that debt obligations can strain household budgets, supporting findings by Chituta (2024). Those who consistently meet obligations likely benefit from stable incomes and manageable loan terms, as noted by Mbuzi (2024), while struggling borrowers may face over-indebtedness or poor loan-to-income ratios, as highlighted by Habib, et al. (2023). Lu, et al. (2023) emphasize that savings buffers improve repayment capacity,

whereas Hossain & Wadood (2020) note that borrowers often cut essential spending to service debt.

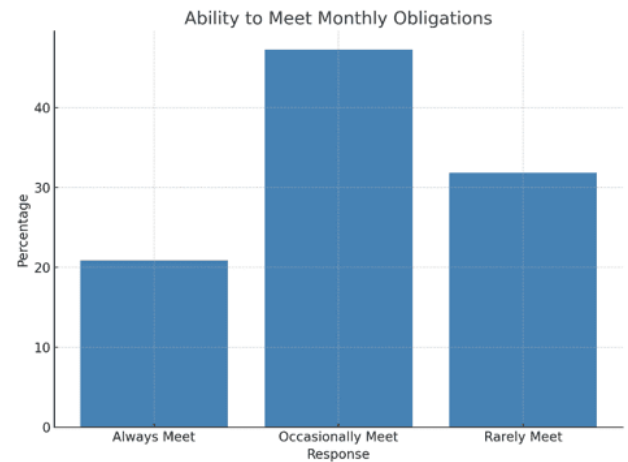


Figure 9: Ability to Meet Monthly Obligations

3.4.3 Emotional and Practical Reactions to Loan Deductions

Responses to loan deductions are mixed: 27.73% feel anger, 36.36% are indifferent, and 35.91% accept them pragmatically. Feelings of resentment align with James (2021), while indifference may reflect normalization of deductions in public service, as noted by Mbuzi (2024). Acceptance by some borrowers supports Chituta (2024), suggesting deductions are seen as necessary for maintaining creditworthiness. Habib, et al. (2023) and Lu, et al. (2023) highlight that financial literacy and perceptions of well-being shape these reactions.



Figure 10: Reaction to Loan Deductions

Many respondents accept or feel neutral about deductions, but underlying negative emotions persist, suggesting that borrowers prioritize access to credit over emotional well-being.

The literature shows that negative emotions around debt can harm well-being and performance, as noted by James (2021) and Hossain & Wadood (2020). However, Sahu, et al. (2024) find that training can improve acceptance, while Habib, et al. (2023) highlight the role of emotions in long-term repayment sustainability.

3.4.4 Achievement of Loan Purpose

About 66.82% of respondents achieved their loan goals, while 33.18% did not, indicating generally positive but uneven outcomes. Success is linked to proper loan sizing and alignment with borrower needs, as noted by Chituta (2024), and is associated with higher satisfaction and lower default risk Lu, et al. (2023). Failures are often due to mismatched loan terms or external shocks, as highlighted by Mbuzi (2024). Habib, et al. (2023), and Hossain & Wadood (2020) emphasize that diversification and social capital improve success rates.

Table 9: Achievement of the loan purpose

Achieved	Percentage
Yes	66.82%
No	33.18%

3.4.5 Internal Reliability of Loan Management Challenges

The reliability test (Cronbach’s Alpha = 0.85) confirms strong internal consistency among loan management challenge indicators, validating them as a single construct. This supports robust analysis, consistent with Lu, et al. (2023) and Habib et al. (2023) while Hasan, et al. (2025) report similar high reliability levels. However, James (2021) cautions that statistical consistency may overlook contextual realities.

Table 10: Cronbach's Alpha for loan management challenges

Scale (Obligations, Deductions, Achievement)	Cronbach’s Alpha
Combined Indicators	0.85

Table 12: RII ranking of loan challenges

Challenge	Mean Score	RII	Rank
Automatic Salary Deductions	3.64	0.728	1
Inability to Meet Obligations	3.42	0.684	2
Emotional Stress at Deductions	3.27	0.654	3
Unmet Loan Purpose	2.89	0.578	4

Scale: Five-point Likert scale (1 = strongly disagree; 5 = strongly agree).

The RII results show that automatic salary deductions (0.728) are the most significant challenge, due to their rigidity and impact on liquidity (Chituta, 2024). This is followed by difficulty meeting obligations (0.684), reflecting financial strain under fixed repayment schedules (Mbuzi, 2024), and emotional stress (0.654), highlighting the psychological burden of debt (James, 2021). Unmet loan purposes (0.578) rank lowest but still indicate issues in loan design or use (Habib, et al., 2023). Overall, the findings show that repayment structures and financial capacity constraints outweigh project-level challenges.

4. Conclusions

The findings show that repayment-related challenges are the most significant constraints on civil servants’ livelihoods, with automatic salary deductions and difficulty meeting obligations placing the greatest strain, followed by emotional stress and, to a lesser extent, unmet loan purposes. These results highlight that while loans can support financial goals, rigid repayment structures and limited disposable income create both financial and psychological pressure. Overall, the study confirms that repayment terms and borrower capacity play a more critical role than loan purpose in determining livelihood outcomes, reinforcing the dual effect of loans as both enabling and constraining.

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