

**INDIGENOUS USURY SYSTEM AND INFORMAL MICROFINANCE IN IBADAN,
NIGERIA**

BY

Bernard Olusegun ADENIYAN

B.Sc. (Ibadan), M. Sc (Lagos), MBA (Ife)

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CERTIFICATION

I certify that this work was carried out by BERNARD OLUSEGUN ADENIYAN in the Department of Sociology, Faculty of the Social Sciences, University of Ibadan, Ibadan, Nigeria.

SUPERVISOR

A.O Omobowale
B. Sc, M.Sc, Ph.D (Ibadan)
Senior Lecturer, Department of Sociology
Faculty of the Social Sciences
University of Ibadan, Nigeria

DEDICATION

This work is dedicated to my irreplaceable father, Mr Michael Adefunmi Adeniyani (Papa Mike), my wonderful mother Mrs Bolanle Adeniyani (Mama), my lovely and dependable wife, Olubukola Ebunoluwa Adeniyani, our two beautiful daughters; Oluwademilade and Oluwafeyiyemi and to the memory of my late sister, Mary Adeyinka Osatuyi (nee Adeniyani); may her gentle soul and the souls of all the faithful departed through the mercy of God rest in peace (Amen).

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ABSTRACT

Informal microfinance is one of the veritable sources of venture finance in developing countries. While informal microfinance such as rotating savings and credit associations, and cooperative associations have received significant scholarly attention, limited research has been conducted on the features that sustain Indigenous Usury System (IUS) in Nigeria. The IUS provides informal credit to small scale businesses and low income earners at prohibitively high interest rates that have attracted negative and exploitative perceptions of the system. The study, therefore, examined the features (relevance, accessibility, usage, network, repayment schedule and sanctions) that have sustained contemporary IUS in Ibadan, Nigeria.

Rational choice theory guided the study while exploratory research design was adopted. Ibadan city was selected as the study area because of the preponderance of IUS. The study population was indigenous usury lenders and lendees. Usury lenders were identified through snowballing. Five Key Informant Interviews (KIIs), 10 In-depth Interviews (IDIs) and two case studies were conducted with usury lenders. Usury lendees were categorised into trader-lendees and formal worker lendees. The trader-lendees were purposively identified from three most popular modern markets in Ibadan - Gbagi, Bodija and Agbeni. Formal worker-lendees comprised formal sector workers (civil servants, teachers and bank workers). Twenty and 30 IDIs were conducted with formal sector lendees and trader-lendees respectively. Five KIIs and two case studies were carried out with trader-lendees. Eight Focus Group Discussions comprising four sessions each for traders-lendees and formal worker-lendees were also conducted. Data were content analysed.

The relevance of IUS in contemporary informal microfinance was predicated on the subjective, but contextual rational interpretation of the system as benevolence (*aanu*). The IUS readily met the financial needs of lendees, which they considered inaccessible in formal finance institutions. Contextual negative impressions of potential default and possible coercive sanctions by lenders inadvertently sustained the IUS. Access to IUS fund was dependent on referral from a trusted guarantor (trader-lendee), reputation of a lendees' organisation (formal sector workers) and good credit history. Usury lenders financed both economic (trading and contract finance) and social (burial ceremonies, children education, health and international migration expenses) ventures. Financing depended on the rational evaluation of the venture vis-à-vis the likelihood of loan repayment. Lenders assisted trader-lendees through business advice, customer reference and patronage. Repayment interest rates ranging from 5.0% to 10.0% were charged on the monthly principal balance outstanding, thus resulting in an exploitative aggregate annual interest rate of 60.0% and 120.0% respectively. Repayment default attracted sanctions such as police arrest, incarceration, property seizure, blacklisting, social stigmatisation and physical assault. Despite associated high interest rates and punitive coercion, lendees tended to place more premium on the timeliness and availability of the loan when needed.

Informal usury system remained a major source of finance for lendees despite its exploitative nature due to its accessibility which gives it an interpretation of contextualised magnanimity.

Keywords: Indigenous usury system, Lender-lendee, Venture finance, Informal microfinance

Word Count: 478

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Informal microfinance has been used as a tool for poverty alleviation and development in many countries of the world (Karlan and Zinman, 2008; Drolet, 2010; Panda, 2009; Adekunle, 2011). This stems from the fact that formal financial institutions have not been able to provide microcredit to the majority of the population, especially the poor who are largely described as informal and ‘unbankable’ (Adams, Brunner and Raymond 2003; Mills, 2007). Microcredit has been described as a method of providing small capital or funds to the poor so that they can improve their income-generating activities or create new ones (Nawaz, 2010). The term ‘microcredit’ has been changed to ‘microfinance’ because of the latter’s wider application to include the provision of financial services to low-income clients or solidarity lending groups. Microfinance also includes providing funds for consumers and the self-employed, who traditionally lack access to formal or modern banking and other related financial services. In other words microfinance includes not just microcredit, but other financial services such as savings, insurance, fund transfer, consumer finance, housing finance, among others (Knight, Hossain and Rees, 2009).

It is important to state that informal microfinance predates formal microfinance. In fact, formal microfinance is somewhat a re-creation of the informal microfinance system (Abed and Martin, 2007; Schaaf, 2010), particularly in terms of its goals and objectives. Despite the fact that formal microfinance has been popularised by the World Bank and other neo-liberal financial institutions as “palliatives” to the poor, informal microfinance remains an easy source of credit to the informal sector, particularly the low income earners and traders (Dalgic, 2007). This study focuses on indigenous usury system as a form of informal microfinance. Various informal microfinance systems have been identified and they include Rotating Savings and Credit Associations (also known as ROSCA or *esusu* among the Yoruba), mobile banking (or *ajo*)¹, pawnshop (also known in Yoruba as *iwofa*), usufruct loan²

¹ Adebayo (1994) made a clear distinction between *ajo* and *esusu* to the effect that while under the *ajo* institution, an individual enters into an agreement with a savings collector, paid a fixed sum of money at regular intervals (daily, weekly, fortnightly, monthly, or, simply, "every market day") to this collector, and drew all his contribution at the end of an agreed period or anytime it was needed. In the case of *esusu* a group of individuals

and indigenous usury system among others (Shibli, 1993; Soyibo, 1997; Atieno, 2001). It is important to note that while pawnship and usufruct systems of credit may have gone into extinction, rotating savings and credit associations (known as *esusu* in Yoruba) and indigenous usury system have persisted in different societies, particularly in the less developed countries of the world. A rotating savings and credit association may be described as a savings mobilisation mechanism, as well as, a system of lending at a zero percent interest rate, while the indigenous usury system of credit is an interest-based form of informal microfinance (Adebayo1992, 1994).

While *ajo or esusu* has been widely studied (see for example Ito, 2003 Anthony, 2005; Annisette, 2006; Gugerty and Kremer, 2008; Omobowale, 2011; Norwood, 2011), little attention has been paid to the indigenous usury system (*olowoole*), in spite of its continued existence in contemporary Yoruba society. For instance, Soyibo (1996; 1997) identified indigenous usury system (Moneylenders) as one of the six informal financial institutions found in urban Nigria. Hitherto, the *olowoole* system of finance has been studied by Adebayo (1992) and Falola (1993) but it must be noted that these scholarly works were archival in nature as they investigated the system as practiced in the colonial Yorubaland. Hence, this study therefore investigates the activities and operations of indigenous usury system. This is the central focus of this research work.

At this point, it is imperative that the term ‘usury’ be properly situated. Valeri (2011) identified two meanings of usury. The first refers to an exorbitant amount or rate of interest, especially in excess of the legally acceptable rate. In other words, it is the practice of lending at an exorbitant rate of interest. The second definition views usury as the act or practice of

enters into a saving (implicitly a credit) arrangement whereby a fixed sum agreed upon is given by each at a fixed time (usually every week) and place, under a president; the total amount is paid to each member in rotation. The main attraction of *ajo* system therefore, is the element of promptness, i.e., the contributor could draw his/her money at short notice, unlike in the *esusu* where he/she had to wait his/her turn before money can be collected

² According to Shibli (1993), usufruct loan is a system where the borrower transfers a parcel of land to the lender as security for the loan. The lender has the authority to cultivate or lease out the land until the loan is fully repaid. For this type of credit system, the proceeds from the use of the land constitute the interest. Falola (1993) stated that this traditional system of credit also existed among the Yoruba, particularly in the pre-colonial era.

lending money at a particular interest rate. In other words, usury is interest paid on borrowed funds or money. According to Meeks (2011), usury involves an ever-changing array of exchange techniques which include taking any interest on a loan, making provisions for the payment of fees or late payment penalties, making commercial deals that, in effect, guarantee a profit to the lender and manipulating exchange rates for payment in foreign currency. In essence, usury can be described as a term used for financial transactions that involve the payment of interest, which was an unpopular practice particularly in medieval Europe. This is understandable, considering the fact that the concept was condemned in Christian medieval Europe with highly religious moral ethic that discouraged high interest rate (Mews and Abraham, 2006). The medieval description of usury lending based on the relatively expensive interest rate still constitutes a significant narrative of the system in contemporary informal microfinance. Jone (2008) however noted that moneylenders have also been defined by their willingness and ability to finance routine health and social expenditures in a speedy and un-bureaucratic manner, and with flexible repayment procedures.

The question of what sustains informal lending has been extensively researched and one of the identified reasons is that informal lenders tend to rely more on social collateral and trust than physical collateral or security (Dalgic, 2007). This is possible because informal microfinance systems operate in an environment that provides perfect or near perfect information about the borrower. Consequently, the risk of lending in a traditional or informal microfinance system, such as it is obtainable in indigenous usury system of credit, may be reduced when compared to formal financial institution because all necessary information can be obtained from the community where both the lender and lendee often resides. Furthermore, Bhattachargee, Rajeev and Vani (2009) opined that information availability (otherwise known as information asymmetry) is one of the key factors that differentiate the operations of informal financial institutions when compared to formal financial institutions. Information asymmetry makes the formal credit system to be costly, thereby leading to the issues of moral hazard and adverse selection.

The inability of the lender in a formal or modern financial institution to accurately determine the credit behavioural dispositions of a would-be borrower constitute a default risk which leads to the rationing of credit within such system. This invariably means that lenders will have to invest more in screening and monitoring of borrowers and all these expenses have implications for the rate of interest charged. It has been stated that an inadequate

understanding of the workings of the informal credit market is a major reason why formal institutions have performed poorly in the informal sector of the economy (Adekunle, 2011). The problem of asymmetry information associated with formal finance has resulted in the creation and persistence of informal microfinance that provides access to needed finance by the poor and traders. This is possible because lending in informal microfinance is predicated on existing social or credit relationship between the lender and the lendee (or source of referral), social cohesion, societal norms and values of credit, trust and mutual dependence (Eboh, 2000). Therefore, most loan repayments are relatively assured because of the existence of social relations and sanctions, peer or guarantor pressure, norms, value systems and personalised relationships.

The indigenous usury system is one of the most popular informal or traditional interest-based lending mechanisms indigenous to the Yoruba and other developing societies in the world. The other forms of interest-based indigenous lending systems are pawnship and usufruct loan. Both credit systems have, however, gone into extinction. Rotating savings and credit associations, also known as *esusu* as noted earlier may be described as a system of savings, as well as, lending mechanism. It is a system whereby individuals constitute themselves into a group for the purpose of savings. The rotation system of collection in ROSCA enables members to access credit at zero interest rate (Annisette, 2006; Sanyal, 2009; Norwood, 2011). Informal microfinance as provided by traditional financial institutions are used for investment and non-investment needs including but not limited to family expenses, household purchases, medical expenses, education and financial shock expenses among others (Sinha, 2005).

One of the basic factors that differentiate the indigenous usury system from other forms of informal microfinance is the monetisation of interest; a practice that is similar to lending in modern banking and other financial institutions. According to Adebayo (1992), the interest rate of indigenous usury lending ranges from a minimum of one hundred per cent to as high as three hundred per cent. This relatively exploitative and oppressive interest rate has defied the logic of rationality in the sense that people have continued to seek finance from indigenous usury lenders despite its negative image and perception. Possible explanations for the perceived exploitative rate of interest include the profit motive and the high risk nature of the *owoel*e credit system (Eboh, Ugama and Okereke, 1991; Falola, 1993). Falola also noted

that most loans were given without tangible collateral and where such collateral exists, the confiscation and sale of such properties especially the immovable ones are difficult to achieve in case of default. In addition, the high cost of loan recovery in cases defaults is another prime reason for the high interest rate in the indigenous usury system. While loan repayments in moneylending is relatively assured, incidence of defaults which may lead to bad loans which affects the capital base of the lenders.

While high interest rates may exist to mitigate instances of loan default, indigenous usury lenders also put certain traditional mechanisms in place to reduce the margin of loss (Adebayo, 1992). One of such mechanisms is the screening of potential borrowers whereby preference is given to borrowers who are known to the lenders, either directly or through other trusted sources. In addition, the lenders also reduce loan default by accepting individuals who are well known within the community and fairly comfortable as sureties or guarantors. This measure is to ensure that in the event of default, such sureties will be able to repay the outstanding balances of the loans on behalf of the borrowers. The indigenous usury lender also engaged in constant monitoring of a borrower's business, personal activities, health status among others. The lender can also serve as an adviser to the borrower by encouraging him/her to repay the debt in instalments as a way of reducing the level of risk in defaulting payment to the borrower (Adebayo, 1992).

The aforementioned features, norms and practices of the indigenous usury system may be historical and archaic even as the popular exploitative image persists. The indigenous usury system can be seen as one of the informal mechanisms devised by people, mostly in developing countries, to fill the credit vacuum created by their lack of access to modern financial institutions (Adams *et al* 2003). It is a system that may provide answers to and help solve the problem of funds needed for both investment and non-investment ventures in the society. However, most of what is known about indigenous usury system is basically historical, as contemporary and documented grounded empirical or real life experiences are rarely available. Hence, there is a gap in terms of contemporary empirical data and facts regarding its activities, operation and dynamics.

1.2 Statement of the problem

It is a fact that most people in the world, particularly in developing countries do not have access to formal financial services (Barman, Mathur and Kalra, 2009). This is because modern banks have not been able to provide financial services, such as loans to people with little or no regular income. Banks and other modern financial institutions incur substantial costs in managing a customer's account or relationship, regardless of the amount of money involved. Such costs include loan processing, loan repayment and security monitoring, loan administration and recovery of delinquent loans, among others. Providing financial services to the poor has, therefore, become a big challenge in contemporary development. The poor who are at the receiving end of inadequate finance usually fall back on other alternatives. It is at this point that informal microfinance becomes the beacon of hope for many individuals especially those in the low income stratum of the society.

Indigenous usury system, also known as *owoele* among the Yoruba is one of the few enduring informal microfinance systems that serve as an alternative source of finance. However, this traditional finance system, which has existed from time immemorial, has been neglected in contemporary research in spite of its popularity and continued existence as a credit system. Unlike the rotating savings and credit association which has received significant research attention, works on indigenous usury system is limited and historical. Therefore, there is the need to carry out contemporary empirical study that would generate primary data on the activities and operations of the *olowo* system of lending within the context of informal micro financing among the Yoruba people of Southwestern Nigeria. The choice of the Yoruba people in Southwestern Nigeria is predicated on the existence of modern and traditional economic institutions or activities within this society. In addition, the prevalence of culturally determined social obligations that require financing equally makes justifies the selection of the Yoruba people of Southwestern Nigeria.

Indigenous usury has continued to exist alongside other forms of lending in spite of the popular exploitative and expensive feature of the system. This contradiction, that is, the negative image of indigenous usury and its continuous existence negates basic human understanding and rational considerations. In other words, the reason why people have continued to engage the financial services of indigenous usury lenders in contemporary

Yoruba society in spite of its exploitative and unattractive image remains largely speculative. Contemporary scholars have not been able to adequately explain the *raison d'être* for the continued existence of this informal microfinance system in modern society.

The social relations of lending in indigenous usury is more intriguing. This is because it is almost unthinkable that rational individuals, specifically the borrowers would enter into social relations that is acclaimed to be exploitative and oppressive. Perhaps, there are other forms of relations that are non-exploitative in this system of lending. Even the few research on indigenous usury system in other societies (see Nadan, 2005; Siyongwama, 2004 Okurut and Bothole, 2009; Mallick, 2012) have not considered this possibility. Social networking is another prominent feature of this system of informal microfinance. There is a knowledge gap regarding the social networking that exists among indigenous usury lenders on one hand and their lendees³ on the other hand that enhances the operations of the usury system, particularly in contemporary Yoruba society. This is crucial because indigenous usury may need social networking, particularly as it relates to the issue of information gathering on clients, clients referees, capital formation and recovery of delinquent loans. One of the historical reasons why individuals may have patronised indigenous usury lenders is their disposition to lend for both consumption and productive ventures (Adebayo, 1992; Falola, 1993). In contemporary times however, there is no clear-cut confirmation of this statement.

Notwithstanding its seemingly exploitative nature, rational individuals have continued to patronise indigenous usury system in contemporary times. Scholarly knowledge of indigenous usury system operations and strategies among the Yoruba people is shrouded in archival/historical works. Previous scholarly works on informal credit systems including indigenous usury lending provided historical perspectives related to pre-colonial and colonial Yoruba societies.

1.3 Research Questions

In an attempt to generate contemporary empirical data and understand the practice of indigenous usury system as an informal microfinance institution, certain research questions are relevant:

³ This is another word for borrowers which the author uses interchangeably in this study

1. Why has the indigenous usury system remained relevant in contemporary informal microfinance?
2. What are the social relations of lending in indigenous usury system?
3. How is networking carried out within the context of contemporary indigenous usury structure?
4. What kinds of ventures do contemporary indigenous usury lenders finance?
5. How are loan repayments structured in contemporary usury lending?
6. What are the punitive consequences of default?

1.4 General Objective

The general objective of this study is to examine contemporary indigenous usury system as an informal microfinance institution.

1.5 Specific Objectives

The specific objectives of the study are to:

1. Examine the relevance of indigenous usury in contemporary informal microfinance.
2. Study the social relations that exist in the indigenous usury system.
3. Investigate networking in indigenous usury structure.
4. Identify the kinds of ventures that indigenous usury lenders finance.
5. Examine the repayment structure of indigenous usury system.
6. Probe the embedded default sanctions.

1.6 Justification of the study

The justification for this study can be viewed from different perspectives. First, the study is justified because it uncovers contemporary practice of indigenous usury system. Indigenous usury has been the subject of few research works and most of these works have come from Asia, particularly India where it is widely acknowledged as a reliable form of informal finance system (Sinha, 2005; Sriram, 2007; Reddy, 2007; Saikia, 2010). Despite the existence indigenous usury lending in contemporary African societies, this informal microfinance system has received limited research attention. The study of the system in

Yoruba society can only be traced to the works of just two scholars, Falola (1993) and Adebayo (1992). However, these works are largely historical, focusing on the system during the pre-colonial and colonial era. Siyongwama (2004) stated that the lack of research on informal moneylenders is surprising, given the fact that the system is widespread among Africans, particularly the ‘marginalised blacks’. This study intends to add to the limited literature on the indigenous usury system, particularly within the context of African societies.

The second and related justification is the contemporary urban setting of Ibadan as the study area. Indigenous usury lenders have mostly been studied from their rural operational base. The few researches conducted on this system have focused on usury lenders within the rural areas where there is considerable homogeneity, traditionally effective social control system, relatively few populations who are predominantly farmers. These features make information flow possible and repayment enforcement achievable for an average usury lender. The lendees are motivated to remain faithful because of the consequences of defaulting. The social control mechanisms within the context of rural settlement are effective. However, the same cannot be said of indigenous usury lending in an urban area where social control is relatively weak and heterogeneity and large population are major features. How usury lenders and lendees interact within this complex social environment has remained relatively unexplored.

Thirdly, this study is justified because it examines indigenous usury, using different research methods. Hitherto, existing literature or research on the activities and features of indigenous usury lenders have been conducted using archival and historical research methods⁴. The earlier mentioned scholars on indigenous usury lending have made use of these research methods because they focused on indigenous usury lending during the pre-colonial and colonial periods of Yoruba history. Falola (1993) also made use of the key informant interview method but on a more limited scale in terms of respondents. Hence, in the area of research methods, this study provides alternative methods through which this system can be studied. The study provides contemporary data on the indigenous usury system in south western part of Nigeria by using qualitative research methods. The methods used in

⁴ The research works by Adebayo (1992; 1994) and Falola (1993) studied indigenous moneylenders using data from pre-colonial and colonial era. Hence, contemporary data on their activities especially among the Yoruba people is virtually not available.

this study include in-depth interview, focus group discussion, key informant interview and case study. These are methods that have either not been used or have limited usage in the previous studies.

As an enduring system of informal lending, indigenous usury system has often been socially described as exploitative. It is viewed as a traditional system that cannot promote development because of its supposed tendency to exploit the borrowers while enriching the lenders. If this was the view during the colonial period, when there were few alternative sources of lending, has this exploitative image stood the test of contemporary society judging by the continued popularity of indigenous usury system? This study is an attempt to challenge the negative perception of this system of credit in the light of contemporary empirical findings. In other words, if the system is not beneficial, why has it continued to exist while other traditional sources of credit such as pawnship and usufruct systems have gone into extinction? This research is an attempt to show the relevance of the *olowoje* system as an informal microfinance institution in spite of its seeming exploitative nature. The study intends to show the development potentials of the indigenous usury system as a major factor in its continuous existence in contemporary Yoruba society.

1.7 Definition of Terms

Indigenous Usury Lender: This refers to a local moneylender who engages in the act of lending money or cash to clients or borrowers for a given period of time and at a specified rate of interest. These lenders do not collect deposit from their clients and neither do they request prior cash deposit from their clients before they advance the credit.

Usury Lendees: These are individuals who patronise or obtain loans from local money lenders or indigenous usury lenders.

Guarantor (*Oniduro*): This is the third party individual who stands as the security for loan obtained from an indigenous usury lender. The security or collateral is a condition precedent to obtaining the credit from the lenders.

Help: This refers to financial intervention which the loan obtained from usury lenders provides. Popularly known as ‘*aanu*’ it typifies the feeling of assistance of usury lenders in contemporary society

Intra-Networking: This refers to the interconnectivity that exists among social actors especially among lendees who must interact to access credit from the usury lenders

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CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 LITERATURE REVIEW

2.1.1 Introduction

The study reviewed works on the various aspects of indigenous usury system as a form of informal microfinance. The review examined indigenous usury system as a dimension of informal microfinance; usurers (moneylenders) as capital provisioners; indigenous usury and the modern economy; usury networks, terms and interest rate and the dominant views of indigenous usury in informal microfinance.

2.1.2 Indigenous usury system as a dimension of informal microfinance

This section examines various studies that have identified indigenous usury system as a dimension or aspect of informal lending. Most developing countries have a dual financial system comprising of the formal and informal financial institutions (Flora and Ray, 1997). The duality of sources of finance has long been a subject of scholarly discourse especially as it relates to credit in developing countries of the world (Boucher and Guirking, 2007). According to Shem and Atieno (2001), formal finance system refers to the various forms of savings and credit flows that are recognised, controlled and legally backed by the laws of a given country or region while savings and credit transactions that flows through unrecognised and uncontrolled systems without legal backing, are referred to as informal financial system. However, Soyibo (1997) expanded the legality argument by stating that informal sources of finance such as moneylending or indigenous usury lenders are not illegal as there are laws in the state backing their existence and activities (see also Falola, 1993; Eja and Bassey, 2001). The major concern is the inability of moneylenders to operate within the provisions of the laws regulating their activities. What is however missing according to Soyibo is the fact that informal financial system cannot be regulated in the same way that formal financial institutions are been regulated. Thus, informal finance consists of those, often unrecorded, activities that take place outside official financial institutions and it is important to note that informal finance activities are legal; they are however not regulated (Soyibo, 1997).

Soyibo (1996) had earlier stated that informal sources of finance can be classified into in-cash and in-kind informal finance even though literature has focused more on in-cash sources of finance. Indigenous usury credit is a form of in-cash informal microfinance. Soyibo thus stated that moneylending is a contract or agreement conducted between or among parties to any transaction where cash is exchanged in the present for promise of another cash exchange in the future. These informal credit sources such as indigenous usury system or moneylending are derived from the grassroots bottom-top demand of the society. Indigenous usury system is an outcome of the traditional realities of the people or communities where such system is found. Eboh (2000) noted that informal money markets in many Nigerian villages were characterised by the existence of private money lenders who engaged in credit relationship with borrowers within and around them. Oloyede (2008) effectively captured this point by stating that informal finance systems such as indigenous usury lending has evolved through the cultural experiences and practices that are tailored to the local needs of the people.

Tsai (2004) noted that informal microfinance can take different forms including loans provided by moneylenders, interpersonal lending by family members and friends, rotating savings and credit associations, pawnshops, indigenous or mobile bankers (also known as *alajo* among the Yoruba), rural cooperatives among others. Tsai provided four reasons for the persistence and expansion of informal microfinance in most developing countries of the world. These reasons include the supply-demand perspective, state-society relations, the local political economy of the market and the institutional characteristics of lending programmes.

Numerous works on informal finance and credit have pointed to the existence of indigenous usury lending in developing countries of the world. In his study of informal finance structure of Akwa town in Anambra state, Ibe (1990) identified four major suppliers of funds for economic activities. These suppliers are individual moneylenders, village associations, unregistered co-operative societies and traders associations. The identified moneylenders were described as speculators who combined the business of moneylending with land and commodity trading. In an analysis of agricultural credits, Obeta (1992) also opined that the desire for credit before the advent of formal credit system necessitated the evolution of informal credit systems in rural parts of Nigeria. These indigenous credit institutions include moneylenders, landlords, relatives and friends, *esusu* and age grades

associations. Obeta further stated that credits obtained from local money lenders were only second to loans obtained from friends and relatives. There were also instances where borrowers in the informal microfinance market complement or pool funds from various informal sources to meet their needs. The point to be made here is that individuals especially the poor are not restricted or limited to one single source of lending even within the informal system. In other words, lenders in the informal finance systems do engage multiple sources of credit in meeting both productive and consumption needs. Buttressing the use of multiple sources of funding, Adebayo (1992) noted that where the fund provided through Rotating Savings and Credit Associations (ROSCA) and credit from kins and friends were not sufficient, as was often the case, the African trader, craftsman and farmer had to seek additional funds from the local moneylenders. Adebayo identified various institutions that can be used to raise credit within the Yoruba society to include ROSCA (also known as *esusu*), usufruct system, *iwofa* and moneylending (also known as *so'gundogoji* or *owo ele*). While ROSCA is a system where members save and equally have access to interest free credit⁵, usufruct is the system of pledging crop yield as collateral and interest. In the case of *iwofa*, interest is paid with the labour of the debtor who would have to work on the farm of the creditor. For moneylenders, interest was paid in cash which was, at the very least, an amount equal to the principal sum that was advanced as loan.

Falola (1993) also asserted that the demands of the family, the pressure to fulfil social obligations and the desire to be successful, prominent and healthy fuelled borrowing in pre-colonial and colonial Yorubaland. Falola equally identified several pre-colonial and post colonial system of credit. For the pre-colonial Yoruba society, credit institutions included *ajo*, *esusu* and *iwofa*. Several factors, however, necessitated the modification of these indigenous credit institutions. Some of these factors included the growth of old and new heterogeneous cities, weakening of religious and indigenous authorities and local sanctions among others. While new credit institutions such as modern banking, hire purchase and co-operative societies emerged in post-colonial Yoruba society, traditional credit arrangement such as

⁵ While in nominal terms, ROSCA can be described as an interest free system of savings and lending, in real terms, it is the opinion of this study that ROSCA members indirectly pay interest by contribution to the pool over a period of time. The money saved would have yielded returns or interest if invested in funds or economic activities. In other words, there is a cost attached to the period within which funds were contributed for others to use in turn. The only member that would not have incurred any cost is the one that is the first to collect the bulk sum in the rotation process

moneylending (also known as *so'gundogoji* or *owo ele*) continued to flourish. Those traditional credit arrangements that could not adapt or adjust to the modern realities went into extinction. In the analysis of informal savings and credit mobilisation in Ekiti state, it was discovered that moneylenders also featured prominently as a form of informal microfinance that provides credit for both economic and social needs of the people (Oloyede, 2008). Informal financial agents/institutions in Sub-Sahara Africa tend to specialise in either lending or savings' mobilisation alone or both. Oloyede further stated that most of these institutions engaged in the financial services of savings and credit provision even though these services were restricted most times to confirmed members or what is called members-only service. The moneylending system is perhaps the only informal microfinance institution that do not lend to distinct groups of clients (Nissanke, 2001). In a study of informal and formal credit in selected African countries, Aryeetey, Hettige, Nissanke and Steel (1997) observed that moneylenders are one-side specialists in the informal credit market because they provide credit services only and mitigate the risk of default by placing emphasis on firsthand knowledge of the borrower. Aryeetey *et al* also showed that in contrast to the disappointing performance of the formal financial sector following reforms put in place by the government of these countries, informal financial institutions such as indigenous moneylending have responded dynamically to increased demand for their services in these liberalised environments or countries. The data from this study showed that the capital base of moneylenders in Nigeria for instance grew by 264 percent over two years (1990 to 1992) and in Malawi the combined average increase was 73 percent over same two years (1990 to 1992). The activities of moneylenders increased sharply in all four countries (Ghana, Nigeria, Malawi and Tanzania); the number of loans rose from 20 to 130 percent for moneylenders in Ghana and Nigeria (60 to 73 percent for traders in Tanzania and Malawi).

In many cases, loan approval rates for moneylenders rose along with the number of applications which shows an increase in the demand and supply of informal credit facilities. In addition, substantial excess demand was reported in a country like Ghana were 42 percent of moneylenders where unable to satisfy all the loans demanded by clients they considered creditworthy. In another study of informal credit market in Botswana, Okurut and Botlhole (2009) noted that out of the 54 institutions that provided only credit, moneylenders accounted for 54 per cent of these institutions and this shows the high patronage that such informal credit institution still enjoys within the country.

In the study of informal credit in South Africa, James (2014) observed that the patronage of ‘illegal’ moneylenders was pervasive. The study recognised the existence of neighbourhood moneylenders, also known in the local language as *Mashonisa* which may be translated as “one who impoverishes” or who “takes and continues to take indefinitely”. These are informal local moneylenders who remained unregistered. The local *mashonisa* are embedded in the community arrangements and they remain in business by controlling the terms under which loans are obtained and repaid. This system of moneylending has been pervasive in urban townships and small-town settings. Further, this system of local moneylending is quite unique because an individual can become a borrower or lender at different times.

Informal credit systems have also been noted in Botswana where money lending and a different brand of Rotating Savings and Credit Association (ROSCA) constitute part of the informal credit. According to Okurut and Bolthole (2009), informal finance institutions that provide credit services included the moneylenders, pawnshops and an interesting ROSCAs version which was a slightly different model from the traditional ROSCAs as described in the literature. This study also identified the fact that moneylending activities have increased especially through their provision of financial assistance to the poorest. Specific features of moneylending system that were observed include the use of limited documentation during credit transaction, security is based on trust, inter-personal knowledge of clients and the fact that there is a high degree of secrecy surrounding their financial dealing.

In the analysis of finance development in Sub-Sahara Africa with Nigeria as one of the case study countries in the region, Nisanke (2001) stated that market segmentation does exist in informal finance *vis-a-vis* the purpose of such lending. This explains the duality of finance in Africa and the continued existence of informal sources of credit such as indigenous usury system. Nisanke asserted that while non-commercial finance or transactions were those between relatives and friends or small-scale group arrangements, commercial finance were conducted by single collectors, estate-owners, landlords, traders or money-lenders. This further lay credence to the various dimensions of credit including indigenous usury system. In the study of informal finance in Malawi, Chipeta and Mkandawire (1992) stated that savings and finance for consumption and investment were carried out by several informal financiers such as moneylenders, traders, shopkeepers, relatives and friends, co-operative societies and rotating savings and credit associations. The authors further stated that the existence of these

informal savings and credit sources can be traced to factors including: the functioning and organisation of the indigenous economy (autonomous factors); the characteristics of informal financial markets; repression of formal and semi-formal financial markets; and macroeconomic conditions and policies. In Malawi, the local moneylender (known locally as *katapila* a term derived from the Chichewa verb *kutapa*, meaning to take something from a larger quantity or heap) is compared with the popular example of *katapila* in oral literature. *Katapila* is a female debtor who borrows a full plate of millet for the purpose of brewing beer. Customarily, she would be expected to return a larger plate full of millet as this would ensure that the contents returned were substantially more than the original volume that was borrowed. The borrower can either use the same dish employed as at the time of borrowing but with overflowing content or that which fills two dishes of the original size in return on the grounds that the profits obtained on the sale of beer are partly attributable to the millet loan. This has been the narrative that justifies the practice of money lending as informal microfinance in Malawi.

The traditional origin of informal microfinance sources have been well noted in the literature. Their proximity to clients enables them rely on personal relationships, social sanctions and collateral substitutes to overcome the problems of screening and enforcement (Jones, 2008). In this analysis of money lenders in pre and post-independent Indian, Jones noted that while other forms of informal credit including informal group finance and trade or consumption credit exist, they do not cater for the needs of the poorer low-caste households who depend on traditional or professional moneylenders. Consequently, the share of informal credit sourced through moneylenders has modestly increased.

In a survey of credit finance, Srivastava (1993) observed that money lending is one of the three major sources of informal microfinance. The other informal sources identified in the survey were loans from friends and families and rotating savings and credit associations. Even though the survey showed that loans obtained from families and ROSCA were the two major sources of finance, the fact that indigenous usury lending featured prominently shows that the system is still regarded as an alternative source of finance. Considering the prevalence of usury lending in India, Dasgupta (2009) stated that moneylenders' loans or credit constitutes a significant share of informal credit market in India despite its rent seeking nature and exorbitantly high interest rates. The other important components of informal loan are the household loans being provided by family or friends. This particular component of

informal loan has some benevolent characteristics. Dasgupta also discovered that borrowers use multiple sources of informal credit sources such as combining loans from friends and relatives with that obtained from local moneylenders so as to reduce or diffuse the cost of lending. This is because most loans from family members and friends are interest-free credits. That is, loans from kins and friends tend to be much cheaper and are often at no cost or interest rate to the lendee than moneylender's loan because interest rates are rarely charged on these loans.

Buckley (1997) noted that moneylenders have a prominent place in the literature on informal microfinance and are considered to be significant sources of finance for low income groups. Buckley further stated that moneylenders tend to operate in highly localised markets and they also have close inter-personal relationships with their debtors or clients. These two features consequently limit the numbers of loans that they are likely to extend at any time. According to Varghese (2005), moneylenders are the most prevalent informal microfinance lenders in India and in many developing countries. For a long period of time, moneylenders were seen as exploitative. Moneylenders do not accept deposits unlike banks or government subsidies. This lack of access to deposit and government subsidies often translate to higher lending costs for the local moneylenders when compared with the formal finance sector like the modern banks.

In order to maintain information to their advantage, moneylenders keep their clientele small for ease of management. Guerin (2014) however stated that moneylenders do also keep a very diverse client base which may include the rich and the poor. Nadan (2005) described informal credit as traditional non-banking institutions and moneylending is one of the forms of informal credit that can be found in Palestine. Nadan described moneylenders as an illegal or black market credit institution in Palestine because the charge of interest on loan is not backed by law. The perceived exploitative tendencies of this system have necessitated attempts by the government of Palestine to ban the institution and/or replace same with formal institutions that would serve the same purpose in a much favourable way. These attempts according to Nadan have, however, been largely unsuccessful.

Hospes (1997) alluded to the existence of financial and quasi-financial institutions in low-income countries, coupled with the fact that these institutions are mostly patronised by the poor. These institutions according to Hospes are the local moneylenders, merchants,

pawnbrokers, loan brokers, landlords, friends and relatives, money guards, rotating savings and credit associations, among others. Mohieldin and Wright (2000) in their analysis of informal finance sector in Egypt noted that usury lending is an informal finance system that provides regular form of credit. Moneylenders tend to use their close knowledge of the borrower to ascertain their creditworthiness. This means that physical collateral is not of great importance in moneylending. In the distribution of informal credit in a study of rural credit in selected area of Pakistan, Jan, Munir and Rehman (2001) observed that informal credit sources consisted of friends, relative, neighbours, private money lenders and commission agents.

The existence of informal microfinance is predicated on the fact that these sources including indigenous usury lending possesses qualities which the formal institutions do not possess. Manig (1996) provided insights into why informal financial systems such as moneylenders have continued to enjoy patronage as a dimension of informal finance system. First, a credit relation in informal lending is just one component of a multi-stranded networking relation among the people. Thus, credit relations between lenders and borrowers are embedded in the social, economic and political relations of the people. Second, the embedding of credit relations in economic and social relations engenders trust between participants which also helps to enforce loan repayment. Third, there is the principle of reciprocity and the very often complementary character of informal credit which implies that, when credit is granted, the lender expects and receives something which is marked by the predominating relation. In the case of relations predominated by politics, the return service can consist of loyalty and support in political disputes.

In the case of relations of an economic nature, a trader, for example, secures for himself the marketing of the borrower's products or a landowner seeks the guarantee of tenancy relations with the borrower. Very often, various motives overlap in the case of informal credit relations. Fourth, informal credit tends to adjust to borrowers' circumstances and conditions in terms of the modalities and amount. Thus, credit especially moneylending is available whenever and wherever it is required. Moneylending and other forms of informal credit sources are thus characterised by the possibility of reciprocity, personal knowledge, closeness and association between the parties involved. The possibility of further reciprocal exchanges in the future, therefore, continues to sustain the informal credit system (Olubiyo, 2009).

Pham and Lensink (2007) observed that in developing countries, the use of credit from the formal financial system is often limited, while the informal financial sector flourishes and serves many clients. Informal credit providers in Vietnam included private money lenders who are usually from wealthy families. They often reside in the communities or villages where their clients are located. This enables the lenders to acquire knowledge about clients and they take rational credit decision based on an informed position. As a result, they often do not need collateral but mutual trust. The central point is that usury lending can be described as one of the providers of informal credit, especially in Third World countries where financial exclusion due to limited reach of formal finance institutions has led to a thriving informal finance system. Rationalising the existence of indigenous usury lending, Schrader (1992) asserted that moneylending and other informal money suppliers are structural phenomena of the market economy. Indigenous usury lending thus constitute part of a large informal credit market which consists of kin and friends, rotating savings and credit associations, financial self help groups, private commercial creditors like moneylenders, landlords, shopkeepers, traders, and merchants, trade credit among enterprises. Informal lending institutions in china can take various forms (Ayyagari, Demirgus-Kunt and Maksimovic, 2010). These include inter-personal and trade credit, pawn shops, rotating savings and credit associations, moneylending (known as private lending houses and underground lending organisations). Private moneylenders and money houses are readily and easily accessible. They tend to provide credit on request. One major outcome of these conditions is the fact that credit transactions occur in large volumes in the informal finance sector than previously anticipated.

2.1.3 Dominant views on indigenous usury as microfinance system

There are two dominant schools of thought on indigenous usury microfinance. These include the perspective which sees the system as exploitative and an obstacle to development; and the other which views the system as a feature of most developing countries of the world, addressing the peculiar challenges of those societies (Chavan, 2003). Reddy (2007) is of the opinion that there are two conflicting images of the moneylender - a positive image which sees the moneylender as a resilient entity, calling for his involvement in the process of rural development and a negative image, which sees the same moneylender as an exploiter who is responsible for rural distress and poverty.

Chavan (2003) observed that the teachings of various religions contributed immensely to the stigmatisation of the moneylender and usury. Religion was one of the important factors that have shaped the negative image of the moneylender. The negative image was further compounded by various malpractices of the moneylender such as the high interest rate, confiscation of land and properties and the increasing debt burden on the debtors. Tracing the history of usury, Labet and Block (2012) noted that the profession of usury lending has been a subject of conflict, morality and religious scrutiny with claims at some point that the act should be penalised by death sentence. The exploitative and bitter expression toward moneylending has led to the establishment of laws that were meant to curtail the perceived exploitative tendencies of this form of lending (Falola, 1993; Schrader, 1994; Eja and Bassey, 2011; Saika, 2012). Tsai (2003) noted that in both China and India, the traditional image of the usurious moneylender adds additional layer to the assertion that when the poor are denied access to formal finance, they are at the mercy of 'loan sharks'.

According to Schrader (1992), there are essentially two stereotypes of moneylenders. The first one considers them as "loan sharks", who suck the poor and innocent peasants dry. The other stereotype reflects the dominant opinion in development policy that moneylenders are traditional forces which prohibit progress and have to be eliminated for the sake of rural development and replaced by banks and other formal savings and credit institutions. Gill (2004) also noted that with the rapid industrialisation and commercialisation of the economy, policy interventions were focused on rural economies and how to reduce or remove the exploitative influence of moneylenders especially in the supply of credit.

Sharma and Chamala (1998) conducted a study on the image of moneylenders in India. Sharma and Chamala noted that the moneylender has long been considered exploitative, monopolistic and detrimental to socio-economic development. For this reason, new formal rural credit institutions were created on a big scale in most developing countries. In the case of India, these formal institutions were accorded clear superiority over the moneylenders who were officially regarded not only as exploitative, but also as inimical to development. Gine (2011) also asserted that usury or money lending has traditionally been viewed as unfair by policymakers and development practitioners, who argue that lenders take advantage of their position to exploit the poor borrowers. This view was at the heart of the policy interventions of several governments and non-governmental organizations (NGOs) in developing countries. Gine, however, stated that several research works have shown that,

despite the injection of formal credit, informal finance institutions such as indigenous usury is still been patronised and the interest rates charged by usurers have not been affected by the increased presence of formal credit.

According to Rahman (1992), the predominant view in literature was that informal financial markets are not conducive to development; they are both inefficient by diverting resources away from more productive channels and encouraging consumption with the exploitative borrowers ending up worse off both relatively and in absolute terms. Shah, Rao and Shakar (2007) noted that moneylenders in pre-colonial and colonial India engaged various mechanisms that ensured the continued exploitation of the hapless peasants who through repeated borrowings were trapped in perpetual debt relations. Shah, *et al*, for instance stated that the "real" rates of interest were not just the rate charged overtly by the lenders but those which were hidden in the lower price paid for produce sold, the exploitative wage rates and rents charged for land leased. This interlocked grid worked in tandem with the oppressive caste system as powerful nexus of exploitation which became the basis for the peasants' poor state in the colonial Indian society.

One of the major references of exploitation in moneylending is the issue of high interest rate they charged on loans. Eboh, Ugama and Okereke (1991) observed that one major problem facing those who borrow from moneylenders is the high rates of interest relative to institutional or formal interest rates. Falola (1993) described moneylending in colonial Yoruba society as the most detested of all the sources of credit. Unpopular and harsh people engaged in the trade; and the common belief was that evil would eventually befall the money-lender or his children. The various features of exploitation according to Falola included high interest rates, forcible collections of debts were notorious and the use of various ways to cheat the borrower. Interest rates charged by private money lenders have variously been described as "usurious".

Echoing the exploitative sentiments of moneylending, Buckley (1997) observed that most of the respondents interviewed in Malawi, whether they had used a moneylender or not, were unanimously of the opinion that their behaviour was exploitative and that they should be avoided. Those respondents did, however, not consider the moneylender's charges vis-a-vis the opportunity cost, inflation, risk or any other factor that portrays the moneylender more as a rational actor than simply an exploiter. Most borrowers in this study believed that moneylenders generally got a 100 percent return on their loans irrespective of the timeframe.

Whether the loan was to be repaid in a week, month or season, the standard cost is that the borrower would pay twice the original loan amount collected from the lender. For Buckley, the most common reasons for the negative perception of moneylenders have to do with the high interest rate that the lenders charged and the behaviour of the lender during the period of default. Varghase (2005) equally stated that moneylenders are the most prevalent informal lenders in India and in many developing countries. For a long period of time, moneylenders were held as exploitative and the banking expansion in rural credit markets was designed to provide an institutional alternative to the moneylender. Recent revisionists have, however, viewed moneylenders as providing an alternative for many borrowers, pointing to a shift in the perceived exploitative paradigm.

Gill (2004) stated that the present-day moneylender while retaining his exploitative traits is also involved in inter-linkage of credit and trade. The money lender may be a landlord who finances his tenants and workers; he may be a trader who finances the cultivator only to obtain exclusive rights to purchase his crop; or he may be an input dealer who lent money on the condition that inputs for cultivation would be purchased only from the lender. Schrader (1992) argued that professional moneylenders were a structural, temporary phenomenon of extending capitalism. Schrader, however, opined that moneylenders provided lower income groups with credit and these are largely people who were excluded from formal loans. Moneylenders provide funds to lenders which help to generate demand for consumer products in the formal market, thereby advancing the course of capitalism. In other words, contemporary moneylenders and other informal money suppliers are structural phenomena of the market or capitalist economy, thereby allowing for the continued subjugation of the working class by the capitalist.

Sharma and Chamala (1998) asserted that the exploitative image of moneylenders is being questioned because traditional moneylenders have been found to be more effective than the formal banking institutions particularly in reaching out to the poor. While the banks have not been successful in displacing the moneylenders in rural areas; they have also failed in convincing villagers about their own sympathetic disposition regarding the credit problems and needs of the rural people. Sharma and Chamala (2003) noted that there is a rising positive image paradigm of moneylenders in contemporary times. This perspective has provided the most forceful challenge to the negative image paradigm. This paradigm strongly advocates the involvement of moneylenders into the development process. However, this paradigm has

achieved only partial success as the dominant negative paradigm has not yet yielded much ground in development finance practice nor has it had any significant impact on programmes and policies that are focused on rural poor, women, and other disadvantaged persons in the society. Sharma and Chamala submitted that one reason for this could be the perception of the positive image of the moneylender as a 'romanticised' or idealised image which represents an inadequate and unconvincing reality of indigenous usury practices. Additionally, the negative image paradigm has developed over a very long period through economic and cultural processes and, therefore, it has had consistent effect on thought and practice of usury credit.

Part of the positive image of usury system is the fact that moneylenders' businesses encouraged accumulation and investment (Falola, 1993). That is, money-lenders had to save in order to have enough money to lend and a good number of them also engaged in other occupations that generate more capital for the business. The gains from lending activities were re-invested in the moneylending business and this can be described as a wise strategy of building fortunes out of the misfortunes of others. However, Rahman (1992) noted that informal finance systems such as moneylending are not necessarily as exploitative as they are usually depicted in development literature. For Rahman, the weight of evidence rather supports the argument that they play a positive role in the process of development, which could be enhanced by a more positive approach towards this sector. Fernando (1988) also asserted that the hypothesis that informal finance sources are highly exploitative cannot be supported with evidence available from Sri Lanka. According to Patole and Ruthven (2001), far from being exploited, the borrower is said to be aware of the price of patronising usurers, especially considering the unbeatable convenience and short turn-around-time which the moneylender offers in finance service delivery.

Schrader (1994), introduced the modernisation theory perspective to the discourse by stating that the notion that informal finance such as moneylenders are obstacles to development is a reflection of the white and black dichotomy of modernisation theorists on issues concerning developing countries. That is, traditional financial systems such as moneylending are detrimental to development because of the exorbitant interest rates and the allusion that they often finance ventures that do not generate higher income but rather lead their clients into more indebtedness. This negative perspective of moneylending reflects the modernisation perspective that anything that is not western is bad and detrimental to

development. The idea of modernisation affected what has been described as informal financial systems where the ideal development perspective is the western capitalist modernity (Sarker, 2006). Modernisation and consequent development of the formal economy notwithstanding, the informal financial markets have remained relevant and constituted part and parcel of the domestic economic framework of many African countries (Oladeji and Ogunrinola, 2001).

The positive paradigm of moneylending is predicated on the fact that it provides credit alternative to the other formal means of securing credit which are relatively inaccessible to the low class and the vulnerable in the society. This brings to the fore, the question of the sustainability and continued existence of informal credit institutions. One of the perspectives that explain the continued existence of informal credit is the informal asymmetry perspective or the informal advantage of informal lending. This information paradigm states that formal sources of finance do not have sufficient information on borrowers and they tend to substitute the lack of information with various requirements including collateral requirements which are used to screen out a lot of borrowers. This is because most of these borrowers or would-be borrowers are largely unable to meet these requirements (Stiglitz and Weiss, 1981). Those who have insufficient collateral are involuntarily excluded from the credit market but may instead obtain informal loan since informal lenders, due to information advantage, can substitute the stringent collateral requirement of formal lenders with information intensive screening and monitoring (Guirking, 2006). Aryeetey *et al* (1997) also contributed to the literature on information asymmetry perspective of formal and informal financial systems by posited that imperfect information on credit worthiness, differences in the costs of screening monitoring and contract enforcement across lenders affects the ability of formal financial systems to advance credit. In the presence of imperfect information and costly contract enforcement, market failures result from adverse selection and moral hazard, which undermine the operation of financial markets. Adverse selection occurs as interest rates increase and borrowers with worthwhile investments are discouraged from seeking loans.

Okurut, Schoombee and Van Der Berg (2005) also provided further explanation on the information asymmetry thesis. According to Okurut *et al*, asymmetry is compounded in informal credit markets by the fact that the credit histories of borrowers are not documented and pooled. The costs of acquiring this information are very high, in terms of both time and

financial resources. The other complication is its reliability as information from the potential borrowers is likely to give an exaggerated view of their credit worthiness. This according to Okurut *et al*, also raises the need to validate such information from other sources. However, if lenders try to collect such information from the community members of the potential lende, there is a tendency that these community members would withhold information if the solicitor of this information is interpreted as a stranger. Should lenders increase the lending rate to compensate for the higher cost of information gathering or the level of reliability of the information, the problem of adverse selection and moral hazard may arise. Both may negatively affect the lenders' returns on loans. Shem and Atieno (2001) also stated that the absence of reliable information explains why formal lending institutions may choose not to serve some borrowers who belong to poor segment of the society. To cover credit risk, lending institutions may increase loan interest rates. However, this can be counterproductive since the more creditworthy borrowers, arguing that loans are expensive, may refrain from borrowing. This leaves the institutions with poor creditworthy customers leading inevitably to the problem of adverse selection. In addition, borrowers may opt for riskier investments to meet the high costs of borrowing, thereby creating the problem of moral hazard.

Srivastava (1992) noted that informal lenders have advantage over formal lenders because of personal knowledge of their clients through which lenders can ascertain the general reputation of the borrowers. Lending activity thus entails the exchange of consumption today for consumption in a later period, insurance against default risk, information acquisition regarding the characteristics of loan applicants and the actions of borrowers, and an enforcement element to increase the likelihood of repayment by individuals who are able to do so (Hoff and Stiglitz,1990). The close relationship of the informal creditors with their clients and the area of operations provide the basis for easy access to credit information that helps in fast decision making concerning the provision of credit facilities.

In the study of rural credit market of the rural communities, Eboh *et al* (1991) observed that all the money lenders studied had been resident in the communities for at least thirty years and they know virtually all potential and actual borrowers within the community. According to Buckley (1997), moneylenders tend to operate in highly localised markets and have close relationships with their debtors. This feature tends to limits the numbers of loans that moneylenders are likely to extend at any one time but at the same time, this helps to

reduces the transaction cost of the lender because credit information easily accessible. Imperfect information about borrowers is a risk factor especially in terms of the assets available for liquidation (Nadan, 2005). This was particularly relevant to banking operations. The moneylenders have the advantage of close connections with their operational environment such that they know the assets of their lendees. These lendees can easily conceal these assets if they were dealing with formal finance institutions like the banks.

Zhou and Takeuchi (2010) provided further explanations on the various obstacles of formal credit which end up serving as advantages to the informal financial system. First, formal lenders often find it difficult to monitor loan utilisation and repayment especially in rural areas. In general, if borrowers use loans for purposes other than those specified when applying for the loan, they tend to default in loan repayment. Thus, from the perspective of formal lenders, the informal lende or borrower has a high risk of loan default. However, the factors affecting asymmetric information problem for formal lenders are advantageous to the informal lenders. The rural community for instance consist of largely homogenous people who interact with each other on a daily basis. For Informal lenders, living in the community for a considerable long period of time, would afford them the opportunity to accumulate relatively accurate information about local residents' financial activities and the behavioural disposition towards loan repayment. In other words, accurate reputational check becomes possible because the lender is also an integral part of the community. Therefore, when informal lenders make decisions on loans, they rely on personal relationship with borrowers, credit history, types of occupation, among others (Srinivas and Higuchi, 1996). Second, the lack of appropriate collateral is a problem or obstacle in informal lending. One way to alleviate the asymmetric information problem is to demand collateral when making a loan contract. Rural borrowers cannot provide collateral that formal lenders can accept. By contrast, informal lenders can take land, houses, labour, agricultural machinery, personal or third party guarantee as collateral. Third, borrowers use loans for non productive or consumption purposes such as covering sudden expenses in their daily lives. This non-productive use of loans does not increase the borrower's income as compared to when a borrower uses the loan for investment. Therefore, formal financial institutions are often concerned with the ability of low income earners to repay loans and this makes formal financial institutions less disposed to low income lendees. Aryeetey *et al* (1997) however noted that where poor information and contract enforcement make it too costly for formal

financial institutions to serve small businesses and households, informal lenders take up the this responsibility of serving this important market segment.

Another perspective which implicitly affirmed the positive role of moneylending system is the financial repression argument which tends to also explain the co-existence of moneylending and other informal financial sources with the formal financial systems of lending. This argument invariably explains the importance of indigenous usury system within the context of informal microfinance. Pierre-Germain (2011) provided a summary of the financial repression perspective. This perspective views informal finance as a consequence or outcome of state intervention in financial markets through a set of regulations and non-market restrictions. These policies result in an inefficient allocation of capital as they discourage savings while reducing the supply of credit by banks. Consequently, some people are prevented from accessing credit which they would have been able to access if these policies were not in place. The resulting unsatisfied demand for loans is absorbed by the unorganised informal money market. In other words, the unsatisfied demand for investible funds forces financial intermediaries to ration credit by means other than the interest rate, while an informal market develops at uncontrolled rates (Aryeetey *et al*, 1997).

Tressel (2003) explained that financial repression (or banking restraint) is the main distortion that explains the reliance on informal credit markets in developing economies. Therefore, the duality of the financial structure in most developing countries is the outcome of a modern system that views the low income and those in the informal sector as high risk, thereby discouraging the extension of credit to such classes of people within the society. These restricted segments thus rely on other means mostly informal credit sources to secure their financial needs. However, Soyibo (1997) noted that market segmentation occurs, not because of regulation, but because informal financial institutions serve other social goals. They redistribute income among community members and provide a form of social security by meeting their fluctuating liquidity needs.

2.1.4 Usurers (Moneylenders) as capital providers

This section deals with the basic features of indigenous usury lenders, their sources of capital and the loan size they offer as credit. For ages, the traditional/informal financial institutions have been serving, in their own ways, as mechanism for the accumulation and redistribution of savings in the society (Oladeji and Ogunrinola, 2001). Gupta and Chaudhuri (1997) noted that there are two sources of credit available to the borrowers: institutional and

non-institutional. Non-institutional or informal sources include moneylenders, landlords, traders, friends and relatives or kins. Institutional or formal sources on the other hand consist of cooperatives, commercial banks and regional rural banks, mortgage banks, formal microfinance banks, insurance companies, among other sources. Borrowers use the formal and informal credit as either substitutes or complementary sources of credit. Moneylenders have been viewed as a prominent and significant source of informal finance for low income groups within the society (Buckley, 1997). Matin, Hulme and Rutherford (2002) provided what can be regarded as an overview of moneylenders and their basic features. According to Matin *et al*, the conventional moneylenders usually operate outside their offices. In other words, they usually do not have dedicated formal offices where lenders can meet them for credit transactions. These lenders are always on the move, going from one similar location to another. They equally maintain few records or documentations and many of their lending arrangements are temporary as future access is dependent on credit history of the lender.

The position that usury lenders as capital providers combine the profession of moneylending with other forms of economic activities has been emphasised by different scholars. For instance, Adams *et al* (2003) stated that informal lenders may primarily deal in credit or may also double as trader-lenders. These moneylenders have nearly complete information about individual credit histories in their circles of clients. Further, moneylenders also have immediate recovery or punishment capabilities and can display repayment flexibility when necessary. Chavan (2003) also noted that moneylenders operate under a number of guises in the rural credit markets. They could be landlords who also supply credit to their tenants while others are farm owners who supply credit to peasants and agricultural labourers (*see also* Reddy, 2007). There are also traders who lent money to the peasant farmers against the sale of their farm produce. Chavan also noted that landlords and traders did not often pursue moneylending as their main occupation but it was undoubtedly a regular feature of their interaction with the peasantry and the labouring class of the village community. Due to this multiple guises, the moneylender could touch the peasants in a number of ways and could thus establish a stronghold over their work, property and life. The moneylenders thus interact on personalised or person-specific terms with the borrowers. The nature of the moneylender's credit transaction with each borrower and the terms and conditions, depend to a considerable extent on the socio-economic status of the borrower and his/ her "prior relation" with the lender (Chavan, 2003).

Schrader (1994) posited that one of the features that made indigenous usury lenders the dependable capital providers is the flexibility of time as borrowers can visit their lenders at any time, even at night. Schrader stated that night visit of borrowers helps to avoid village or neighbourhood gossips. In addition, small loan amounts or capital can be obtained from usury lenders and repayment can be adapted to the peculiarities of the borrowers who depend on the usury lenders as their source of finance. In another study of informal finance, Swaminathan (1991) also observed the presence of professional or full-time moneylenders and this supports the view that traders and the poor are heavily dependent on their financial services. Some of the moneylenders identified included widows who provide loans to their clients and the income derived from their lending activities is the main source of support for their children. Providing further clarification, Siyongwana (2004) stated that the informal moneylenders provide financial assistance to the poorest and in many instances, females in rural areas of developing countries patronise the services of these lenders.

In another study, Bastelaer (2000) also observed that moneylenders, who were typically landowners or traders, were often the only source of credit available to the poor in developing countries, especially in the rural areas of Asia. Bastelaer observed that moneylenders' loans are extended quickly and for short periods. Confirming the fact that clients of moneylenders are mostly from the low and vulnerable classes in the society, Okurut and Bothole (2009) noted that most of the moneylenders in Gaborone, Botswana had a network of branches with majority of their clients being women. The high participation of women in informal financial institutions according to this study explained some key features of these informal markets such as their accessibility, the simple procedures and the flexibility of credit and its adaptability to many purposes. Women are sometimes subjected to socioeconomic deprivations but the highlighted features of informal credit make credit accessible to these women. The study also noted that moneylenders in Botswana target mainly clients from the medium-income to low-income category thereby suggesting that most of their clients belong to the economically active categories of the population of study. By implication, it means that the purpose of credit would be to meet small working capital needs and also consumptions needs. The patronage of usury lenders as against established sentiment is however not limited to low income status clients as their clientele cut-across the low to middle and even the high status borrowers (Sharma and Chalama, 1998).

In another study of Indian moneylending system, Saikia (2010) stated that contemporary records indicate that the terms and conditions of usury transactions were mostly dictated by the moneylenders and in some cases, rich peasants who also patronise the services of the moneylenders also dictate the terms of lending. These rich and enterprising landowners tend to patronise the usury lenders for agricultural purposes. On the other hand, it was often the case that the illiterate peasant lendees were asked to put their fingerprints on a blank paper as a proof of evidence. The blank paper with a fingerprint, which was retained by the moneylenders, can be used as evidence in the civil court when there is dispute. In a historical analysis of moneylending in South Western Nigeria, Adebayo (1992) asserted that most moneylenders were men, although the business was not closed to women. In addition, most moneylenders were members of the urban aristocracy or what can be called absentee landlords who had made their money through farming and trading. The contract for the loan was often finalised in the house of the lender wherever it was located. Where the lender was also resident in the village, the task became easier; for he was able to scrutinise the credentials of the borrower for the loan, evaluate the chances of loan repayment, and judge fairly the profitability of the interest. This is largely because the lender has near perfect flow of information. On the other hand, coercive enforcement measures were difficult to enforce where the relationship between the lender and the borrower was close.

Stating the importance of moneylenders as credit or capital providers, Gine (2011) reiterated the fact that the cost of credit and accessibility to loans in formal financial system has contributed to the existence informal sources of finance such as indigenous usury lending especially in rural societies. The high cost of waiting to access loans from formal institutions serves to demotivate borrowers from approaching them for credit. In addition, formal lenders spend considerable resources in assessing the repayment capacity of prospective borrowers. In contrast, moneylenders usually live in the same village and will often visit their clients, thereby becoming more accessible and gaining first-hand knowledge of their credit worthiness.

While moneylenders' serve as providers of capital for both productive and social ventures, moneylenders also have ways of acquiring the capital which they give out as loans. Tracing capital formation of indigenous usury lenders, Aryeetey *et al* (1997) observed in their survey of selected African countries that financial capital which flows from formal to informal markets are negligible. Informal financial agents generally have limited capital base

and little access to borrowed funds especially from formal financial institutions. Aryeetey *et al*, stated that even the moneylenders who can access bank credit through other business activities rarely do so for the purpose of on-lending to their clients. The main source of capital formation is through moneylenders' personal savings and reinvested profits from both credit and other economic activities.

Toby (1991) observed that families who are into the business of moneylending have over time relied almost entirely on their own funds as loan capital. Loan capital was thus limited to personal surpluses-the returns from land rents, interest from previous loans, and profits from other enterprises in which the family may have engaged. Nissanke (2001) believed that moneylenders were the only informal lenders that do not lend to distinct groups of clients. Operating at perceived high interest rates, moneylenders are considered 'lenders of last resort' and profits from the interest component of the loan are added to the business of usury. They lend from profits generated by other economic activities, such as agriculture and real-estate development, and re-invest the returns from lending into these activities.

Soyibo (1997) also stated that usury lending is perhaps the only form of financial systems that do not make deposit of money by borrowers as conditions precedent to accessing credit. Consequently, deposit mobilisation does not constitute one of the sources of capital for indigenous usury lenders. Sources of moneylenders' capital include personal savings and other economic activities that would generate additional income (Soyibo, 1996). Olubiyo (2009) opined that moneylenders are one of the oldest forms of informal financial service providers whose main aim in the business is to earn as much income as possible from the credit advanced to their lenders. The moneylenders are more profit oriented than any other provider in informal credit markets. Further, lenders usually have other main commercial activities and they embarked on money lending as a way of expanding their businesses. Some of the usury lenders operate on a part-time basis while having business interest in locations outside the rural areas where they operate. The business of money lending is usually a part-time one and because it is noted that they charge exorbitant interest rates, most prospective borrowers try to avoid this market. This position was supported by Aleem (1990) who observed that moneylenders combine indigenous usury lending with economic or investment activities. This was further echoed by Bell (1990) in the analysis of Indian indigenous usury lenders' multiplex nature. In the study, moneylenders in India were known to combine lending with other business ventures. This enabled the indigenous lenders to act as lenders of

money and also traders in commodities. In other words, the lenders provide funds for the traders who may repay such loan by selling their commodities to the indigenous lenders who provided the funds. In another instance, moneylenders were prominent landowners who cultivated large expanses of land. With this class of moneylenders, their labourers could also double as clients or potential clients. From this, it can be deduced that profit from the farming business could be ploughed into the credit business and vice versa (Guerin *et al*, 2012). Thus, moneylenders are known not to specialise in lending alone as most of these lenders tend to engage in other economic activities that yield high marginal returns (Varghase, 2005).

Apart from the diversification of occupation or profession as a major source of capital for indigenous usury lenders, other research works have pointed to the formal-informal credit linkage as an important source of working capital for informal moneylenders. In their model of credit subsidy and moneylenders, Hoff and Stiglitz (1998) showed the formal-informal linkage by stating that a credit subsidy can reduce the opportunity cost of funds which will induce new entries into the money-lending business. That is, a subsidised formal institution can provide capital for informal lenders. Therefore, moneylenders can get these funds from the formal financial sector, mostly from the banks for onward lending to their clients (Floro and Ray, 1997)⁶. In a survey of informal lenders in three (3) Philippine provinces, more than half of the informal lenders interviewed were savers in or borrowers from formal banks (Floro and Ray, 1997). In an earlier research work, Bell (1990) indicated that there could be a geographical angle to the formal-informal linkage to informal microfinance. Bell stated that while very few moneylenders actually borrowed funds from the banks in rural areas, close to half of those moneylenders surveyed in urban areas borrow from banks. Besides, the formal-informal linkage is more pronounced in the urban centers than in the rural areas as formal financial institutions are wide spread in urban areas than in rural communities. This system of borrowing from the formal financial institutional has also been observed among moneylenders in South East Asia (see Schrader, 1992).

The diversification of capital sources is an integral part of informal finance. Aleem (1990) revealed that informal lenders' sources of capital included personal savings, institutional sources and credit from other informal lenders such as Rotating Savings and

⁶ Further analysis on the formal-informal vertical integration was provided by Bose (1998) and Hoff and Stiglitz (1998)

Credit Association (ROSCA) and fellow moneylenders (*see also* Patole and Ruthvan, 2001). Whatever the form of linkage, it can be concluded that the formal or institutional financial sector can serve as a veritable source of capital for indigenous usury lenders. In the study of moneylenders in South Africa, Soyongwana (2004) discovered that most of the indigenous usury lenders claimed that their personal savings is the primary source of capital. Other sources of capital for moneylenders which were identified in the study include loans from kin members and friends, among others. It is important to note that the loan from kin members and friends are largely interest free credit that is typical of most cultures in Africa. The study further revealed that interest-free credit from kins or friends can be explained with the concept of 'help' in African societies. The formal-informal linkage was also noticed in the study because some of the moneylenders indicated that they obtained loans from the bank to start the business.

There was also evidence that moneylenders do invest some of their capital in trade and investment that would yield additional income that can be added to existing working capital of the lending business. Soyibo (1997) also observed that moneylenders raised lending capital from personal savings and income from other economic activities. Apart from borrowing from friends and banks which may involve some form of social networking, moneylenders are known to also form capital by borrowing from fellow lenders. This, in most cases, is a strategy used when demand for loan tends to outstrip funds available (Aleem, 1990). This is an indication that social networking exists in the indigenous usury system. What is, however, not clear is the process through which lenders connect with one another in order to raise such funds. There is also the need to examine the conditions and risks associated with such a process. Giving credence to the diversification in the sources of capital for indigenous usury lenders, Chipeta and Mkandawire (1992) in their survey of Malawian moneylenders (known as *Katapila* or *Chilimba*)⁷, showed that the main source of capital was the proceeds from farming.

⁷ Money lending in Malawi grew out of the indigenous practice of lending and borrowing commodities. In Malawi custom, "every pound makes another pound". The practice of using indigenous credit standards has been extended to the granting of cash loans. In rural areas in the past, most of the demand for these loans came from migrant workers. Now the loans are mainly granted for other urgent needs, such as the payment of school fees. In urban areas, katapila loans are largely demanded by wage earners who cannot meet all their expenses out of their incomes (Chipeta and Mkandawire, 1992).

The diversification of sources of capital can be traced to the risk inherent in the indigenous usury system. An average usury lender will engage in other economic activities to complement the business of money-lending. Capital diversification has been identified as a strategy which enables lenders to absorb any shock that may arise from default in payment by borrowers (Soyibo 1996, 1997). Capital diversification serves as back-up in the light of the clean credit⁸ nature of informal credit market. This position is typical of an average indigenous usury lender. In a historical examination of moneylenders in the South Western Nigeria, Falola (1993) opined that indigenous usury lenders combine money-lending with other activities such as trading. Such trading and economic activities included transportation business, cash crop farming and real estate. Falola further noted that some moneylenders had acquired fame in their localities where they once operated as traditional mobile money collectors (known among the Yoruba as *alajo*). Furthermore, women who engaged in money-lending were known to be traders or wives of influential people within the community where they operated. This indicates that the business of indigenous usury was also prominent among the wealthy in the society. In addition, adequate capital and near impeccable character were necessary attributes of a would-be indigenous usury lender in colonial Yoruba society. Evidence of business diversification was also a common phenomenon in money lending in colonial and post-colonial Yoruba society.

2.1.5 Indigenous usury system and the modern economy

This section examines the literature on how modern economy has affected or influenced contemporary usury lending. It looks at how the features of modern and contemporary societies in terms of industrialisation, nation-state, modern financial institution, modern service sector and urbanisation have influenced indigenous usury system.

Sociologists were among the first set of scholars to identify the basic features of modern economies (Phelps, 2008). Phelps stated that sociological scholars did a comparative analysis of the features of traditional and modern societies. The traditional economy was said to rest on a community of persons who engaged in mutual support, ascribed social status was important and there was the periodic exchange of farm produce. Modern economy or society on the other hand was based on achieved status, where people competed with one another for

⁸ Clean lending refers to a situation in formal financial systems where loans are given without the borrower providing any form of tangible security to mitigate the incidence of default that may arise in future.

available resources. The structure of modern or contemporary systems is urban biased in terms of location and credit supply, stringent documentation and collateral requirements that the poor finds very difficult to meet, the higher transaction costs faced by small borrowers and the presence of state agencies who control or regulate financial activities (Matin *et al*, 2002).

Falola (1993) noted that indigenous moneylending as one of the traditional or indigenous institutions, has continue to survive because it has been able to 'modernise' themselves by borrowing from western ideas and practices and by responding to the demands of a 'new' colonial society. Adebayo (1992) also highlighted the impact of modernisation on moneylending business among the Yoruba of South Western Nigeria. They included increased monetisation of the economy, the opening up of trade in legitimate commodities, the introduction of tree or cash crops like cocoa, coffee, rubber and kola nuts, and other changes in the political economy of southern Nigeria. These events happened shortly before and during the era of colonial rule. Other notable ideas that impacted moneylending also included the introduction of taxation and the social or legal implication of tax evasion. All these developments gave an increased role to the moneylender in the economy and thus, promoted the business of moneylending. Adebayo further stated that the modernisation of the economy and society changed the purpose of lending. That is, loans were sought more for social engagements such as payment of tax, childrens' school fees and other levies of the colonial state, than for business and economic uses.

The African financial system also witnessed the rise of modern banking institutions through the increase in private ownership of banks and other modern financial institutions and their spread across the region (Aryeetey, 2003). However, the reluctance of modern banks and other modern financial institutions to extend credit to the informal sector and rural areas systematically led to the exclusion of low income earners from the formal credit market (Gurkinger, 2006). Thus, informal credit institutions like indigenous usury lending became recipients of the spill over of formal credit market. There is also the information advantage of informal credit system over the modern system of finance limitations. Stiglitz and Weiss (1981) showed that credit rationing may arise because formal lenders have limited local credit information and thus, would rely on collateral to overcome the challenges of moral hazard and adverse selection which are intrinsic features of credit transactions. Borrowers who have insufficient collateral are involuntarily excluded from the credit market but may

instead obtain informal loans since informal lenders such as moneylenders, have access to lenders information which they can use as tools for intensive credit screening and monitoring (Hoff and Stiglitz, 1990). Boucher and Gurkinger (2007) also reiterated the argument that tends to suggest that informal finance may have remained relevant due to the informal disadvantage inherent in modern financial structures. Formal lenders have limited local information and must rely on collateral to solve the problems of moral hazard and adverse selection inherent in credit transactions. Informal lenders' ability to substitute physical collateral with information-intensive screening and monitoring allows them to offer contracts to individuals excluded from the 'less expensive' formal finance sector.

Indigenous usury lending system in most cases has to struggle with the dominant perspective among modern states in developing countries and multinational organisations. This perspective had recommended that steps be taken to abolish this system of lending because of the largely it is largely exploitative (Sharma and Chamala, 1998). The state therefore, encouraged the expansion of formal banking system into the rural and unbanked communities. The state also provided credit subsidies to private and state-owned formal finance institutions. The expectation was that these strategies put in place by the modern state would eventually lead to the extinction of indigenous usury system. At this point, it is imperative that we look at specific examples from states that have attempted to abolish indigenous usury as a source of credit. Adams *et al* (2003) stated that for over a century, official policies in India has been directed at replacing traditional moneylenders with formal financial institutions such as cooperatives, rural development banks, and commercial bank branches. However, Adams *et al* pointed out that the many failures recorded in phasing out indigenous usury system has brought to the fore, the reality that interactions between informal and formal agents, and their clients, are intriguingly complex. For instance, Hoff and Stiglitz (1998) noted that the regulated and subsidised formal credit sector in Thailand, India, Phillipines and Pakistan provided credit at the interest rate of between 10-14 per cent, whereas lenders in the informal credit sectors like moneylenders provided interest bearing loans with interest ranging from 34 to 90 percent per year. However, the interest bearing moneylending system has experienced lower default rate compared with the highly regulated formal credit sector. Hoff and Stiglitz (1990) had earlier stated in another article that the policy response arising from the high interest rates of moneylenders was clear: the state was to put mechanisms in place that would provide cheap institutional credit as an alternative to

the moneylender. Hoff and Stiglitz, therefore, posited that the experience of government intervention in rural credit markets thereafter suggests that the creation of institutional alternatives has failed to drive the traditional moneylender out of the credit market. Further, whatever competition formal financial systems may have provided, interest rates charged by traditional moneylenders and patronage has remained high (Hoff and Stiglitz, 1998).

The modern state also instituted laws to regulate, limit and even discourage the patronage of moneylenders in several countries. For example, Nadan (2005) stated that the government of Palestine decided to strictly enforce the law that prohibited the charging of interest above 9 per cent. The Usurious Loans (Evidence) Ordinance of 1922 allowed courts to use oral evidence in preference to written documentation, in the case of interest rates on loans exceeding 9 per cent. This idea was reformulated in the Usurious Loans Ordinance of 1934. This measure was aimed at restraining moneylending activities since oral evidence was always against the documentary proof of the lender. Further, in order to reduce pressure on debtors, another law, the Imprisonment Debt Ordinance of 1931, limited the type of offences for which a person could be imprisoned for debt. It stipulates a maximum term of 21 days in jail (in the case of the Short Term Crop Loans, the maximum was one year in jail, giving this scheme another comparative advantage). Nadan observed that for moneylenders, this was never an issue as they were able to by-pass interest rate restriction by concealing the exact nature of the transaction; either by showing that the borrower has received a larger sum than that which was actually paid or a fictitious sale of goods is included in the terms, and if the goods change hands at all they are immediately returned to the lender. Falola (1993) equally observed similar practices in colonial moneylending among the Yoruba people of south west Nigeria.

Eja and Bassey (2011) extensively examined the various provisions of the laws guiding moneylending or usury lending in modern Nigeria. According to Eja and Bassey, laws regulating moneylending had existed for thousands of years. Prior to 1990, money lending was regulated concurrently by the Federal Government of Nigeria and by the various state governments through the Moneylenders Act and the Moneylenders Laws of the various states respectively. However, the Moneylenders Act of 1927 as amended describes who qualifies as a moneylender, regulated the activities of licensed money lenders and other persons other than moneylenders, who lend money on interest. The provisions of the law also included the certification and licensing of a moneylender, documentation and record keeping

of every transaction, issuing of receipt and the prohibition of taking of interest in advance or payment of compound interest. It also included the prohibition of increasing rate of interest by reason of default in payment of sums due under any money lending contract. According to Eje and Bassey, the Moneylenders Laws of Nigeria sufficiently protect the borrowers against the exploitative tendencies of the lenders through the imposition of stringent regulations on the lenders. Thus, it can be said that whereas the law is good and adequately protect the borrower, the reverse applies to the lender. As a result, most moneylenders bypass the law and operate without licence. Consequently, it can be concluded that most moneylenders in Nigeria operate illegally by making use of informal negotiations and processes.

Adebayo (1992) noted that the spread of western education led to the introduction of written document that specifies the terms and conditions binding credit relationship in indigenous usury lending. While this did not reduce the rate of interest, it however led to a decline in the rate of dispute between the lenders and the borrowers as each party is aware of his or her expectation in the credit relations. It should be noted that written documentation (an impact of modernisation) can prevent and equally enhance exploitation especially when clients are unable to understand the content of the documents due to their low level of education. Instances of borrowers signing blank documents and consciously signing or indicating that they collected more than what they actually did have been identified in various studies (Falola, 1993; Saika, 2010). The law enacted in China to regulate and register moneylenders has led to the decline in the moneylenders business and their identification (Tsai, 2003). This was because most moneylenders went underground to avoid government registration and control while others simply added other forms of economic activities to camouflage the real business of moneylending. Zhou and Takeuchi (2010) observed that it was difficult for the central government (or provincial or county governments) to monitor the activities of informal lenders because most of these lenders refused to register as required by law.

The modern economy has also seen the introduction of formal microfinance institutions (MFI). These formal microfinance banks are sometimes referred to as semi-formal finance institutions because their activities are also regulated by the state and they also possess certain features of informal financial systems (Aryeetey *et al*, 1997). Mallick (2012) stated that formal microfinance institutions were devised or created to mitigate credit market imperfections in developing countries. Mallick further noted that the poor do not have access

to formal financial institutions mainly due to lack of collateral and are forced to resort to informal credit markets such as moneylenders who charge exorbitantly higher interest rates on loans. Thus, the argument advanced for expanding the formal microfinance industry is for the institution to act as a substitute for the informal credit market and help poor people escape the clutches of the evil moneylenders. The proponents of the formal microfinance or semi-formal finance typically suggest that they give a better deal than what the poor can get from the local moneylenders or 'loan sharks', who sometimes charge up to 10–20% interest rate per month (Sandberg, 2012). Shah *et al*, (2007) observed that the sponsors of formal Microfinance Institution (MFI) are profit-oriented venture capitalists, who see the rural credit market as a fresh business opportunity. Microfinance institutions are primarily concerned with lending and recovering (mostly every week) what they lend to cohorts of people, at times at very high rates of interest. Shah *et al* however noted that recent evidence seems to suggest that MFI also possesses features that are not amenable to the plight of the poor. Such features include the profit motives of the system, high rate of interest and the abusive methods of loan enforcement and recovery. Due to these harsh recovery strategies, people sometimes had to borrow from moneylenders in order to repay loans obtained from MFIs. Other borrowers have "absconded", migrated or at times tragically committed suicide.

Hoff and Stiglitz (1990), however noted that though many governments, supported by multilateral and bilateral aid agencies, have devoted considerable resources to supplying cheap credit to farmers in a myriad of institutional settings, the results of many of these interventions have been disappointing as they do not adequately understand the workings of rural credit markets. Confirming this position, Tsai (2003) stated that despite the substantial expansion of rural financial institutions over several decades in China and India, informal finance sources such as professional moneylenders still represent the major source of finance for the rural people. Tsai observed that the All India Debt and Investment Survey of 1992 indicated that 40 percent of rural households continue to rely on informal sources of finance of such moneylenders for credit. Guerin (2014) noted that formal microcredit also derives its legitimacy from its supposed ability to replace informal finance and eradicate dependency on "usurers" but this has proven illusory as microcredit still represents a small share of household debts. Aryeetey *et al* (1997) also observed that most semi-formal financial institutions collapsed due to lack of fund and proper regulation as they could not fill the financial gap or act as substitute for informal lending. In other words, despite liberalisation

and attempts to introduce greater competition, formal finance did not become more accessible to a broad section of the real economy. Gill (2004) also indicated that informal lenders may have survived the various policy onslaughts because credit transactions are now interlinked with contract in other markets. Adebayo (1994) articulated the modern economic impact on credit in colonial Yoruba society. The modernisation of the economy through the establishment of colonial apparatus of domination such as commercial banks did not replace or alter the existing traditional means of savings and credit. This was attributed to several factors including the 'foreignness' of formal financial system, its urban and colonial administration bias and also the sectoral bias towards formally recognised economic activities. These activities were considered viable while the informal sector was described as high risk and unprofitable. Therefore, modern economy has effectively created two sectors: the formal and the informal, with separate rules guiding their existence.

Henry (1987) noted that the relatively recent study of the underground, irregular, and hidden economies would be seriously flawed if it ignored their inter-connectedness to the wider society. Henry further stressed that informal economies in capitalism are more than an appendage and its participants are more than a marginal surplus population. Falola (1993) also provided additional insights into some of the impacts of modern economy on money lenders business in Yoruba society of South Western Nigeria. First, transactions involving large sums had to be documented. Public Letter Writers prepared the lease to be signed by the borrower and his surety; this was accepted in court as evidence. Second, secured loans attracted lower interest than unsecured ones. Repayment of interest and principal are made in cash. Moneylenders accept properties as collateral. Such properties may include land, houses and crops, which were then confiscated if there was a default. When the borrower defaulted, the moneylender could take the matter to court or resort to the indigenous methods of loan recovery. Moneylenders advertised their trade by sometimes approaching wage earners in government offices and firms. Moneylenders preferred wage earners, particularly government workers both as sureties and borrowers because they enjoyed regular salaries, had permanent jobs and addresses, could not risk public embarrassment, and enjoyed the image that they are responsible people. The effect of modernisation on usury or moneylending in terms of increasing its scope of capital and lending activities was also noted.

The modernised economy has also affected the system of indigenous usury in terms of new sets of collateral securities and formal-informal linkages that can take different forms. Siyongwana (2004) noted a new dimension which shows the dynamism of indigenous usury in South Africa. This involves the use of Automated Teller Machine (ATM) cards as collateral for the loan collected. The use of ATM cards as security is also prominent among moneylenders in Botswana (Okurut and Botlhole, 2009). The Moneylender collects the debit card and Personal Identity Number (PIN) of the borrower. The lender uses the card to withdraw the loan repayment directly from the bank's ATM at the end of every month, after which the card is returned to the borrower. The perfect predictability of pay day in Botswana for instance helps to facilitate the use of this form of collateral. This, however, has its difficulties or limitations because the borrower according to Siyongwana, can cancel the card at the bank, thereby making the card ineffective. This form of collateral applies to salary earners whose salaries or wages are paid directly into their various accounts. Another short fall of this form of collateral in moneylending is that the borrower can also effect the change of bank account at his or her place of work to avoid loan repayment. Hurwitz and Luiz (2007) equally noted that methods of ensuring more efficient collection of instalments in South African micro-lending systems have included 'getting in first' through preferential debit orders and payroll deductions, or the outlawed 'card and PIN' method. Guerin *et al* (2012) was of the view that the practice of moneylending was complicated. Most lenders tend to combine the so called formal and informal characteristics such as transparency, reliability, short or long term finance, insecurity and sometimes unreliable social relationships.

As apt of the impact of modern economy on informal credit market, some studies have pointed to the existence of formal-informal linkages or collaborations especially between financial institutions such as banks and the indigenous money lenders. According to Adera (1995) for example, a great deal of informal credit originates in the formal sector and likewise, banks are the major custodians of funds that flow in from informal finance institutions such as ROSCAs, mutual aid associations, money lenders and the like. Adera stated that an expansion of the formal sector implies a corresponding expansion of the informal sector; a contraction of the formal financial sector similarly connotes a contraction of the informal financial sector. Nadan (2005) also observed that there are linkages between money lenders and modern banks because borrowers who are clients of moneylenders also patronise modern financial institutions such as the banks. Nadan noted that borrowers who

received low interest loans also took out (illegal) high-interest loans from moneylenders in order to repay their loans to the bank when facing difficulties. At that time, the "informal" system, provided backing to the "formal" one. Borrowers take these loans in order to retain the ability to obtain further low-interest loans from the bank. Nadan's study showed that the formal loans repayment such as those obtained from the bank were fairly reliably. It is likely that the reverse also occurred, with the "formal" system providing backing to the "informal" ones in terms of loan repayment..

Varghase (2005) also confirmed that there is actual or potential linkage between banks and moneylenders in the areas of loan refinancing, information accessibility and repayment enforcement. This brings to the fore, the fact that the duality of finance typical of developing countries would necessitate a situation whereby moneylenders' clients are also clients in the informal finance sector. It is important to note that the modern economy has created a new set of lenders or clients for the informal sector: the formal sector workers. These are employees of government agencies, modern corporations and those working in the manufacturing or service sector. According to Okurut and Bothole (2009) the key prerequisites for the clients who approach moneylenders in Botswana for instance, is that they must have a monthly income or be employed. During several discussions with usury lenders, Okurut and Bothole observed that loans granted to clients in paid employment are linked to their net pay (on average 50 per cent of net pay). This is to ensure that both principal and interest will be fully recovered from their monthly earnings. Borrowers in some instances also have to provide pay slips and their national identity card (*omang*) or passport as proof of eligibility for the loan. Therefore, as a result of modernisation, moneylenders' clients have expanded to include not just informal lenders but also the formal lenders who are employees of government and private organisations.

2.1.6 Indigenous usury networking, terms and conditions, interest rates and ventures

This section examines literature on networking, the terms and conditions of lending, especially the types of collateral required for credit, the epistemology of interest rate in moneylending and the dynamics of ventures financed by moneylenders within the context of informal microfinance.

Networking is an essential feature of informal economy which includes informal credit finance. It is a recognised fact in socio-economic research that social networks create

social capital which is an important requisite for business development. Social network and personal relationship are crucial in accessing credit in most developing countries of the world (Wydick, Hayes and Kempf, 2011). Networks represent a means for entrepreneurs to reduce risks, transaction costs and improve access to business ideas, knowledge and capital. A social network consists of formal and informal ties between the central actor and other actors in a circle of acquaintances (Kristiansen, 2004). Hansen (2009) explored the concept of social network, power and social capital. Hansen stated that social networks are social structures of persisting relations between social actors who relate to one another from network positions that both constrain and enable their interactions. The relationships between actors (often called "ties") are conduits for the exchange of resources such as money, information, expertise, jobs, connections, market access, authority, legitimacy, clientele, customers, physical resources, staff and volunteer time that help network members to meet their needs, and make them interdependent. Hansen, therefore, reiterated the fact that the network position of an actor influences access to network resources.

There is substantial evidence that social networks matter in mitigating problems of asymmetric information which therefore means that borrowers can access credit without the burden of physical collateral (Laszlo and Santor, 2009). Access to the informal credit market is usually based on networking through common friends and the cost of accessing informal credit varies depending on the structure of local social network (Ayyagari, *et al*, 2010). Manig (1996) posited that informal credit relations between borrowers and lenders in developing countries were embedded in the people's economic, political and social network of personal relations. Moneylenders use their close knowledge of the borrowers in order to ascertain credit worthiness of clients and this action helps the lenders' credit decision such that credits are advanced without necessarily requesting any form of physical collateral (Mohieldin and Wright, 2000).

In the study of street vendors, Jaffe, Carcintec and Zanoni (2007) noted that a street vendor's main collateral is his well-organised network of social connections. This "social collateral" reduces the lender's moral hazard⁹ by gauging borrower's reputation within a particular group. Jaffe *et al*, further stated that moneylenders have developed efficient

⁹ Moral hazard problem occurs when borrowers with low risk projects shift to high risk projects that promise higher returns but with a high probability of default (Okurut *et al*, 2005).

mechanisms for checking information through informal social networks which enable them to check the reputation of the borrower at a very low cost. Ayyagari *et al*, (2010), also noted the importance of networking in informal credit market as access to the informal market is usually based on networking through common friends. The cost of accessing informal credit varies depending on the structure of local social networks.

Wydick *et al* (2011) highlighted three prominent roles of social networking in informal credit relations. Firstly networks may be a source of information through which both the lender and borrower obtain credible direction on how to get either the right lender or borrower. Secondly, networking can also function as a screening mechanism and thirdly, reputation obtained through social ties or networks may serve as a form of social collateral for loans, producing a kind of instrumental conformity in which borrowers' access loans from the same lenders in a network. Zhou and Takeuchi (2010) had observed that one of the reasons provided by rural creditors for the failures of formal credit is their lack of familiarity with social networks in the community, coupled with the fact that they do not trust the borrowers and do not believe that the loan would be repaid. Zhou and Takeuchi further noted that borrowers in rural communities tend to care about their reputation. Therefore, there is a strong incentive to avoid any act such as default that will damage their reputation. This "reputation mechanism" comes into play in an informal credit market where networking is important. Thus, moneylenders rely less on physical property collateral and more on social pressure, reputation, networking and personal knowledge of borrowers or interlinked credit contracts for screening, monitoring and contract enforcement (Nissanke, 2001).

Accessing informal credit finance from indigenous usury lenders requires some form of introduction (Tsai, 2003). Apart from existing borrowers, lenders also engage in networking with the aim of sourcing for new clients. Aryeetey *et al* (1997) stated that moneylenders based their lending decision on firsthand knowledge of the borrower and information obtained through personal, social and business relationships or referrals. According to Gerxhani (2003) 'a friend of a friend' is a key phrase in informal credit market. Awasu (2012) stated that indigenous ethnic and religious networks are important in providing a context of cohesion, shared norms and an economic infrastructure capable of coordinating financial operations outside the formal economic system. These social networks are characterised as informal associations, religious groups, occupational organisations and communal networks. Zhou and Takeuchi (2010) equally noted that informal lenders can link

the financial market with social networks in their village community. By using social networks to solve the asymmetric information problem, lenders can reduce the transaction costs and associated risk of lending. Indigenous lenders reduce credit risk by creating a joint liability system based on social networks.

Siyongwana (2004) articulated the essence of networking in traditional money lending in black communities of South Africa. The study indicated that the marketing strategies for informal microfinance are diverse and varies across space. Referrals from existing clients were the most widely used strategy, while paid marketing agents were the least used form of sourcing for new clients. Given that referrals are a popular strategy in marketing, this is an indication that the business is based on loyalty or trust. Siyongwana stated that the term *ihlahla* emerged among the *Xhosa* speaking people. It means a branch where the introducer is regarded as a tree. The introducers are able to testify to the credit worthiness of the new clients, their association with the lendee and the degree of honesty. In the event that such a borrower fails to honour his or her payments within the agreed time span, the introducer takes the responsibility by either reminding the new debtor of the due loan obligation or by opting to pay the moneylender. The introducers tend to repay the loans because they are the guarantors which place the obligation on them to settle the amount owed by the debtors they have introduced. Due to the fact that the introducer bears the consequences of the borrower's dishonesty, it serves to eliminate default as introducers/guarantors would only introduce lendees that would rarely default to the moneylenders for credit.

Taking the networking, referral and reputation argument further, Okurut, *et al* (2005) noted that informal credits are mainly character loans where the borrower's reputation is of significant importance to the moneylender. For this reason, informal lenders invest both financial resources and time to gather information about potential borrowers from people known to them both in the market place and the villages where borrowers reside. Okurut, *et al* also stated that the reputation of the borrower determines the probability of wilful default, which may be assessed through how the borrower has performed in the repayment of loans borrowed from other people. Pham and Lensink (2007) also noted that most moneylenders live in the communities or villages where their clients reside and this gives them information and networking advantages as they are able to acquire intimate knowledge about clients. As a result, they often do not need physical property collateral but mutual trust which is built on

creditworthiness which takes a considerable length of time to develop (Siamwalla *et al*, 1990).

The evaluation of a borrower's creditworthiness can also be linked to the prevailing terms and conditions of credit, especially the issue of collateral. The form of collateral acceptable to usury lenders is an important term in informal lending. According to Soyibo (1996) the most common type of security requested by informal lenders is personal guarantee, although among moneylenders, properties may be accepted as collateral especially in urban centres. Soyibo also noted that in rural areas, apart from personal guarantee of the borrower, third party guarantors were also used as collateral for informal loans. Some lenders also accept the deposit of land titles but this has no legal significance. The basic essence of collecting the title document is to prevent the debtor from borrowing a substantial sum from another source or from selling the land to a third party (Siamwalla *et al*, 1990). In a study of moneylenders in South Africa, Siyongwana (2004) stated that clients make use of third party guarantors as collateral for the loan received from moneylenders. However, informal lenders such as moneylenders in China also rely on trust and reputation and very often do not require collateral or a guarantor (Ayyagari *et al*, 2010).

Sarap (1991) provided a comprehensive overview of the forms and nature of collateral in informal microfinance system. Sarap stated that collateral requirement in a loan transaction shifts the potential capital loss from the lender to the borrower. Thus, when the cost of realising the return from the collateral is very high, such assets become unacceptable to the lender. In the absence of any more or less marketable collateral, the borrower may utilise a third party which is often acceptable to the lenders. Sarap (1990) had noted that in some types of lending, the money lender may not request any collateral asset but insists on a guarantor who would monitor and provide accurate information about current and potential borrowers. The guarantor would also ensure that the loan is repaid as agreed. Obeta (1992) discovered that indigenous usury system and other forms of informal finance enjoyed patronage because of the absence of stringent collateral security as a pre-condition for loan. Boucher and Guirkingner (2007) also argued that the low collateral requirements of informal loans imply greater consumption smoothing for borrowers compared to the formal sector alternative. The use of third party guarantors ensures repayment enforcement since there is little reliance on the court or the size of the collateral assets (Geniot and Ray, 2006).

In his study of moneylenders in Malawi, Chipeta and Mkandawire (1992) observed that where a debtor fails to repay, the creditor may have recourse to the guarantor (*mboni* or *kaboni*). The *mboni* is usually a trusted man or kin of the debtor who is introduced by the debtor to the creditor. The *mboni* testifies to the creditworthiness and honest disposition of the debtor. The *mboni* pays only in the event of a defaulting debtor and he pays because he chose to be guarantor for the obligation and bears the consequences of the borrower's dishonesty. In this study, 48 percent of the moneylenders interviewed insisted on having the *mboni* as security. On the other hand, 38 percent required only the signature of the borrower as evidence or proof that loan has been collected.

In terms of loan repayment, Soyibo (1996) observed that moneylenders, like some forms of informal finance adopt the schedule of bulk payment of principal plus interest at the end of the period. Moneylenders also offer flexible seasonal interest rates and can adjust their repayment schedules according to season's peculiarities (Zhou and Takeuchi, 2010). By contrast, lenders in the highly regulated formal financial institutions do not have this flexibility because they are not familiar with the structure of social relations in such community. Zhou and Takeuchi also stated that lenders and borrowers are sometimes engaged in common business deals or trade in commodities with each other in the rural community. By linking repayment schedules with market activities, informal lenders can offer flexible terms of lending and hedge their risks as well.

Literature has also explored the dynamics of loan defaults in informal finance such of indigenous usury credit. Hoff and Stiglitz (1990) opined that informal lenders use both direct and indirect mechanisms to prevent default. For the direct mechanism, the threat of future exclusion is one of the methods used. Borrowers want to avoid defaulting on loans because to do so tarnishes their reputation and curtail their access to future loans. Second, lenders who are landlords or merchants may use the contractual terms in these other exchanges to affect the probability of default. Informal lenders, therefore, make use of interlinkages as a direct mechanism for solving information and enforcement problems. For direct mechanisms, most lenders will also use direct screening mechanisms and may monitor borrowers' behaviour. For informal lenders, the costs of information are low and this is because the lenders understand the social relations and dynamics of the community where they operate. Guerin *et al* (2012) observed that various mechanisms that are used to ensure repayment include regular visitation, promise of future loan, some forms of social pressure and in some

instances, acts of coercion can also be employed. And as members of the dominant elite, moneylenders make use of existing traditional institutions and value systems of the society to ensure the profitability and security of their business. The existing norms and values also force the borrower or family members to repay the loan advanced so as to avoid any form of embarrassment (Adebayo, 1992; Tressel, 2003).

According to Sarap (1990), the lender has control over the rate of interest, size of loan and the period of repayment. The lender recovers not only the defaulted principal but also the defaulted interest. Some lenders avoid doubtful borrowers by careful screening through a third party. Non-economic factors like caste, kinship, proximity of the borrowers to the lender, the offer of temporary house-sites to migrant workers and occasional or regular offers of tiny pieces of cultivable land to the attached labourers do act directly or indirectly as instruments of control over the borrowers. These also help in implicit contractual arrangements between the parties with less emphasis on direct screening. The findings of Sarap also showed that even in the absence of collaterals, loans are repaid because social forces exert pressure; dishonouring a contract means loss of face for the borrowing household to such an extent that even the poorest household would not contemplate such action unless they are compelled by extreme circumstances. Thus, Aryeetey *et al* (1997) observed that delinquent loans or rates of loans default are lower in moneylending relative to the banks in the sampled countries of their study. Falola (1993) extensively described the various mechanisms of loan administration and recovery in colonial Yoruba moneylending practices. First, the lenders believed that they were performing essential service by giving favour and gratification to those in trouble. That a debt must be repaid was not negotiable. The lender could reach the police before the debtor and bribe indigenous authorities. The lender could also hire the services of recovery agents known as *agbowopa* (people who could use force) to recover delinquent or bad loans. Above all, many people believed that lenders could go to any length including killing the defaulter to recover their money. In the event of default, the lender could expose the debtor by informing relations and important contacts of the borrower that he or she has refused to meet the terms and conditions of the loan repayment. The intention of the money-lender was to ostracise the debtor by characterising him as unreliable, useless and lacking integrity.

An important aspect of the terms and conditions of indigenous usury system is the interest rate. This has remained a prominent feature of indigenous usury system. Gine (2011)

posited that the somewhat 'free' or easy forms of collateral in money lending may be a trade off with the relatively high interest rate which usury lenders charge their clients. According to Persky (2007), the origin of "interest" is intimately connected to the changing meaning of "usury." Persky noted that the practice of charging interest rate was originally a form of penalty to defaulters on loan or late payment of an otherwise legitimate, non-usurious loan. As more sophisticated commercial and financial practices spread overtime, fictitious late payments became an accepted but disingenuous way of circumventing usury laws. Over time, "interest" became the generic term for all legitimate and acceptable payments on loans. The exploitative perception of moneylenders is sometimes based on the high rate of interest charged by the lenders. Guerine *et all* (2012) stated that moneylenders charge monthly interest rate which usually ranges from 4 percent to 10 percent. While tangible collateral may not be required, the high interest rates are viewed as an impediment to taking on large usury loans. According to Hoff and Stiglitz (1990) interest rates charged by moneylenders may exceed 75 percent per annum. Karlan and Zinman (2008) also observed that moneylenders charge interest rate ranging from 30 to 100 percent per month.

In a study of finance in the informal sector in Nigeria, Soyibo (1997) stated that rates are usually calculated on a monthly basis. It is however not unusual for moneylenders to charge as much as 20 percent per month which translates to an interest of 60 percent for a three months loan tenure. The study also found that some informal lenders charge different interest rates for old and new customers. There can also be geographical consideration in the calculation rate of interest. In the rural areas, the average rate of interest was 2 percent per month while in the urban areas, interest rate was 12.5 percent. Furthermore, Falola's (1993) archival study of moneylenders among the Yoruba of South Western Nigeria stated that the common practice was for the lenders to charge a minimum of a hundred (100) percent interest rate on the loan advanced. This informed the name '*sogundogoji*' meaning turning twenty to forty. It implies doubling the principal sum by way of interest charged. The rates of interest also tend to differ between secured and unsecured loans. Gaerlan, Cabrera, Samia, and Santoalla (2010) in their study of female access to informal credit in the Philippines noted that the standard rate of interest is 20 percent per quarter or 80 percent per annum, as against the average bank rate of 4 percent per quarter, or 16 percent per annum. The high interest rate specifically stood indigenous usury lending out from other forms of lending,

hence the argument that they are usually the least attractive option for business professionals (Atieno, 1998; 2001).

Scholars have indicated that moneylenders charge interest rates every month and in addition, there is the practice of upfront collection of certain interest and other rated charges (Falola, 1993; Patole and Ruthven, 2001). In a study of moneylenders in Malawi, Chipeta and Mkandawire (1992) observed that the rate of interest charged ranges from twenty (20) per cent to hundred (100) percent. The mean rate of interest is about sixty (60) percent. The interest rates charged by moneylenders in Malawi were regarded by the general public as usurious. The term '*pilipili*' (pepper) used for loans with an interest rate of up to one hundred (100) percent per month reflects the general social disapproval of this high interest rate. Chipeta and Mkandawire, however, noted that in spite of this perceived high rate of interest, moneylenders have continued to enjoy wider patronage in Malawi. The 100 per cent monthly rate of interest has prevailed for several years in many parts of Malawi. Aryeetey *et al* (1997) also noted that interest rate on moneylenders' loans ranges from zero to 100 percent.

In another study of indigenous usury lenders in the three South African districts of Gauteng, Limpopo and Eastern Cape, it was discovered that the average interest rate ranges between thirty (30) per cent and fifty (50) per cent on monthly basis but when annualised, the results of the study showed an interest rate of 202.6 percent (Siyongwana, 2004). This interest rate is generally described among these people as usurious and high; it is a sign of discontentment with the rate. Siyongwana further noted that even when the principal sum on the loan cannot be repaid as and when due, it is important that the borrower ensures that the interest on the loan is paid to avoid the negative repercussion of default. Mallick (2012) also reported that among Bangladeshi indigenous lenders, the minimum and maximum annual interest rates are between ten (10) per cent and two hundred and forty-nine (249) per cent, respectively. The study also discovered that the use of moneylender loans for productive purpose attracts lower interest rate than consumption purpose. In other words, there may be interest disparity with the purpose of loan whereby loans meant for productive purpose tend to attract less interest rate than the loan collected for consumption purpose.

Saikia (2010) noted in an analysis of Assam moneylender in northeastern part of India that the interest rate may vary from place to place and it was not unusual to find moneylenders taking a very high interest of 500 per cent per annum. Majority of the

moneylenders charged approximately 37 per cent annually. Further, there were also other exactions. For instance, in *Kamrup*, peasants paid an extra amount known as *mukhchani* and this amount is separate from the actual interest rate. These moneylenders, mostly upper caste priests or landholders, would deduct a sum from the principal amount as customary charges and such charges were legitimised by religious sanction. Reddy (2007) has argued that while indigenous usury lending may attract comparatively high rate of interest, there are also few exceptions where a loan from a regular lender can attract zero interest rate. This is especially possible when such loans are considered as a form of 'help' by the lender.

Several countries have attempted to limit or restrict the interest rate charged by moneylenders through the enactment of laws that among other provisions, place a ceiling or cap on the interest rate that would be charged by these lenders (see Falola, 1993; Siyongwana, 2004; Nadan, 2005; Saika, 2010; Eja and Bassey, 2011). The archival study of Falola (1993) and Adebayo (1992) for instance, observed that as both lenders and borrowers do not abide by the rules stated in the ordinance that is supposed to regulate or guide moneylenders' transactions. Eja and Bassey (2011) noted that there are various provisions in the moneylending law of Nigeria which guides the administration of interest rates. For instance, while the maximum rate of interest on secured loans was capped at 15 per cent per annum, simple interest calculation; unsecured loans attract maximum interest rate of 48 per cent per annum. In an analysis of South African Usury Act of 1968 as amended in 1992, Siyongwana (2004) noted that an interest rate cap of 21 per cent per annum was placed on usury loans. The Act according to Siyongwana was meant to protect individuals from the excessive charges of moneylenders. In a study of Palestinian moneylenders, Nadan (2005) explained that moneylenders do 'work around' the nine (9) per cent limit on interest rate prescribed by law. Nadan stated that the excess on the nine (9) per cent interest rate can be concealed using different means such as making the borrowers document that they receive loans that were more than what they actually collected in real terms. Also, lenders can document the sale of fictitious goods and if these goods changed hands at all, they are immediately returned to the lender.

A significant question which researchers have had to grapple with is the cause of or factors that can account for the high interest rate of moneylenders. Several contending reasons for the comparatively high rate of interest have been posited by scholars. Adebayo (1992)'s archival study documented the various reasons for the high rate of interest

associated with moneylenders. Adebayo stated that while it is tempting to attribute the perceived high interest rate to profit and/or callousness, critical minds are urged to consider the social conditions surrounding this system of lending. These considerations include the fact that lenders engage mostly in clean lending, that is, lending without tangible collateral being pledged by the borrower. Even when the property is available, lenders encounter great difficulties in disposing such properties in case of default. This is either due to the contentious right over the property by the borrower or the solidarity of the community which prevents any sale of the property used as collateral.

Therefore, the high interest rate is designed more as a means to mitigate or offset the actual or potential loss that may be sustained by the lenders than as a means of making huge profit. Taking this argument further, Falola (1993) provided five reasons for the high rate of interest of moneylenders. The first reason is the profit motive of the moneylender. The second is the risky nature of the business whereby a borrower could abscond without making the repayment, leaving the lender to do battle with the surety as there was usually no tangible property pledged as collateral. And when there is tangible collateral, such could not be trusted as a realisable property. The lenders also have to spend a lot of time and efforts collecting the loan. The third reason is the high cost of loan recovery in case of default. The fourth reason for high interest has to do with the poor and fraudulent documentation. Finally, there could be difficulties in loan recovery as the surety is always eager to avoid any such payment and, would fight with the money-lender. The surety can equally argue that the matter be referred to the court. Some of these reasons are still valid in contemporary usury interest rate justification. Eboh (2000) stated that high interest rates in moneylending can either be economically justified or viewed as signs of exploitation. Eboh noted that the rationale of high rates of interest in moneylending is complex and multifarious. Some borrowers may be forced to pay high interest charges because of precarious financial/economic circumstances; others may accept to pay high rates in anticipation of even higher rates of returns on investments. Others may however concede to high interest rates for ease of access and flexible terms of lending.

In other words, the high rates of interest charged by professional moneylenders reflect the high risk of lending to clients with unconventional forms of collateral who in most cases, do not possess any form of security (Tsai, 2003). According to Gangopdhyay and Senguupla (1987), moneylenders' high interest rate can be a reflection of the monopoly power of the

lender and also the risk of default faced by a typical lender. However, other hypotheses hinted at the complex nature of transactions in traditional money lending where a combination of factors namely, the restricted size of the rural credit market, the associated monopoly power accruing to a lender, the personalised nature of credit contracts, the unequal power relation between borrowers and lenders, and interlinkages with other markets. All these are used to explain the prevalence of high and diverse interest rates (Swaminathan, 1991).

Taking the monopoly argument further, Sarap (1990) opined that a typical borrower in the unorganised credit market has no access to organised credit because the collateral which the borrower can offer is usually unacceptable in the organised market. This, in turn, gives a certain monopoly power to the rural moneylender who can accept alternative forms of collateral. The high interest rates reflect the money lender's monopoly of determining profit. It is also argued that this profiteering tendency is often over-stretched to the detriment of borrowers who except in very few cases have no more accessible credit market other than the money lender. Some scholars, however, disagreed and contended that the high interest rates are caused by high lender's risk of default, opportunity costs of funds and costs of loan administration (Eboh, Ugama and Okereke, 1991; Schrader, 1994).

Aryeetey *et al* (1997) also stated that the relatively high rates charged by informal moneylenders are likely to represent substantial monopoly power vis-a-vis borrowers who lack access either to formal credit or to membership-based informal finance. Further, the highly personalised relationship between the lender and borrower permits the lender to easily secure from the borrower, the collateral in the event of a default. Swaminathan (1991) posited that higher rate of interest in informal credit market is associated with a lower level of marketability of the collateral offered. This is consistent with the argument that a lender's effective interest depends both on interest payments on the proportion of the loan that is repaid and the asset transfer on the proportion of the loan that is defaulted. According to Siamwalla *et al* (1990), the key determining factors of interest rates in the indigenous usury system are the size, duration, and required collateral of the loan. Furthermore, the interest rates of moneylenders are high because transaction costs are high, particularly at the margin. For the borrowers who are already among the clientele of a particular lender, the transaction costs may not be very high, but if a borrower among this clientele were to shift to another lender, the marginal transaction cost that lender would have to cover may become quite high.

According to Aleem (1990), usury lenders have no choice but to charge relatively high rates in order to cover costs from their small clientele. The observation of “too many lenders” in the informal credit market and its implication for interest rates have also been highlighted in other research works (see Hoff and Stiglitz, 1998). While moneylenders’ loans are seen as generally expensive, the interest charged is only one part of the cost of borrowing from this source of lending. The transaction and social cost of moving from one lender to another may be too high when compared with the interest rate itself. It is also possible that debts can also be repaid with manual labour, farm produce, other services, loyalty and respect (Guerin et al, 2012).

Fernando (1988) also provided a comprehensive analysis of the structure of interest in Sri Lanka’s money lending system by using the four components of rural interest rates: the opportunity cost of the money, the premium for administering the loans, the premium for risk and profit monopoly. Fernando concluded that the interest rates of the informal sector may be explained in terms of both social as well as economic factors. This is because the purely neo-classical concepts appear to be inadequate due to the importance of extra-economic considerations in the transactions of the rural economy. For money lenders, it appears that opportunity cost and risk premium are much more significant in explaining the prevailing rates rather than administrative costs and monopoly power. Fernando also stated that while monopolies do exist, they are localised and temporal phenomenon.

Scholars noted that moneylenders’ interest rates can also depend on the information regarding the creditworthiness and nature of the borrower’s business or purpose of the loan (Bhattacharjee, Rajeev and Vani 2009; Mallick, 2012). Hence, if the loan is for productive activities and the borrower has a credible history of credit, the rate of interest is lower because the risk of default is equally reduced. The borrower’s profit potential as measured by farm size, soil quality, and even the farmer’s education, are important considerations for moneylenders in the interest charged on a loan. In other words, the market value of collateral security may also influence the rate of interest charged by usury lenders. Also, farmers residing in areas characterised by the use and/or provision of new technology face lower interest rates. Competition among the moneylenders can also influence interest rates in either direction (Falola, 1993). If the informal credit market is characterised by perfect competition,

the rate of interest can also be reduced¹⁰. Conversely, the loss of economies of scale can result in higher interest rates (Mallick, 2012). Apart from economic variable, various sociological factors such as status of the borrower in the society and that of the guarantor, the class or caste background and production relations can determine or affect the rate of interest (Jodhka, 1995).

Moneylenders' interest rate is deemed to be higher than the interest obtainable from formal finance system when such interest is calculated using the simple interest format of formal finance system. This may not be a fair judgment of moneylenders' rate of interest. Schrader (1992, 1994) made an exceptional analysis of this position by noting that credit utilisation on a daily basis by the poor *vis-a-vis* the pressing needs at the material time, can not be compared with the loss that the borrower would incur when access to credit is denied. For instance, a father that requires urgent funds to pay for the medical bill of a critically ill child will think first of the life of the child than the interest rate. In the estimation of the father, the cost of losing the child far out-weighs the alternative which is to ignore the loan due to the high interest rate. Even when the interest rate in formal finance is said to be greatly reduced, the burden of additional charges through late repayment and loan rescheduling can increase the rate of interest that the borrower would eventually have to pay (Patole and Ruthven, 2001).

Several studies have explored the purpose of lending in indigenous usury system. The dominant perspective is that usury lenders can provide loans for both economic and social needs. In a survey of four rural communities in Southern India, Guerin *et al* (2012) observed that indigenous usury lenders are sources of emergency funds for borrowers and lenders allow their clients to make repayment over a short period of time. The data from this study further indicated that roughly half of the loans sourced through moneylenders in these locations were used for everyday consumption expenditures. This was followed by other purposes such as education costs including transportation fares, books and school fees among others. Other social expenses that are financed with loans from moneylenders are gifts for

¹⁰ While some argue that high interest rates in informal finance are economically justified, others view them as signs of exploitation. The possible rationale for high rates of interest is complex and multifarious. Some borrowers may be forced to pay high interest charges because of precarious financial/economic circumstances; others may accept to pay high rates in anticipation of even higher rates of returns on investments; moreover borrowers may in fact concede high interest rates for ease of access and flexibility of terms (Eboh, 2000)

ceremonies and health expenses such as medicines, medical consultation fees and surgical expenses.

Adams *et al* (2003) also noted that one of the notable advantages of moneylenders over other sources of finance is their level of flexibility in terms of the type of ventures they finance. Adams *et al* analysed informal lending in rural market of South Asia and observed that moneylenders provide finance for productive and social needs of their clients. Bhattacharjee *et al* (2009) also alluded to the fact that usury lenders finance both productive and social ventures. The study of Bhattacharjee *et al* stated that households in developing countries such as India require credit for a variety of reasons including financing daily consumption, meeting lump-sum expenses during marriage or illness and, most importantly, for financing income-generating activities. Since credit is essential for meeting critical needs, access to credit is crucial for maintaining and improving social and economic conditions of households. However, some borrowers do avoid loans from moneylenders when it comes to economic or productive ventures. Atieno (2001) in a study of informal credit and informal institutions in Kenya discovered that less than five (5) per cent of local enterprises got credit from moneylenders, while none of the interviewees used moneylenders' loans for initial or operating capital. In the opinion of Atieno, while the informal credit market is easily accessible, lending terms in certain segments make some forms of credit inaccessible and unattractive to some borrowers. Patole and Ruthven (2001) researched on moneylenders in the squatter settlements of Delhi in India and noted that indigenous usury lenders within these localities tend to prefer lending to businessmen and women than labourers. This study, however, observed that loans can be advanced for a wide range of activities including rent obligations, marriage, festival and the like, once the repayment capacity of the client can be assessed and ascertained.

In analysing moneylenders in Malawi, Buckley (1997) noted that in all cases, loans obtained from indigenous usury lenders were used for consumption/ distress purposes and these loans involved relatively small amount with short maturities. Moneylenders in this study provided loans with short maturity period and these loans were used to meet urgent social demands such as for funeral or medical expenses, and for the payment of school fees. In the study of informal credit volume in Bangladesh, Rahman (1992) had earlier observed that consumption loans constitute only 29.7 per cent of total informal financial transactions in the small loan category and 21.6 per cent in the large loan category. Rahman also stated that

consumption loans should not always be viewed as unproductive because it is the consumption workers or family that also engage in the process of material production.

The study of Botswana's informal credit market has also shown that the primary purpose of informal lending is for consumption or non-investment activities (Okurut and Botlhole 2009). The well-known problem of *fungibility* of credit (where the actual use of the credit may differ from the reason stated at the point of requesting for the credit) was assumed to be minimal in this study. This accounts for why informal lenders were not bothered about the stated and the actual purpose of a loan. The study also showed that majority of the credit sought from informal financial institutions like the local moneylenders, were used for consumption purposes. Interestingly, some of the informal loans were also used to repay other debts sourced from other financial systems, whether formal or informal. Such debts may include those obtained from other informal sources like relatives and cooperatives, and from formal financial institutions like banks. This brings to the fore, the issue of loan refinancing in informal credit market. According to Mallick (2012), individuals do obtain loans from formal institutions to settle or repay loan obligations in the informal and vice versa. This enables the borrower to remain in the good books of the lenders by maintaining good credit history.¹¹

Furthermore, because of indigenous lenders' information advantage and the ability to take possession of collateral when borrowers default, borrowers would prefer to pay loan obligations owed to the informal lender than the formal institution (Nadan, 2005). In other words, people are more likely to honour their obligations to the informal systems than the formal or modern systems of credit. Nadan also stated that moneylenders' clients also obtained loans for 'finance' purposes and this include payment of deposit to open a bank account, repay instalments on bank loans, and to advance or repay loans within the informal market. Falola (1993) also noted that the threat of taking loan default cases to court or public disclosure and humiliation would make a borrower take more loans in order to clear other outstanding debts. This may involve taking loans from the formal sources to repay loans obtained from the informal sources. The issue of using new debt to finance old debt has also been observed by Guerin (2014). Guerin stated that financial practices reflect deliberate choices and strategies geared towards multiplying and reinforce social relationships to

¹¹ It has been reported that nine per cent (9%) of loans borrowed through informal sources were used to repay existing debts (Zeller, Sharma, Ahmed and Rashid, 2001)

maintain a certain balance, considering the inherent ambiguity of all debt relations. This ambiguity lies in the fact that while debt can provide protection and solidarity and as a means of expressing reciprocal trust and respect, when it is not honoured or is too imbalanced, it can be a source of humiliation, shame, exploitation, and servitude.

In a comparative review of a moneylender's book in a rural Indian, Jones (2008) revealed that 'production-related' loans were advanced for agricultural purposes. The money obtained from moneylenders was used to finance a wide range of other needs which include payments for labour, livestock purchases, seeds, well or borehole construction and repair, land fines, tax, and repairs of water pumps and tractors. However, there were also other loans with important material production elements. A wide range of loans taken for household purposes can be thought of in terms of its productive consumption (e.g. expenditure for health, house repair, education, and even food) without which labour availability and capacity will suffer. Jones also noted that some clients also take loans to finance travelling expenses, especially when such travel expense is linked to the employment market. Siamwalla *et al* (1990) also observed that one common reason or purpose for borrowing from moneylenders in the North-Eastern Thailand is to finance migration to foreign countries in search of employment, particularly in the Middle East. When loans are taken for non-local travel, these are largely used to finance migration to seek better standard of living.

In a related research work, Guerin *et al* (2012) indicated that there is a link between the purpose of a loan and the source of the loan. Loans obtained from moneylenders were often used for heavy social expenditure such as those incurred for ceremonies, hospital expenses and fees for private schools. Hence, the probability of using formal or semi-formal credit increases if loans are meant for investment-related purposes, while the probability of using informal credit increases if loans were meant for housing and consumption needs (Pham and Lensink, 2007). However, this is disputable, considering evidence which has shown that informal lending has been and can be used to finance productive or investment ventures as well as consumption related expenses (Jodhka, 1995; Jain, 1999). Adebayo (1992) argued that apart from the social use of informal credit, evidence points to the clear economic motives for loans sought from moneylenders in traditional Yoruba society. Specifically, loans were taken by traders such as blacksmiths; goldsmiths, weavers and the likes. These traders also use these loans to finance trading missions in order to purchase raw materials. People also sought credit in order to finance different stages of the production.

Farmers also took loans to expand farmlands and purchase seedlings. In an examination of the diary of a local intelligentsia during the colonial period in Ibadan, Adebayo (2008) observed that this famous elite habitually borrowed money from professional moneylenders to finance and maintain his flamboyant life-style. He further stated this local elite also took fresh loans to pay off old ones, and paying off of these old loans may also involve borrowing from multiple sources including friends and relatives. Whenever the borrower failed to meet up with the payment of overdue loans, he mobilised family support to plead for extensions from his creditors. These are the reasons for the subtle game of regularly reducing one's debt while taking on debt elsewhere. Eja and Bassey (2011) stated that with the money lenders credit, low income earners were able to acquire basic or modern consumer goods such as cars, fridges, televisions, generators and the like to meet other personal needs. Further, money lending was not the only consumer credit facility available. Consumer goods can also be acquired from the manufacturers, owners, distributors or retailers and used, while payments are made through convenient instalments or deferred to a further date. Zhou and Takeuchi (2010) stated that informal credit is required to cope with large expenses, often unexpected, such as sudden sicknesses, ceremonial occasions (e.g., funerals or weddings), and higher education for their children.

The social meaning of debt is known to be connected to informal credit usage. According to Guerin *et al* (2012), individuals often accumulate debt and repay loans in accordance with their own informal hierarchies and calculation framework (subjective rationality). Guerin *et al* further stated that the social meaning of debt plays an important role in the determination of the purpose of informal credit finance. In a society where there is adherence to norms and values, particularly as it relates to certain festival standards, the sourcing of funds by borrowing is acceptable, considering the social repercussion of doing otherwise (see also Adebayo, 1992). In another study of the utilisation of informal loans in Pakistan, it was noted that a large proportion of informal credit was used to finance social festivities and ceremonies as demanded by their culture (Jan *et al*, 2011). The social status of people in this area is maintained and displayed through social festivities and ceremonies. The festivals in the community serve as the bond that keep and reinforce the communal life of the people irrespective of status or class. Therefore, informal credit sources provided a base to maintain social heritage in the traditional villages of northwest Pakistan. According to Jan *et al*, the moneylenders' ability to finance both consumption and production-related activities

underline the flexibility of this form of lending. This is more important considering the fact that households can hardly make a clear-cut distinction between consumption and productive loans (Schrader, 1994). According to Saika (2010) moneylenders finance various agricultural operations, social practices like marriages and funeral ceremonies, purchase and improvement of land and houses, clearing the family debts and payment of land revenue or rent were principal among other consumption, cultural or productive purposes. Saika further stated that there are evidences of rich and enterprising landowners borrowing from moneylenders for productive purposes with less exploitative terms. The amount borrowed was also usually high.

In a study of the house and individuals' characteristics that influence the demand and supply of informal credit in Uganda, Okurut, *et al* (2005) noted that informal lenders usually provide credit for consumption purposes which can have a long-term positive impact on household productivity, skills acquisition or improvement in health status if such loans are used for education or healthcare. This may enhance or at least preserve the productivity of the labour force. The credit market is also, at least potentially, an important instrument for smooth consumption. Informal productive activities can also form the basis for sourcing funds from moneylenders.

In a study of the workings of informal financial market in Nigeria, Soyibo (1996) opined that farmers are known to sometimes borrow from moneylenders during the planting season and also to finance social events only to repay the loan during harvest session either through direct cash payment or through market or trade linkage. In his analysis of moneylender's diary in selected areas of India, Reddy (2007) observed that lendees borrow basically for consumption and production purposes. The borrowings for consumption are further classified into health, food, culture, customs and household assets. All the festivals observed throughout the year also were financed with borrowed funds from moneylenders. Other consumptions included all ceremonies necessitated by customs and social needs such as visiting relatives, giving gifts, and hosting a visitor also required funding from the moneylenders. Reddy however, observed that while moneylenders still finance consumption needs of their clients, there is a decline in borrowings for such purposes (especially for culture, customs and food). Reddy noted that there is a rise in the borrowings for production purposes (buying seeds, fertilisers and pesticides). This is largely due to the internal factors relating to production, land use pattern, changes in the social structure of the village and

external factors relating to changes in policy and operation of government schemes in the village.

The use of informal credit for productive needs is evidence in the observed interlinkages of economic activities between a lender and borrower. According to Soyibo (1997), one of the characteristics of traditional credit institutions or market is the existence of informal sector interlinkages between credit transactions and transactions in other markets. According to Nadan (2005), loans had to be repaid to merchants-moneylenders in cash during or directly after the harvest and the borrowers frequently sold the yield to these merchant-moneylenders. Money lending was, therefore, an interlinked transaction, where a contract in the goods market was simultaneously a contract in the credit market. Even in cases of default, the transaction remained interlinked. Therefore, unlike the bank, the merchant-moneylenders typically did not want to recover the security, but to get the loan repaid (preferably in kind). Thus, both the lender and borrower may interlink the terms of transactions in the credit market with those of transactions in the product or commodities market (Hoff and Stiglitz, 1990).

2.2 THEORETICAL FRAMEWORK

The study is guided by the rational choice theory. The rational choice paradigm is derived from the utilitarian tradition which is dominant in modern economics (Monroe, 2001). This paradigm has also become increasingly important in disciplines such as political science, law, anthropology, organisational theory and management science. It is also gaining grounds in contemporary sociology (Martinelli, 2011). In spite of the initial resistance to rational choice theory (Goode, 1997), it is important to note that the original theoretical assumptions of sociology's founding fathers such as Durkheim, Marx, Weber, Pareto, Talcott Parsons and Homans contain elements of rationality discourse (Voss and Abraham, 2000; Zafirovski, 2000, 2005, 2008; McGovern, 2003; Jerolmack and Porpora, 2004; Hedstrom and Stern, 2008).

Ritzer and Goodman (2004) have outlined the basic tenets of rational choice theory. First, actors are seen as being purposive or intentional in their actions. In other words, actors have ends or goals toward which their actions are aimed. Monroe (2001) stated that a rational actor is an individual whose behaviour springs from individual self-interest, conscious

environment, a well-organised and stable system of preferences, and computational skills that allow the actor to calculate the best choice (given individual preferences) out of the alternatives available. Therefore, the evaluation of an action by a rational individual is thus determined by what the actor expects as possible consequences (Voss and Abraham, 2000; Lahno, 2007; Best, 2009).

Second, actors are seen as having preferences; they undertake to achieve objectives that are consistent with the hierarchy of these preferences. That is, actors act purposively towards goals that are shaped by values or preferences. Third, actors have two major sources of constraints on their actions. The first is the scarcity or limitation of resources. Actors have different resources as well as different access to other resources. Achievement of goals may be relative, depending on the access to available resources. The second source of constraint on individual action is the social institutions. These institutions provide both positive and negative sanctions that are meant to encourage certain actions while other sanctions are designed to discourage certain actions. Hence it can be stated that the theory recognises the importance of macro level outcomes in the analysis of human behaviours and choices.

The micro-to-macro linkage or how the combination of individual actions brings about the behaviour of the system is an important feature of rational choice theory. Coleman (1990) stated that macro level phenomena must be explained by individual actions through the gathering of data at the individual actor's level and then aggregate such actions to yield a systemic outcome. Therefore, in a dyad relationship, an actor's control over certain resources that is of interest to the other actor leads to purposive social interaction between the two actors. The effort by each actor to maximise the realisation of valued interest gives the interdependence or systemic character to their actions. Also, key to contemporary rational choice theory is the role of information in choice selection process. Information influences purposive choice selection among alternative courses of actions open to an individual actor. It has been stated that since there are differences in the quality and quantity of information available to actors, information variability is said to have a profound effect on actors' choices among alternatives (Ritzer and Goodman, 2004).

In summary, Hedstrom and Swedberg (1996) stated that a rational choice explanation is characterised by the assumption that an actor, when deciding which course of action to choose among those available in the actor's opportunity set, would always choose the course

of action that best satisfies this his or her interest. In other words, human behaviour is conceptualised as the result of decision making. Before acting, the actor has to evaluate and choose among several alternatives. Rational choice theory proposes that an actor is subjected to certain (societal and individual) constraints. Given the constraints and quality/quantity of available information, he or she would evaluate the action alternatives and select the alternative that optimally satisfies his or her preferences (Best, 2009).

Rational choice theory has been variously critiqued in literature. The first critique deals with the lack of realism in rational choice assumption which states that individuals always calculate the expected consequences of various alternatives and subsequently select the best out of these alternatives (Goldthorpe, 1998). In other words, contrary to rational choice theorists, people often act impulsively, emotionally or merely out of force. Rational choice theorists have largely viewed this criticism as a product of the misconception of rational choice theory. According to Hechter and Kanazawa (1997), rational choice theories are concerned exclusively with social rather than individual outcomes. Given that each individual acts rationally, it is expected that the aggregate outcome will be rational with desirable or undesirable consequences. Also, rational choice theorists have proposed the idea of subjective rationality as opposed to objective rationality in dealing with the realism issue. The subjective rationality states that actors may hold beliefs, and in turn pursue courses of action, for which they have 'good reasons' in the circumstances in which they find themselves, even though they may fall short of the standard of rationality that utility theory would presuppose (Goldthorpe, 1998). That is, to act so as to meet certain criteria which, in the actor's judgment, indicate that a course of action is 'good enough'.

A second related critique concerns the central assumption of the theory that human beings are rational actors who always seek to maximise their self-interest in decision making process. Critics contend that people rarely have clear sets of preferred goals and that their actions may not always be directed towards the pursuit of self pleasure or ultimate benefits (McCubbins and Thies, 1996). In other words, actors often take decisions that may not be to their best interest. Rational choice theorists have opined that the concept of maximising utility is at the core of rationality. Therefore, even when individuals follow rules for instance, they do so when these rules maximise the actors' expected long term benefits. The adherence to specific rules may be understood as the result of a choice act between different possible

rules of conduct (Lahno, 2007). It has been noted that individuals engage in altruistic behaviours such as payment of taxes or joining trades unions, for example, because they feel that they are under an obligation to do so or because they have some kind of moral or ideological commitment to the organisation. Rational choice theorists tend to respond to such criticism by stating that norms are simply arbitrary preferences. Individuals may be socialised into all sorts of value commitments and will then act rationally in relation to these commitments. If people want to help others and get a sense of satisfaction from doing so, then giving help is an act of rational self-interest (Mellor, 2000; Scott, 2000).

Critics have also charged rational choice theory with being only atomistic or individualistic, thereby denying the importance of social structures (Goode, 1997). This is known as methodological individualism and it is based on the assumption that complex social phenomena can be explained in terms of the elementary individual actions of which they are composed. That is, elementary unit of social life is the individual human action. Hence, to explain social institutions and social change is to show how they arise as a result of the action and interaction of individuals (Scott, 2000). This critique has been refuted on the ground that social theorising focuses on how social systems operate, but most research focuses on individual behaviour which yields descriptions of social patterns by aggregating individual data (Coleman, 1990). Furthermore, most macro-theories are built on the basis of individual data. Most theories about groups or whole nations have been on the basis of individual data and have equally shown how social structures, especially by constraining opportunities, shape individual behaviours (Goode, 1997).

Another criticism levelled against rational choice theory is that the theory lacks adequate explanatory power. Green and Shapiro (1994) criticised rational choice's account of American politics, particularly voters' turnout, free-rider problem in collective action, legislative behaviour and electoral competition. Lovett (2006) has, however, argued that what is more important is the mechanism proposed by a theory rather than accurate explanations/predictions. For instance, in the case of voters' turn-out, the model proposes that voters compare the cost and benefits of voting. Hence, it could be predicted that voting rate would decrease if the cost of voting increases (Sato, 2010). While rational choice theory may not be able to provide valid explanations for all human actions or conditions, it is important to note that the realm of scarcity of resources and choices are effectively governed by rational decisions aimed at meeting specific needs. The limitations of funds or sources of funding *vis-*

a-vis individual needs would necessitate rational calculations of alternative courses of actions. In other words, the limitation of funding for various ventures, whether social and economic, ultimately results in rational evaluation of alternatives and selection of a source that would benefit the actor.

This study contends that rational choice theory can indeed explain the continued existence of indigenous usury system as a form of informal microfinance in contemporary Yoruba society. The theory assumes that actors engage in rational evaluation of alternatives and would select the best course of action that satisfies their needs. The structure of finance in most developing countries of the world including Nigeria involves two major sources of finance namely the formal and the informal. There are various sub-sets or variants of the formal and informal sources of finance and the requirements for accessing credit from each of these sources of credit differ. The requirements for accessing credit from formal financial institutions are mostly skewed against the poor who then must turn to other means of borrowing, especially from the informal credit providers like the local moneylenders. The patronage of moneylenders explains the rational actions of individuals who must seek alternative sources of funding in the midst of limited choices.

Rational choice theory can help explain the continued existence of a seemingly exploitative indigenous usury system, in spite of the presence of other formal and informal financial alternatives that may not be seemingly exploitative. Based on the theory, a rational borrower or lender would have evaluated indigenous usury system with other alternatives including credit from banks, formal microfinance institutions, rotating savings and credit associations and cooperative societies just to mention a few. And having examined the cost, benefits and institutional/individual constraints, the borrower may choose indigenous usury system because on the scale of rational evaluation among alternatives, it provides the best opportunity that satisfies the goal of the borrower.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Given the peculiarities of indigenous usury lending as an underground system of microfinance, this study has adopted a combination of several qualitative research methods. Qualitative methodology is employed because of the need to understand and explain the continued existence of indigenous usury system in contemporary Yoruba society. According to Baker (1999), the central objective of qualitative research is to understand social action – *verstehen* (from the actor's point of view).

3.2 Area of Study

The city of Ibadan is the study area for this research work. Ibadan is situated on longitude 3' 5" of the Greenwich meridian and latitude 7' 5" North of the Equator (Ayeni, 1994). Historically, the city, which rose as a war camp was originally called *Eba-Odan* (that is, "near the grassland"). It later metamorphosed to *Ebadan* and then Ibadan as it is currently called (Falola, 1984). Ibadan was established in the nineteenth century. The political and military crisis of the first few decades of the nineteenth century brought about significant changes in the social and economic life of the Yoruba society (Awe, 1973). According to Awe, Ibadan was a product of the political instability of war created by the collapse of the old Oyo empire and the subsequent migration southwards by some of the population of this empire who joined forces with the Ifes and the Ijebus in the war against the Owu people. As a military solution to the problem of invasion and political crisis, Ibadan evolved a social and political system that guaranteed peace and encouraged economic activities. Falola (1985) identified three factors that helped in the transformation of Ibadan from a war camp into a heterogeneous commercial centre in the pre-colonial history of the Yoruba people. First, the circumstances of the creation of Ibadan resulted in the influx of people into the area. Second, the newness and the large population encouraged easy practice of occupation by various professionals including traders who can sell their goods in large quantities. Third, the military oriented system of government with its foreign expansionist policy provided an increase in

the availability of land and also the needed security. The new settlement arguably provided equal opportunities to all individuals to aspire and acquire power, status and fame.

The introduction of colonial rule in the year 1900 created socio-political and economic stability. The new opportunities which this system provided attracted more individuals who were ready to engage in various economic activities including working for the new colonial government. The post-colonial Ibadan has maintained her status as the centre of political, social and economic activities in the Yoruba nation. Ibadan as the capital of the old western region and the present Oyo state has continued to attract people into the formal sector including employees of government in the civil and public service, government agencies, banks, private and public industries and educational institutions. Ibadan is largely an indigenous cosmopolitan city (Udoh, 1994) where informalities dominate the process of socio-economic exchange of values. This can be seen in the various traditional trading markets spread across the city. The strategic location of Ibadan provides the needed condition for economic activities, especially at the level of informal exchange of values. Thus, the need to seek credit opportunities for both productive and non-productive purposes necessitated the existence of informal credit institutions like indigenous usury system of lending in an informal economic hub like Ibadan.

The exact population of Ibadan is not known because the National Population Census (NPC) of 1991 undoubtedly underestimated the number of Ibadan inhabitants (Olaniran, 1998). The current estimate as at 1994 varies from 2 to 5 million inhabitants (Ayeni, 1994). Ibadan has a total of 11 local government areas, comprising of 5 urban and 6 semi-urban areas. The urban local government areas are: Ibadan North, Ibadan North-East, Ibadan North-West, Ibadan South-East and Ibadan South-West. The semi-urban areas include Akinyele, Egbeda, Ido, Lagelu, Ona Ara and Oluyole local government areas.

While studies on informal microfinance have concentrated on rural areas, the fact remains that informal microfinance is alive and working in the urban areas too. Falola (1993) stated that employees in the formal sector including civil servants are among the major clients of indigenous usury lenders. Hence, the choice of Ibadan in this study is justifiable because apart from being an urban centre, the city is the political, economic and social hub of Oyo state. In other words, apart from the economic advantage, the presence of federal, state and

local government agencies and formal institutions created potential lendees for indigenous usury lenders.

3.3 Study Population

The study population are the indigenous usury lenders and lendees in the city of Ibadan. The study selected interviewees within Ibadan metropolis comprising of the 5 urban Local Government Areas (LGAs) comprising Ibadan North, Ibadan North-East, Ibadan North-West, Ibadan South-East and Ibadan South-West. The interviewees consisted of indigenous usury lenders, trader-lendees and formal-worker-lendees. The choice of the urban section of Ibadan city is premised on the fact that a large population of formal and informal employees work and reside in this section of the city. Apart from the fact that the big markets in Ibadan are located in the urban section of the city, it should also be noted that indigenous usury lenders and lendees are located within and around these markets. Usury lenders also extend their services to formal organisations both private and public. Therefore, potential lendees are located in urban markets apart from the employees who work in the formal sector. These are markets that attract buyers and sellers from within the city of Ibadan and its surrounding communities. In addition, civil or public servants and employees of private organisations such as banks, insurance, manufacturing firms and the like also constitute potential lendees of the indigenous usury system.

3.4 Methods of Data Collection Technique

Qualitative data were collected for this study. The qualitative research methods adopted included In-depth Interview (IDI), Key Informant Interview (KII), Focus Group Discussion (FGD) and Case Study (CS). There were two categories of lendees namely: trader-lendees and formal-worker-lendees. The trader-lendees were selected in the most popular modern markets in Ibadan. The urban markets that were purposively selected were Bodija market, Bola Ige International market (New Gbagi market) and Agbeni market. These markets were selected due to the volumes of transactions in the market, the relatively large capital base required by traders, the dominance of traders who are likely to access funds from informal microfinance sources such as indigenous usurers and the presence of lendees in the market. The market also provided a platform through which we were able to interview lendees who subsequently gave us information about how to locate the usury lenders that they patronised.

The formal-worker-lendees were selected using snowball method and what was intriguing is the fact that some of the usury lendees interviewed included core and non-core employees of modern financial institutions like the banks. Likewise, usury lenders were also selected by using snowball method. Snowballing was used because usury lenders do not have conspicuous locations such as offices or shops. This can be attributed to the fact that their operations are illegal because they prefer to operate outside the prescription of the laws covering their activities. Usury lenders cannot be easily recognised except when identified by their previous or present clients. Further, usury lenders prefer not to advertise their activities because of the fear of armed robbery attack. The lenders have the assumption that people generally have the perception that they are always with cash either at hand or at home. All data for this study were collected over a period of 24 months; from the year 2014 to 2016.

3.4.1 Key Informant Interview (KII)

Key informant interviews were conducted among the lendees and the lenders. A total of five lendees who have accessed funds from lenders regularly for upward of 10 years were subjected to KII. Likewise, five usury lenders who were prominent usurers and had provided funds for at least 10 years were also selected. Both lenders and lendees were selected using purposive and snowballing technique. In all, a total number of 10 KIIs were conducted. Key informants provided cogent information on the structure, organisation, network and rationality of indigenous usury system.

3.4.2 In-Depth Interview (IDI)

In-depth interviews were conducted with lendees and lenders in the three selected major markets within the Ibadan metropolis. In each of the three markets, 10 trader-lendees were interviewed. Further, 20 formal-worker-lendees were also interviewed across the various formal organisations within the city. These formal-worker-lendees also included government workers. Likewise, 10 lenders were also interviewed. In all, 60 IDIs were conducted comprising of 30 trader-lendees, 20 formal-worker-lendees and 10 indigenous usury lenders. All interviewees were selected using purposive and snowballing sampling technique.

3.4.3 Focus Group Discussion (FGD)

Focus group discussions were conducted among lendees. A total of 4 FGD sessions were held with trader lendees comprising of 2 sessions each for both male and female trader lendees. Also, 1 male and 1 female FGDs were conducted among formal-worker-lendees. In all, 6 FGDs were conducted. Each FGD comprised between six and 12 discussants. There was a moderator and a note taker. The essence of the FGDs was to discover the outcomes of the main objectives of the thesis when these objectives are subjected to group discussions among indigenous usury lendees. Questions that were asked during the one-on-one in-depth interviews with the lendees were subjected to group discussions and reactions.

3.4.4 Case Studies

Case studies (CS) involved an evaluation of the life histories of two indigenous usury lenders and two lendees from Ibadan. A total number of four case studies were conducted. The method described and explored the life style and circumstances surrounding their involvement in indigenous usury system. The life histories included information on how they got involved in the business of informal lending, the gains and losses experienced on the job.

3.4.5 Data Collection Instrument

Data were collected using specially designed IDI/FGD/KII and CS interview guide. Also, the study made use of voice recorder for ease of data collection and transcription.

3.4.6 Research Analysis Techniques

Data from the field were subjected to content and interpretive analysis. The analyses took the form of data codification, chronicles, repeated reviews and verbatim transcriptions. The presentation of findings was done by using words summary forms. This involved the use of key words, phrases and sentences that explained interviewees' dispositions and actions within the context of indigenous usury system.

3.5 Ethical considerations

Regarding the ethical standards on research work involving human subjects, this study upheld the principles which aim at protecting the dignity and privacy of every individual who, in the course of the research work, were requested to provide personal or commercially

valuable information. One of the ethical considerations of this study is the issue of informed consent of interviewees. The interviewees were the indigenous usury lenders and lendees in urban Ibadan. The researcher sought and obtained the full consent of all interviewees in the study and this was done through written and oral explanation of the intention of the study. Interviewees were assured that they could withdraw their participation at any time even if they had earlier given the consent to participate in the study. There were instances complete withdrawals by interviewees who had earlier given their consent to the study. Most of these withdrawals were due to interviewees business or personal exigencies. Interviewees were also assured that their participation would not in any way result in any form of body, psychological or economic harm. Where such issues were dictated, the interviews were discontinued except in cases where the interviewees insisted on proceeding with the study.

Confidentiality was also an issue in this research. For this study, interviewees' personal information of the lendees and lenders were coded to avoid identification by those who would have access to this study. While this research understands the ethical dilemma of confidentiality and full disclosure of materials to the intellectual community for possible follow-up, the researcher would seek the permission of the participants for any future follow up or enquiries.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

Introduction

The presentation and analysis of the data is presented in this chapter. The findings are discussed in line with the stated objectives of the study.

4.1 The Indigenous Usury System in Contemporary Informal Microfinance

Financial dualism, that is, the co-existence of both formal and informal financial institutions is an essential feature of the financial system in most developing countries of the world (Oloyede, 2008; Ayyagari *et al*, 2010). According to Mohieldin and Wright (2000), the co-existence of formal and informal credit markets is a widespread phenomenon in developing economies. The existence of informal systems has been attributed to the inability of modern banks to provide lending services to the rural and poor segments of the population (Tressel, 2003). Informal systems of finance consist of two major components: savings mobilisation and provision of credits. Indigenous usury system provides credit for clients in both the formal and informal sector of the economy. According to Atieno (2001), informal credit providers not only provide better terms of credit facilities when compared with modern financial systems such as the banks, but they also have access to information that enable the lenders to make effective use of guarantees in cases of default (*see also* Nadan, 2005).

In developing countries, the use of credit sourced from the formal financial system is often limited while the informal microfinance sector flourishes and serves many clients (Pham and Lensink, 2007). Therefore, significant volume of credit transactions in developing countries still takes place within the informal credit market. Some forms of traditional or informal microfinance such as *iwofa* (Pawnship) and usufruct loan are no longer practiced. However, indigenous usury system (*Owo ele*) has remained relevant because of its embedded subjective and contextual conditions that have continued to aid its existence particularly among the Yoruba of southwestern Nigeria. This study discovered the existence of a non-material force in the preservation and continued existence of indigenous usury system in contemporary Yoruba society. In other words, there is an interpretation of indigenous usury lending as a form of merciful-help or benevolent-assistance (known in Yoruba as *aanu*) among lendees who patronise the system. This has been crucial to the existence of the system

in contemporary Yoruba society. Usury lenders also deliberately promote this concept of *aanu* in their communication with actors within the system. The concept of *aanu* within the context of indigenous usury system explains the crucial role the system plays in providing financial help to lendees, who may have been deprived of credit by other sources of lending, most especially the formal financial institutions. The interpretation of usury lenders as benevolent-helpers has provided the basis for patronage as clients tend to rationalise indigenous usury lenders as benevolent creditors. This interpretation of usury lenders as merciful-helper was echoed by one of the interviewees who stated that:

Money lenders are around us to help us achieve the best in the running of our businesses through the provision of loans. We believe that it is the only means to grow our businesses. The fact is that the bulk of the money that people use to trade in our society today is from the moneylenders. Indigenous usury system will remain relevant because it is a form of help and that is why the rate of borrowing from moneylenders has continued to be on the increase in our contemporary society. We cannot run away from the fact that indigenous usury lenders have been very helpful to us, no matter what anybody wants to say (IDI/Trader-Lendee/14th April 2015)

Another interviewee also reiterated the help perspective by stating thus:

I have seen and known a lot of things about moneylenders because I have been dealing with them for quite a while now. But most importantly, indigenous usury system is a form of help that enables the trader to have advantage in terms of getting access to loan to buy goods, trade with it and make profit. We see the moneylenders as our source of mercy (*alaanu wa ni won*), hence we must keep to our terms of agreement by repaying the loan as and when due while the moneylender will always provide the fund whenever we need it (IDI/Trader-Lendee/17th October, 2014).

The historical conditions that facilitated the existence of indigenous usury system are still present in contemporary times. These conditions include the demand of the family, pressure to fulfil social obligations and economic activities that require financing among others (Falola, 1993). The funds needed to meet these obligations are sourced through various means including the patronage of usury lenders. Where modern financial systems are either too difficult to access or not available, individuals may turn to informal sources such as usury lenders and when these lenders are able to provide these loans, they are viewed as ‘helpers’ to the lendees. The usury lenders are seen as benevolent-helper because of the difficulties in accessing such loans through other means particularly the modern financial systems. Okurut and Bothole (2009) noted that access to modern credit institutions are restricted due to

institutional and household or status factors. At the institutional level, the banks adopt strict collateral requirements as a screening mechanism to minimise the risk of default and, therefore, exclude small borrowers or the poor from the formal credit market. In other words, the poor are generally seen as high risk borrowers and this reduces their chances of obtaining the needed finance especially from the modern financial institutions. At the status level, formal financial institutions are more disposed to providing credits to individuals from the higher social class with access to property securities than the lower class and the poor who do not have have tangible assets as security. Consequently, lendees who must engage in economic activities and also meet social obligations tend to seek loans from moneylenders, who have the ability to provide such loans in a timely manner. For lendees that have established credit history with the lenders, regular patronage makes the local moneylenders the first choice of credit since they would not have to go through the rigours of other means especially, the formal institutions. Thus, it is the relative access and timeliness of loans provided by usury lenders that has created a sense of gratitude which is promoted by both the lenders and lendees. One of the formal workers also reiterated this same description of moneylenders as benevolent helper by stating thus:

...the economy has been very difficult but with the help of money lenders, so many people have been able to carry out their economic activities including trading and getting their business started (IDI/Formal-Worker-Lendees/July 15th 2015).

The statement above points to a system that provides help to lendees in times of need especially when other alternatives are either inaccessible or non-existence. Further, the description of indigenous usury system as a source of help is the first interpretation of lendees who access credit from this system. Whether this interpretation becomes enduring depends on the final out-come of the lending relationship. This interpretation of the system as source of merciful-help is held by both lendees and lenders. In fact, the lenders do make it a point of duty to overtly express the importance of their intervention in the financial needs of their existing and potential clients. Indigenous usury lenders tend to describe their business as a form of help so that the lendees would in turn appreciate and also internalise the indigenous usury system as a form of benevolence help and not as a system that is solely for making profit or exploiting the lendees. This sentiment was expressed by one of the case study lenders interviewed in this study. Mr Deji (not his real name) is a 45 years old usury lender in

Ibadan. He has been in the business of lending for the past 15 years. He stated that his father and grandfather were also into the business of moneylending as it is a business that is the sole preserve of the wealthy and noble in the community. The basic emphasis of the business is not to make profit but to provide financial help to people so that they can solve their social and economic needs. Mr Deji claimed that there is a high number of lendees that come to seek his help on a daily basis and for him; there is no need for any form of lengthy explanation or discussion. Once there is someone that he knows and that person can stand as guarantor for the lendeer, the loan would be given to the lendeer. For Mr Deji, moneylending is a traditional platform for helping people because when there is an idea and there is no money to execute the idea, such idea will 'die' with the initiator of such idea. The government according to him has not been helpful because a lot of people cannot feed themselves due to their jobless status. Therefore, individuals who must survive have to look for ways of establishing small trade and businesses so that they can feed themselves and their dependants. He stated that his moneylending business has been able to help a lot of people especially by providing working capital to set up the business. Corroborating the perspective of Mr Deji, another usury lender, who is a key informant interviewee, also described indigenous usury as the 'business of providing help' by stating that:

I am in the business of helping people by lending them money. I am 50 years old and have been in this business for about 10 years. Before coming to Ibadan, I have been doing this business in Northern Nigeria and even in Saudi Arabia where I lived for some years. During the period of Hajj, traders would come and borrow money from me, trade with it and return my money at the agreed time. They would then give me gift which can be cash and material in appreciation of the help that I have provided. Moneylending is a means of providing fund to people to finance and consequently help their businesses (KII/Lender/4th August, 2014).

The data above indicates that usury lending also takes place in societies where interest bearing loans are not permitted by the prevailing religion in such societies. This is obvious in the statement of this interviewee who actually practised the business of moneylending in two societies where the dominant religion- Islam prohibit the practice of usury lending. The religion of Islam actually admonishes its believers to refrain from God's punishment which includes burning in hell if any believer engage in usury (Zaman, 2008). However, despite the 'divine punishment' attached to usury lending, both lenders and lendees tend to disguise usury transactions whereby the interest is paid in form of gift to the lender. One of the lenders in our

in-depth interview repeatedly mentioned and emphasised help to drive home the point that their business represents a form of help by stating thus:

People that we help would usually call on us to help other people too. When there is a problem that requires financial help, people that we have helped in similar situation will now tell those in such problem that: why go to the bank when you know that they cannot solve your problem. They know that the moneylenders can quickly solve their financial problems (IDI/Lender/ October, 4th 2014).

The interpretation of the indigenous usury lending as a form of help tend to reinvent and reinforce the existence of this system of credit. Usury lenders thus, tend to promote the idea that indigenous usury is not just a form of lending but more importantly, a source of lending that provides quick and easy access to finance. What is obvious from the statements above is that this interpretation that rationalises the existence of indigenous usury as a form of help is shared by both the lenders and their lendees. This two-way subscription by the lenders and lendees contributes to their mutual understanding such that since loans from usury lenders are viewed as a form of help, it is rational and morally obligatory for the lendees to ensure that the loan is repaid as and when due. The description of indigenous usury system as a help system is best appreciated within the context of the interpretative school to the extent that when actors define something as real, they become real even in their consequences and actions (Ritzer and Goodman, 2004). This is the deeper and more enduring meaning of usury lending which form the foundation of debtor-creditor relations within this system of lending.

The interpretation of indigenous usury system as a ‘merciful-help’ confers subjective legitimacy on moneylending relations and this forms the basis for rationalising its existence as a system of lending. The feeling of help creates a sense of gratitude which tends to outweigh the potential or real negative and exploitative consequences that is sometimes associated with the system. This interpretation of usury lender as a benevolent creditor can be explained using the Weberian concept of *Verstehen* (understanding) which deals with the subjective meanings of actions. The subjective meaning of an action is its meaning to the author of the action. Using the concept of *vertehen*, the usury lendeerationalises the relationship with the lender from a subjective and situational perspective. This becomes rationally valid when the system is able to meet its clients’ needs at the right time when compared with other sources of credit. This was made clear by this lendeer who stated thus:

In the past, they use to tell us that the moneylender's loan can be difficult to repay because they would have gone diabolical or use charm (*juju*) such that you will be at their mercy all your life. But for me, I believe that it is a form of help, which has really enhanced my business. The lenders are helping us to meet our business needs and by extension our family needs as well. And also, I believe that they are also helping government too because they provide us with money even when government is unable to help us (IDI/Trader-Lendee/November 5th 2014a).

This interviewee also provided further insights into the reason for this show of gratitude by stating that:

Let us thank those that engage in the business of lending money to us because if it is not for them, doing business would be extremely difficult. Now coming to my understanding of this system of lending, I will describe it as a form of great financial assistance to people like us who cannot just get money from the banks. You know that when you walk into a bank for loan, they will give you a long list of what you should bring and all these are in a bid to discourage you from borrowing from the bank. The local money lenders provide us with the opportunity to borrow money for our business growth and this is done with minimum stress unlike what you have with the banks (IDI/Trader-Lendee/November 5th 2014b)

From the foregoing, it is evident that usury lenders and lendees are rational choice actors who engage in the examination of the relative advantages of alternatives and select appropriate course of action, based on rational judgment of current realities. Therefore, the lendees who patronise moneylenders do so, on the basis of limited options and relative accessibility. One of the FGD sessions summarises this point thus:

Moneylenders make trading easier because in reality you can hardly get money to run any business in this part of the world. So when you are able to get this money from these moneylenders, it helps a lot particularly as it has to do with business progression (FGD/Trader-Lendee/16th June, 2014).

For usury lendees, the system provides relatively easy access to credit when compared to the highly regulated system of modern banking. This is done through a process of credit de-formalisation. This is a situation whereby usury lendees' access credit from usury lenders without having to meet a long list of conditions precedent including the provision of various documentations before obtaining such facilities. In other words, the formal process of loan documentation in modern financial system, which is designed to prevent access to this category of lendees, is either excluded or limited to the completion of just one loan form or

agreement. The informality of usury lending makes access to credit faster in indigenous usury system because the lender has dependable credit information either on the lendee, the source of referral or the guarantor. This informality of the system differs from the formal institution's emphasis on the evaluation of formal documentations before credit is advanced. Okurut and Bothole (2009) noted that moneylenders have cost-effective mechanisms for collecting information on potential clients. This enables them overcome the information asymmetry constraints prevalent in credit markets, assess the creditworthiness and strategic behaviour of potential borrowers effectively. With the resolution of the information asymmetry problem, it is expected that there such be a reduction in the rate of interest when compared to rates in the formal financial institutions. However, in usury lending, there are other variables or factors that influence the rate of interest. They include the need to always recapitalise through credit profit and equally make provisions for possible loans losses which tend to impact negatively, the capital base of the lender. Thus, the de-formalisation of the credit process helps lenders to minimise the default risk and improve the rate of loan repayment. Rather than rely on formal prerequisites, usury lenders depend on inter-personal relationship with the sources of referral, emphasize credit history and the knowledge of the lendee's operational base in the process of credit evaluation and eventual lending. The advantage of informality or de-formalisation in indigenous usury credit makes it possible for lenders to take faster credit decisions, based on the availability of information on the lendee's ability to repay the loan. One of the trader-lendees interviewed implicitly rationalised the importance of indigenous usury system based on the de-formalisation process by stating that:

In terms of how important this system of lending is, I can tell you that it is a very important source of funding for our business. With the moneylenders around, it has been possible to grow our business to where it is today. We do not patronise formal institutions such as all these our commercial banks for loan because they do not give people like us loan (IDI/Trader-Lendee/4th November 2014)

The data above is a reconfirmation of the prevailing image of formal financial systems as largely inaccessible to the lower class or the poor in the society. This perception tends to influence lendees' interpretation of indigenous usury system as a dependable source of credit. A formal worker interviewed also has this to say about the de-formalisation of lending in the indigenous usury system by stating that:

The lendee would collect a loan form and state the purpose of the loan. The lendee will also provide the name of the guarantor. This guarantor must be somebody that has reputation or well known within the area where lendee lives or operates. The lender would also examine the purpose of the loan because they want to be sure that the purpose of the loan would lead to the repayment of the loan and once they are satisfied, you would get the loan almost immediately (IDI/Formal-Worker-Lendee/14th May 2015).

The de-formalisation of the credit process in moneylending is a comparative advantage which indigenous usury lenders have over the formal finance system. The implication of the de-formalisation of credit process is reflected in the relative short turn-around-time for the processing of credit request by moneylenders. Both lenders and lendees point to this quick response time as a major advantage that informal lending institutions such as indigenous usurers have over modern form of lending. The de-formalisation of the credit process in contemporary usury lending does not, however, refer to the total elimination of documentations in contemporary usury lending (see Appendix iii). What should be noted is that usury lenders require very few documents which can be easily provided by the lendees. In some cases, the document involved may just be a loan application form which the lendee is expected to fill, sign return to the lender. The presentation or signing of loan documents however reflects the impact of modernisation on the credit process. This is not new because post-colonial lendees especially civil servants were made to sign relevant documents before loans were disbursed (Falola, 1993). One of the trader lendees interviewed in this study provided insights into the documents that could be presented before a lendee can obtain loan from a moneylender:

The moneylender would visit or inspect your shop and that of the person that would stand as the guarantor for the loan. The moneylender will also collect means of Identification and passport photo of the borrower and the guarantor. The borrower will also sign the loan form before the loan is made available (IDI/Trader-Lendee/20th December 2014).

The narration of Mr Deji (not real name), a case study interviewee earlier mentioned in this study also pointed to the existence and usage of document in contemporary usury lending. He stated that an acceptable guarantor is required and once the assessment of the guarantor is positive, the lender provides an agreement form which the lendee and the guarantor would sign. Mr Deji makes the lendee and guarantor to sign the agreement form in the presence of a lawyer that stands as his solicitor. The signed agreement is a proof that the loan was given with the full consent of the lendee and the guarantor while his own lawyer stands as another

witness for the transaction. The signed agreement form and the presence of the lawyer are indications that default would not be treated lightly and both the lendee and the guarantor cannot deny accessing the loan in future. Mr Deji equally stated that the presence of the lawyer was also meant to intimidate the lendee and thus prevent any unfavourable behaviour that may jeopardise the repayment of the loan.

The use of limited documentation in indigenous usury lending is basically for record purpose and to serve as evidence when the credit relations is in crisis. It does not necessarily inform or determine access to credit. The reverse is what is obtainable in the formal credit market. However, it should be noted that documentation in indigenous usury lending is also used to legitimise credit transaction and the future use of coercion in case of default. Even when such documents do not end up in the court of law, the signing of a loan form or agreement creates a 'legal' and moral right for the lender to enforce repayment. Therefore, the burden of debt repayment is constructed and attached to the lendee, who must honour the loan agreement.

This study observed that there were divergent views on the length of time required for processing of credit in contemporary indigenous usury lending. The length of time required for processing credit ranges from instant disbursement (that is, same day request and access) to two weeks before loans are disbursed. What is, however, obvious is the influence which informal networking or referrals play in quick access to credit within the system. In other words, the de-formalisation process and turn-around-time often depend largely on the information which the lenders have on the lendees. The process of obtaining credit information or accessing the creditworthiness of the lendee also depends on the lender's prior knowledge of the lendee, the guarantor or any other source of referral for the credit. A formal-worker lendee illuminates further on the waiting period for accessing credit in contemporary usury system by stating that:

Getting loans from moneylenders depend on how connected you are within your locality, especially with reference to the person that would take you to the lender. It is when you know or connect people that will determine how easy it is to access the loan. If you know people that can take you to the lender, then it can be very easy. The loan can be given within a day or week (IDI/Informal-Worker-Lendee/April 20th, 2015)

Another interviewee who alluded to the existence of instance access to credit in indigenous usury system stated that:

Moneylending is easy to access based on my own experience with them. The lenders would ask some questions concerning what we do and the person that would stand as the surety. The moneylender would also conduct their investigation and once they are satisfied with our information, the loan is instant (IDI/Trader-Lendee/10th April, 2015).

Part of the strategies with which contemporary moneylenders promote this image of a merciful or magnanimous financial helper is by ensuring that the lendees use their loan to meet their needs as quick or urgent as possible. One of the moneylenders interviewed in this study confirmed the quick turn-around-time for accessing credit from as stated by this lender:

It is easy to access loan from us as long as the collateral is satisfactory because this would assure us that the money will be repaid. In contemporary times, there is nothing secretive about our business. Once we have provided loan to someone, it will spread to others. So the customers that we have helped before or our friends who know what we do will introduce us to them. How quick you get the money will depend on how much you want to borrow, the collateral arrangement, the purpose of the loan and your guarantor (IDI/ Lender/4th May, 2015)

The data above is an indication that quick access to credit is predicated on existing information or informal relations between the lenders and their borrowers or the source of referral. The purpose of the loan, terms of repayment and collateral arrangement are issues that can be easily addressed and concluded between the lender and related parties or actors to the transaction. Therefore, lenders are able to make quick credit decisions by making reference to existing credit history of the borrower or the introducer. This confirms the position of Mohieldin and Wright (2000) that moneylenders would use their close knowledge of the borrower in order to ascertain the credit worthiness of clients and this advantage helps in the acceleration of the lender's credit decision process such that credits are advanced without necessarily requesting any form of physical collateral or assets. Even, when there are delays in accessing the loan, it is not usually attributed to the credit process but the limitation of loanable capital which would mean that some lendees may have to wait for others to repay their loan before funds are made available to them. The inability of contemporary means or sources of raising funds to finance social and productive needs may have further heighten the

appreciative posture of indigenous usury clients towards their creditors. This interviewee provided further clarifications:

Indigenous usury lending remains very important because we see it as a form of help. When you need money in our present society, please tell me who will borrow you money. Even your family members will present their own problems when you approach them for financial assistance. So it is very difficult to get money anywhere, not even from government. So it is on this basis that local money lenders are good sources of loan for our businesses and they have been very helpful to us (IDI/Trader-Lendee/15th September 2015).

The relevance of usury lending can also be drawn from the fact that traders and other clients also associate their success to the financial help which usury lenders provide. This is usually the case when indigenous lenders make working capital available to traders to run and expand such businesses. In other words, the help interpretation is further justified because credit is made accessible and available at the right time, which consequently resulted in the success story of such lendee or trader as the case maybe. The understanding of the lenders and lendees is that usury lending not only provided credit but also does so at the right time when such facilities are needed. One of the usury lenders stated thus:

Unlike the modern microfinance system, this system is very friendly and faster and people can actually get money without going through the rigorous process that we find in modern financial sector (KII/Lender/ 7th February, 2015).

One of the trader lendees interviewed has this to say about the usury system particularly as it has to do with trade or business sustenance:

The system enables us to have access to fund because the situation in the country has made help or getting loan very difficult. The country is in a terrible state and people around you are not likely to help you to raise the money that you need. So the local money lenders are our best partners-in-progress in doing this business (IDI/Trader-Lendee/27th March, 2015)

Another lendee corroborated further by stating that:

The moneylenders are very relevant in contemporary informal microfinance because as you know, money is the major catalyst of business success. It is the person who has money that owns the business (*eni l'owo lo l'owo*). Therefore, our business success is attributable to the indigenous lenders, who are always there to give us money to run our businesses (IDI/Trader-Lendee/14th July, 2015).

With access to credit, the lendees are able to carry out their business activities and as they repay their loans and re-access it again, there are increases in sales turnover and growth of the business. Thus, the success of the lendees' business is attributed to the financial intervention of the usury lenders. The central argument is that success in business is not limited to the ability of the trader to successfully run the business. The real success rests in the ability to expand the business and this would require working capital which cannot be obtained solely from the profit of the business. In addition, trader-lendees also use usury loans for social needs even when the stated purpose of the loan is for investment needs. Another usury lender affirms this position by stating that:

Indigenous usury system has been with us long before the advent of modern form of microfinance and it will continue to remain in existence. This is because it has always served as the source of help to people who may be unable to get capital to start and grow their businesses. When my father was doing this business, he would give out loans and people would repay after certain period of time. Within this period of obtaining the loan, they were able to start and even grow their businesses. So this system has actually developed the society and has created wealth because we even advise our clients on how best to do business and plough back profit into their businesses (KII/Lender/10th June 2015).

The view that usury lenders are critical in the running of a successful informal business was also highlighted by another interviewee who affirmed that:

For me, indigenous usury lenders are very important because they help my business. For instance, when there is an urgent need to stock my shop with goods and especially when such stock purchases are unexpected, we quickly run to these lenders. And because they know that we have been faithful in the past, they will give us the loan as requested (IDI/Trader-Lendee/January 3rd 2015).

The assertion above was further corroborated by a lendees who stated that:

Our people will say in Yoruba that kin ties does not translate into financial help or assistance (*ajumo bi ko kan taanu*). So we have to look for ways of getting money to run our businesses and with funds from money lenders, we are able to meet our needs, and grow our small businesses. Usury lenders have been very helpful because when you stock your shop with enough goods, people will come to patronise you, and even ask for what you do not have in stock. But when your shop is near empty due to the non-availability of capital, then you would not be able to attract customer, and even grow your business. At the end, your business will suffer because people will go elsewhere (IDI/Formal-Worker-Lendee/4th March 2015).

The fact that the system creates a dependable source of accessing credit to start, grow and even make profit provides the platform for further business expansion. This explains the objective and subjective rationality of usury lender-lendee credit relations. The fact that indigenous usury lenders finance business ventures for instance enables usury clients to become socially acceptable as they are able to meet societal expectations. In other words, the success of business that is attributed to the funds obtained from usury lenders creates social prestige particularly among borrowers or clients. Clients are thus able to relate with their peers and family members on the basis of being economically engaged, and respected. This restoration and affirmation of social prestige can also be tied to the prevention of social shame which some of the interviewees have alluded to as the covert benefit of patronising indigenous usury lenders. The following statement from a lender supports this position:

Now there was a woman who happens to be the last born of her mother and the mother died. She needed to do the burial of this her late mother before the end of the month and she approached us for assistance. The problem was that the date of the burial was within the month and she will only collect her salary by the end of the month. So we assisted her by giving her the loan so that she could perform the burial rites of her late mother and we collected our money plus interest when her salary was paid at the end of the month (IDI/Lender/January 19th, 2015).

A usury lendee also affirmed this position thus:

...the system allows those with limited cash to have access to fund so that their businesses and lives can improve such that they would be accepted among their peers in the community (*la ti ba egbe pe*). So I see usury lending basically as form of help from people who really love and care for us (IDI/Trader-Lendee/10th March, 2014).

This study confirms the position of Guerin (2014), that debt from moneylenders can among other thing prevent social shame. In other words social acceptability is derived either from the lendee's ability to meet socially expected expenses or the success of businesses financed with loans from moneylenders. The expression that usury lenders 'love and care' for their clients by providing funds that assist these clients business to grow or prevent it from dying has implications for the future action or perception towards this institution. Another usury client who is a formal worker provided another perspective as stated below:

It (i.e usury lending) is very important because it mitigates financial shame (*o un bo asiri*). When you need to do business and the money you need is not up to the amount you have at hand, you will approach the Moneylender, who will lend you the money, and you will use it for business and return their money as agreed (IDI/Formal-Worker-Lendee/ 11th March 2015).

Another lendee also re-affirmed the contribution of indigenous usury system to social acceptability by stating that:

The major duty of the lender is that when we are in need of money and we approach him for loan, he should be able to make the money available to us in good time. You know that in most cases, our business can be urgent and we will need quick cash to get these goods at the right price so that we can make margin and also return his money with agreed interest (IDI/Trader-Lendee/November 4th, 2014).

Apart from social acceptability, the prevention of shame provides justification for an enduring relationship between usury lenders and their clients. When social and productive ventures come with some level of urgency, lendees rely on informal credit sources such as the moneylenders. These urgent and unanticipated needs may sometimes have social, productive or existential implications if not addressed. Hence, the usury lendee acts rationally by depending on the source that would most likely prevent social embarrassment in the course of social interaction. The ability of the lendees to meet these urgent but social or productively relevant needs affirms the rationality of indigenous usury lendees especially when accessibility is limited. The ability of moneylenders to solve urgent *productive social and investment needs* of their clients in record time is perhaps the reason why Adebayo (1992) alluded to the fact that indigenous usury lenders can best be described as lenders of emergency credit. The urgent label of indigenous usury system should, however, not take away the important fact that the system prevent shame and enhances societal or peer acceptability. These values are important as they form the basis for status categorisation, group relevance and social networking among the Yoruba people of South West Nigeria.

The study also discovered that the prevention of shame or embarrassment and the interpretative meaning of usury system as a system of 'help' have led to the description of indigenous usury as a form of 'divine intervention' mechanism. The religious system of the Yoruba people can best be described as either traditional or non-traditional. Adebayo (1994) stated that the Yoruba traditional religious life is characterised by the worshipping of the Supreme God (*Olodumare*) through a pantheon of highly feared and respected gods and

goddesses. Majority of individuals who do not subscribe to the traditional belief system are either Christians or Muslims. Both traditional and non-traditional religions believe in the existence of a supreme being who can intervene in the social, economic, political or spiritual matters of individuals or group. While the Supreme God does not intervene physically, it is believed that such intervention or help would be channelled through a physical being either known or unknown. The construction of the indigenous usury lenders as 'God Sent' further affirms the justification of the system in contemporary societies where access to credit has remained restricted, due to the inherent structure of modern financial institutions. Usury lenders thus view the non-availability of fund as a problem which the Supreme God can solve by providing finances through various means including funds provided by usury lenders. The following comment from one of the interviewees, who is also a usury lender, typified the existence of this belief that usury lenders are forms of 'help' sent by God:

Indigenous usury system is a form of lending money to people who need money urgently for business purpose. It is a system where some of us who God has blessed with certain savings try to help people who need to raise money for their businesses and other needs. We make sure that we use the money that God has given us to help others so that these lenders would use the loan to run their businesses and pay back the principal and interest as they get the money and as agreed (KII/Lender/December 12th 2014).

This statement confirms that usury lenders tend to associate the 'help' interpretation in business with a divine mandate which transforms lenders into helpers sent by God. This is another means of promoting their positive image especially among the lenders. Thus, the interpretation of the system as form of merciful-help is further justified by the divine claim or mandate to help as posited by lenders. These two interpretations implicitly also promote exploitation of the lenders by the lenders. This interviewee alluded to the 'divine intervention' view of usury lending by stating that:

Moneylenders are very important because they are God sent such that when you have problem they would help you out by providing money so that you can solve your problems. The reason I believe they would continue to exist is because the system has been a form of help for a long time and that is why they still exist till date. (IDI/Formal-Worker-Lender/14th May 2015).

The participants in one of the FGD sessions agreed that moneylenders are a form of divine intervention. The statement of a participant in this FGD session typifies this position:

For me, God has actually helped us here in the market because we were able to get money through the local moneylenders. With their loan, we are able to stock different goods that our customers want and can buy (FGD/Female-Trader-Lendee/20th June 2015).

From the rational choice perspective, actions are purposive and outcomes are the products of choice evaluation and selection. The idea that the system of usury lending is 'God Sent' is part of the means of rationalising why usury lendees patronise the moneylenders. The interpretation of indigenous usury as a divine mandate is shared by both lenders and lendees in the course of credit transactions. And because the outcomes have been able to somewhat meet lendees' expectations, continued patronage becomes justifiable. Therefore, in the midst of perceived or real exploitation, the belief in the intervention of the divine through usury lenders further rationalises the business of indigenous usury lending. The positive outlook of this system of lending is just one side of the coin.

The exploitative tendencies of the system have also resulted in the belief that the system may also hinder development of those that patronise its services. This other side of the belief which is actually a post-lending belief becomes even stronger when the lendee is unable to meet the loan obligations as agreed with the lender. There is the prevailing belief that usury lenders are 'evil people' who are only interested in perpetual subjugation of their clients while they continue to grow and make more profit through the use of what some have described as 'cursed money'. One of the traders interviewed has this to say about this belief thus:

The usury lending system is like a situation whereby God hands over your means of survival into the hands of the devil. While moneylending can be a source of help, if one is not careful, it can also be a source of sorrow. There is this belief that the fund borrowed from these moneylenders may not be paid back on time by the lendees. This is because as long as the lendees cannot pay back the money, the interest would continue to increase and this is always to the advantage of the lender and not the lendee (IDI/Trader-Lendee/20th December, 2014).

Another usury lendee who is also a formal worker stated that:

People also believe that it is a form of help even though some would also state that lenders do use some diabolic means (*juju* or charm) to ensure that lendees do not have the ability to pay back the principal on time. In some cases, when the lendee is determined to pay back the principal in a particular month, something would just happen that would take the money from the lendee in terms of expenses. This would reduce or make it

impossible for the lender to pay back the loan as anticipated (IDI/Formal-Worker-Lender/1st February, 2015).

The possible negative belief that still exists in contemporary usury lending was encapsulated in this illustration and narrative in an FGD session:

Some people are scared of collecting loans from moneylenders because of their negative belief of the system. I have tried to convince a friend of mine to come and collect loan from the moneylenders but she said she does not trust the moneylenders because they normally give out cursed or satanic money. The cursed money would not make the borrower to progress while equally giving the moneylenders more wealth. So we can say that sometimes, people are scared of borrowing from moneylenders (FGD/Female-Trader-Lenders/ 18th June, 2014).

The statement above points to the perception of ‘cursed money’ in usury lending. This is predicated on belief that users make money charging their clients exploitative interest and equally forcing them to make such payment, thereby further impoverishing these lenders. Even though lenders tend to be aware of the ‘curse money’ description, this study does not have evidence that lenders who patronise usury lenders actually believe in the perception that the money they get from lenders are cursed money. While the belief in the use of supernatural power by indigenous usury lenders may exist, lenders who have needs to finance, have continued to patronise this system of credit. Lenders have genuine material needs for which they lack the necessary financial capacity to meet. For as long as the system continues to meet the financial expectations of the lenders, the perceived use of supernatural powers by lenders to the disadvantage of the lender would remain a perception or at best, in the realm of speculation.

There are however lenders who do not believe in the ‘negative supernatural influence’ of usury lending, even though they are aware that such perception or practices may exist within the system. This was noted by a key informant during an interview:

Some do say that if you collect loan from money lenders, you will remain in their bondage and would not be able to repay the loan. People say that these lenders use charm on their customers so that these customers will not succeed as they utilise the loan. But from my personal experience, this is not true. At least, I have been collecting loan from moneylenders and have been able to pay back several times. I think you will experience such issues when you divert the loan to other social needs such as food or school expenses instead of using the money for business (KII/Trader-Lender/4th July, 2015).

The statement above reveals that less attention seems to be paid to the belief that lenders can diabolically create financial failures for their clients. The causes of default tend to shift from the lender to the borrower. This position is supported by the statement below:

The general belief is the same and it is that we fear these moneylenders because they can do and undo. So in dealing with them, you have to be very careful. Sometimes, they can use native charms on you if you refuse to pay back their money (FGD/Male lendeer/6th June, 2014).

The statement above further buttresses the point that while borrowers express fears about the use of *charms or juju* by usury lenders, the remedy essentially lies in the careful selection of the usury lenders and the effective use of the loan for the purpose that will guarantee returns and repayment. Belief system and economic relations are not necessarily incompatible as shown in the classical works of Max Weber's *Protestant Ethics and the Spirit of Capitalism*. Max Weber finds affinity or compatibility between the Christian Protestant ethic and the spirit of modern capitalism. This link may have contributed to the initial emergence of modern rational capitalism in Western Europe and North America. The vocational calling and inner-worldly asceticism motivated the Protestants to engage in business and maximise success in the world for religious purposes (Wang and Yang, 2011). The two belief versions of contemporary usury system are reflection the two possible outcomes that lendees can experience when they patronise this system. Firstly, usury credit can propel development and success of lendees in terms of economic and social expectations. When this is the case, the lender is generally described as 'God sent'. Secondly, when the loan is characterised by default and difficulties in meeting repayment, usury loan becomes a burden that hinders progress. Thus, it is described as evil and unattractive.

In whatever ways usury lending is examined, the belief system surrounding its existence is used by both the lender and the borrower to achieve certain interpretive goals. In the case of the lendeer, working towards proper utilisation and the determination to repay holds the secret to avoiding perpetual indebtedness or bad loans. A deconstruction of the implicit implication of working to negate the negative beliefs surrounding indigenous lending may actually account for the success recorded by lendees. For the Moneylender, the belief that clients do use supernatural powers to prevent repayment propels the lender to take steps that would ensure repayment. These strategies include careful screening, monitoring of

clients and their source of repayment. Some usury lenders can however use the belief in supernatural powers as a mechanism for loan recovery by threatening defaulters with diabolic intervention. They tend to use this method because it has proven effective in making defaulters to work towards loan repayment. This is stated in the following statement by a usury lender:

I have different phone network and I call them to harass those that are defaulting on their loan obligations. I normally do tell them that I will go spiritual with them and when lendees hear it, they will quickly come with my money (IDI/Lender/ 7th July, 2015).

Another lender admitted to the use of supernatural power (known by the Yoruba as *Ogun*) to harass loan defaulters and anybody who tries to intervene with the aim of subverting the efforts at loan recovery by stating that:

They (loan defaulters) will beg for grace more time to repay the loan. Sometimes, I will lock their shop and equally report them to the landlord of the shop. I do harass them that if anybody dare attempt to unlock the shop, I will go spiritual with the person and you know that once they hear such threat people will naturally stay away (IDI/Lender/2nd March, 2015).

Even though it may not be as prominent as it may have been during the colonial period, the use of charm as a conflict resolution tool is still being deployed in contemporary usury system. While usury lenders may have taken advantage of this perception that they actually use spiritual powers to force repayment, what will remain in the domain of scientific research is whether usury lenders or borrowers actually use spiritual powers in conducting their business transactions and if this can be ascertained. Moneylenders claimed that the threat to use spiritual powers or charm on loan defaulters is just an 'ordinary threat' as they do not possess or use any charm in the pursuit of their businesses. While this study cannot actually verify whether this is true or not, what is certain is that the perception regarding the use of supernatural powers by lenders is still effective in contemporary usury system. This effectiveness may actually lay in the actual usage of supernatural powers by lenders or the cultural disposition which assumes that individuals who engage in certain professions such as moneylending must have supernatural powers to protect their activities. The clients' belief that usury lenders possess and actually use 'charm' or spiritual powers to fight their defaulters may have served as the disincentive to default on their usury loans. Parish (2011) stated that individuals who lack economic and social security may turn to the belief in occult

and witchcraft to protect themselves from imagined enemies, undermine inequalities of wealth and power and to achieve economic prosperity.

According to Adebayo (1992), moneylenders often resorted to the employment of supernatural powers to take the borrower's interest off all considerations of default, but rather have great interest in repaying the loan. In other words, just as it was in colonial indigenous usury practice, contemporary usury lenders also employ the services of traditional or non-traditional religious institutions to advance the course of the business. The main purpose of such religious intervention through the instrumentality of spiritual intercession was to ensure that all the actions of the lendees are geared towards the repayment of the loans as agreed with the lender. What is clear from this study is the fact that there exists the positive and negative beliefs regarding contemporary usury system and these beliefs tend to have some influence on the disposition of both lenders and lendees within the credit relations.

Another contributing factor to the continued existence of usury lending is the de-securitisation feature of the system. This allows the system to place more emphasis on social or relationship collateral rather than the mandatory provision of tangible assets as collateral as it is commonly applied to other forms of credit. This interviewee, who is also a moneylender, provided further explanation that:

The modern microfinance was developed based on the existing local moneylending system and according to my father; the only problem with the then moneylenders was that they did not have formal education to run the business with formal documentation. You would know that not everybody or let me say only few people have the wherewithal to get loan from banks as it is very tasking and difficult to access. So people prefer to come to us because we know them, we know their family and location, we know what they have as valuables and we can assist them on time (KII/Lender/10th June, 2015).

Another interviewee, who is a trader-lendee, also confirmed this by stating that:

The moneylenders do ask us to bring collateral in form of guarantor and in my own case; it was my mother that stood as my guarantor. Some lenders also accept two guarantors within the market and this is after accessing their (*the guarantor's*) shop to know their worth. They will even ask for your sales book to confirm the value of your business (IDI/Trader-Lendee/21st July 2015).

Further confirmation of the de-securitisation of the lending process in indigenous usury system was also provided by this usury lendee, who also works in a commercial bank:

For the local moneylender who deal with us in the bank, they will ask for post-dated cheques from us. For moneylenders' clients outside the bank, moneylenders would request for someone that knows the lendee very well and would stand as a guarantor. For instance, since I have been borrowing from the moneylenders, I can bring someone to them and I will stand as a guarantor. The guarantor can be a male or female and should be someone that the usury lender can hold responsible for repayment in case of default (IDI/Formal-Worker-Lendee/ 24th November 2015).

The tangibility of collateral security is thus replaced in indigenous usury lending with a more lendee-accessible form of collateral. This involves the use of personal guarantee or third party guarantee (see Appendix *iv*). Personal guarantee is mostly used for clients of long standing relations and equally good credit history. This credit history has created a credit reputation which lenders can depend upon in advancing credit. Personal guarantee is also acceptable where the lender has informal relations or network with the hierarchy of the lendee's organisation or structure such that when there is default, the lender can make use of this relationship to enforce repayment. Personal guarantee is often backed up with the presentation of post dated cheques or savings withdrawal slip which the lender would present on due date. The lenders tend to have developed networks of informal relationship with the hierarchies or colleagues of the lendee such that they could easily be approached when there are difficulties with obtaining repayments from the lendee. This was found to be true with lendees who work in formal organisations that place priority on positive image like the banks or government agencies and parastatals. The lender is also able to use the interpersonal relationship to secure credible information on existing or potential lendees. This makes it possible for the lenders to present the cheques and cash their money as soon as funds get into the account of the lendees. This statement below by one of the usury lenders confirmed this position that:

We would collect post dated cheques and we know when the employers would pay the salaries of our clients such that as soon as the salary comes in, we would present the cheque. We have accurate information on when and how salaries are paid in these organisations where we have client. Even when the clients or guarantor says he collects this amount as salary every month, we have our network in that organisation to confirm whether this is true or not. Even in government owned establishment, we have our contacts that would give us any information that we require whether on the lendee or the guarantor (IDI/Lender/4th October, 2014).

The strength of the moneylender lies in his or her ability to access information through informal networks and this invariably makes security flexibility possible. Therefore, intangible assets such as personal guarantee, third party guarantee, post-dated cheques and even ATM cards become acceptable and prominent collateral in contemporary usury lending than the often requested tangible collateral. The use of personal guarantee confirms the assertion of Ayyagari *et al*, (2010) that informal lenders such as moneylenders in China for instance also rely on trust and reputation and very often do not require collateral or guarantee.

The most common form of collateral in contemporary usury lending is the third party collateral or guarantee. In some cases, the lender would insist that the introducer should equally stand as the guarantor for the loan. This is to ensure that a known person is responsible for enforcing or actualising loan repayment. This is in line with several scholars who had recognised this form of guarantee as prevalent in informal lending systems (see Geniot and Ray, 2006; Boucher and Guirkingner, 2007). Soyibo (1996) specifically noted that the most common form of security requested by informal lenders is a guarantor, although among moneylenders, properties may be accepted as collateral especially in urban centres. Usury lenders prefer the use of a guarantor because they have the capacity to ensure that the guarantor either makes the lendee to repay the loan or force the guarantor to ultimately take up the responsibility of loan repayment. This is in sharp contrast to the use of fixed assets such as landed properties which are usually very difficult to realise due to the social and legal complexities of land or title transfers. However, it should be noted that the lender rationally evaluates the guarantor to ensure that he or she meets the acceptable criteria required to stand as a guarantor for a loan. Thus, as a rational actor, behaviours and choices are determined by preferences and restrictions.

The use of guarantor is a less stringent form of collateral; the dynamics of guarantee in usury lenders also shows some level of complexities. Moneylenders evaluate the capacity of the guarantor to actually perform when there is default. Towards this end, lenders use different means of ensuring that the guarantor can at least meet up to the task of loan repayment when there is default. Some would insist that the introducer should stand as the guarantor as this would give some level of confidence that the loan obligation will be met. Lenders also discriminate in terms of the comparative status of the guarantor when compared to the lendee such that the lender would prefer someone of higher status than the lendee as a guarantor. These may include wholesale market sellers and formal employees like civil

servants who have regular sources of income and cannot afford reputational damage at their places of work. One of the formal worker lendees interviewed provided vivid description of the qualities of the guarantor thus:

... The guarantor must be well known as somebody that has income that can be verified. The guarantor cannot be anybody in the society or community. For instance, if the lendeer is a trader, the guarantor in the market must have a business that is worth more than that of the lendeer. The shop must be filled up such that when anybody gets to the shop, he or she would recognise the big transactions that the guarantor is doing (IDI/Formal-Worker-Lendeer/20th July 2015).

The views of participants from one of the FGD sessions on the nature and value of collateral and guarantors can be summed up in the following quote:

On the issue of guarantor, he or she must be someone who knows you in and out. If the guarantor is a trader, he or she must be a trader that is well known within the market. The guarantors can also be someone known in the society or the market. Sometimes, moneylenders do prefer civil servants who can be easily traced and have stable source of income (FGD/Trader-Lendeer/ 19th June, 2014).

Moneylenders also accept fellow lendees provided they engage in what can be called the inter-changeability of roles arrangement. This is when two individuals with established prior relations also engage in credit relations. This is when lendeer stands as the introducer or guarantor for the loan of the other lendeer and when the loan is fully repaid, there is a reversal of roles so that the other lendeer can also access the loan. This trader lendeer explains this phenomenon thus:

Your surety or guarantor must be someone that is known to the lender and can also be traced. Like in my own case, my surety is a friend within the market and he knows me very well just as I know her too because we have been friends for a long time. The obligation is clear such that in case I cannot repay the loan, which will not happen by the grace of God, she has the responsibility of paying back the loan. I will also stand for her as a surety so that she too can access her own loan (IDI/Trader-Lendeer/October 10th 2014).

The form of role change or mutual guarantee was also stated by another usury lendeer, who is an employee of a formal organisation:

In most cases we do inform ourselves when there are opportunities for lending. There are situations where we stand as guarantor for each other such that when you want to borrow, I will stand as your guarantor and when it is my turn, you will be my guarantor (IDI/Formal-Worker-Lendeer/12th April, 2015).

This inter-changeability of credit roles is used by the moneylenders to monitor repayment and therefore solve the problem of moral hazard and adverse selection. This feature creates a dependable set of lendees because there is a moral obligation on each lendee to repay the loan because doing otherwise would prevent the other lendee who first stood as a guarantor from accessing the loan thereafter. Therefore, changes in behaviours are due to changes in these preferences or restrictions or both.

There is a shift in the dynamics of third party guarantee in contemporary Yoruba usury lending practice when compared with colonial and post colonial practices. In the past, the guarantor known as the *Onigbowo* may not necessarily assume the responsibility of the repayment when there is default. This is because the guarantor may not necessarily be familiar with the borrower. The service of standing as a guarantor is done for a fee which is collected upfront by the guarantor (Adebayo, 1992; Falola, 1993). The lender also tends to assist in sourcing for this guarantor. However, in contemporary usury lending, the guarantor is not only a witness but assumes full responsibility of repayment at default. Thus, the lender ensures that the guarantor understands the full implication of standing as a guarantor for the lendee. The guarantor is fully responsible for repayment when there is default. One of the usury lenders interviewed made this position very clear by stating that:

...Why I say so is that at the point of getting the loan, we had asked the guarantor who was also the person that knows and introduced the borrower if they are close. And if he has confidence in the borrower to repay and the guarantor confirms that it is true. So when there is default our own is to call the guarantor to come and pay the loan. In other words, there is no issue about it. That is why he is called the guarantor (*Oniduro*) for the loan (IDI/Lender/4th May, 2015).

Apart from taking over the repayment of the loan, the guarantor can also serve as a mediator when there are issues to resolve between the borrower and the lender. This interviewee captured the guarantor's role of monitoring and mediating between the lender and the lendee in the following statement thus:

In most cases, it is the guarantor that intervenes because if the loan becomes problematic he or she will be responsible. Therefore he or she will always want to settle any issue that may affect the relationship between the lender and borrower, particularly when it has to do with the loan repayment schedule (IDI/Trader-Lendee/12th December 2014).

There is no evidence in this study to show that guarantors charge fees for the services that they rendered. This is because contemporary guarantors have prior relationship with the

borrowers before standing as sureties for usury credit transactions. Contemporary sureties may include kin members, fellow traders and co-workers when the lende is a formal sector employee. However, unlike the assertion of Falola (1993), guarantors in this study do not charge any fee for their services. The lenders are known to always conduct background checks to ascertain the relationship between the borrower and the guarantor. In contemporary usury lending, the emphasis is on the guarantor's clear knowledge of the borrower and the ability to make repayment. The contemporary implications of standing as a guarantor in usury lending can make the task of getting a guarantor quite difficult. This was expressed by some of the trader-lendees interviewed as represented by this comment:

The moneylenders would ask us to look for guarantors and for one to get any guarantor, it is always very tough. This is so because very few people will want to stand as guarantor for you. Even among your known family members, it is very difficult to sometimes get somebody that would be willing to stand as surety for loans to be collected from the moneylenders (IDI/Trader-Lende/4th November, 2014).

Also commenting on the issue of getting a guarantor, another usury lende stated thus:

... Also, getting or locating the person that would stand as guarantor can also be a big challenge because the guarantor knows the risk involved when repayment is not made by the borrower (IDI/Trader-Lende/20th April, 2015).

In other words, while indigenous usury system has less stringent form of security for usury lending, the responsibilities and obligations of a guarantor make it difficult sometimes for individuals who do not understand the system to the extent of taking up the role of a guarantor. There are certain nuisances or dynamics of guarantor in usury lending that is also worth mentioning in contemporary usury system. First is the number of acceptable guarantors and the second is the mix or composition of the guarantors required by lenders. The number of guarantors required reflects the level of risk assessment of the lende by the lender *vis-a-vis* the loan size, purpose, duration and the length of credit or social relations. In a situation where the loan size is large for instance, lenders do require that the lendees provide more than one surety. This is needed in order to 'spread' the risk burden of repayment if the lende eventually defaults. The rationale is to reduce the repayment burden of a single guarantor in case of default. Thus, when the repayment obligation is well spread, it makes repayment easy for the guarantor. This shows the inherent rationality of indigenous usury lenders. One of the lendees provided a vivid illustration on this position:

Moneylenders collect two guarantors for the loan. They will check the guarantors to know if they are capable of standing as back-up in case of default. For instance, if you want to collect ₦100,000.00, the two guarantors must at least be worth ₦50,000.00 each and this is done by accessing their shops. The moneylenders would not just give anybody loan without capable guarantors (IDI/Trader-Lendee/20th April, 2015)

Another usury lendee confirmed this practice thus:

Before you access credit from moneylenders, there is the need for collateral and this is usually in form of guarantors. They would ask the borrower to bring one or two guarantors depending on how well they have known the lendee before that transaction (IDI/Trader-Lendee/14th July, 2015).

The use of more than one guarantor not only diffuses the risk of repayment, but also confirms the credit worthiness of the lendee. In other words, when two guarantors agree to stand for a lendee, the lender assumes that such lendee has good reputation that can be trusted. The guarantor mix is also a subject of scholarly interrogation. While some lenders prefer that the guarantors are the kins of the lendees, others would prefer that they are people other than kins of the lendees. Each position has justifiable and subjectively rational explanation. For lenders who are more disposed to having kins as guarantor, the explanation is that when the lendee defaults, the kins would rally round their own either for the sake of the lendee or the name or reputation of the family. In other words, there would be kin solidarity during loan crisis and this would hasten resolution and consequent loan repayment. However, for lenders who prefer guarantors who are not kin members of the lendee, the position is that getting people within the kin to stand as guarantor may not be a true reflection of the reputation of the lendee, who could easily get any member of the kin to stand as guarantor. However, when the lendee is able to get someone outside the kin cycle, that is, friends, market colleagues, co-workers or superior colleagues, it shows that such an individual has a reputation that can be trusted. One of the traders during an interview session indicated that lenders tend to prefer guarantors that are not kins member of the lendee by stating that:

The guarantor that the moneylenders accept will not be your wife, husband or even children. It must be someone that is not your family member and this does create problem because people are generally scared of standing as guarantor when it comes to the issue of money (IDI/Trader-Lendee/23rd October 2014).

Another perspective to the guarantor mix is also justified in the quote below:

When someone wants to collect loan from a moneylender, the lender would request that the lendee provide two guarantors and these are people that are well known in the market. They also accept landlords and clergy people such as pastors as guarantors (KII/Trader-Lendee/5th April 2014).

The categories of people that are acceptable as guarantor show the sophistication and rational evaluation that loans are subjected to in indigenous usury system. The rationale behind the acceptable forms of guarantors is to identify individuals who would want to protect and preserve their image either because they are popular individual within the community (*Gbajumo*) or due to the sensitive position that they hold within the area. Providing further clarification on the need for the sureties who are not kin members of the lendee, this case study lender stated emphatically thus:

We need a surety that would identify the lendee as a good person that will not default on the loan. That person must be your friend and he or she can trust the lendee because it is money matter. At least you cannot sign as surety for someone you do not trust and is not your friend. I will ask if the surety is a very close friend of the lendee before i can condier giving the loan (CS/Lender/2nd February 2016).

The guarantor mix in whatever form reflects the risk and experience of the lender in the business of moneylending. This in turn influences the type of guarantee arrangement that would be required from the lendee.

The popular usage of guarantor as collateral for credit in usury lending does not, however, exclude the use of tangible assets as collateral in contemporary usury system. The study discovered that in some instances, lenders do accept land titles, vehicle documents that they financed and stocks in the trader's shop as collateral for credit. One of the usury lendees stated thus:

Moneylenders accept different types of collateral. Apart from getting guarantors who must be known to the lenders, the lendees can also use their land title documents, land purchase agreement or vehicle particulars. If the lendee is a government worker, they would also request for a copy of the employee's means of identification as additional loan documents (IDI/Formal-Worker-Lendee/15th July 2015).

One of the lenders interviewed also pointed to the other forms of collateral acceptable to usury lenders in the following quotes:

We request for a guarantor or other means of security that is acceptable. For instance, if you want to buy a car, we can borrow you because you will use our name to buy the car and the particulars of the car will be in our name and will only still charge our interest on the car till when the borrower finishes paying the money. It is another form of security because the borrower cannot run away with the car and we can confiscate the car when the lende defaults. We also take landed properties as security and for me; this is the easiest and most acceptable for collateral (KII/Lender/10th December, 2014a).

Further comment on the alternative forms of collateral in contemporary indigenous usury lending was provided by another key informant interviewee who stated that:

I normally provide loans to market people, especially during festival period and when I first started I do not request for collateral but people abuse it so I now ask for collateral. In the north, I do collect anybody but here in Ibadan, it is a different situation. In this area, I prefer government officials with landed property and not just anybody. I also collect post dated cheques from them but I do not collect vehicles as collateral because what will I do with their vehicles (KII/Lender/8th April, 2015).

The acceptability of assets as forms of collateral brings to the fore, the legal rights or how ownership is passed to the lender such that in the case of default, such properties can be disposed so that the lenders can recoup their money (see Appendix v). Most lenders rely on moral right to the asset held as security rather than the legal right because lenders tend to operate outside the legal framework that is supposed to regulate their profession. While they do not expect the lendees to default, lenders would rely more on social harassment and intimidation to recoup their money rather than sell the property used as security. This is because of the difficulties involved in converting ownership of such properties especially when they are buildings or landed properties. Further, when documents are signed, the legality of such documents is said to be un-enforcement in the law court. This was echoed by this usury lender who stated thus:

If the lende does not pay us back, we would take over the land completely and even though our profession is not legalised, we normally employ the services of lawyers that would prepare fake (*awuruju*) documents to give some kind of legal backing to our transactions (KII/Lender/10th December, 2014b).

The legal right to take possession and sell the properties of defaulting lendees do not actually exist but the action of collecting title documents to land and signing of documents is to confer a semblance of legitimacy on the transactions so that the behaviour of the lende is

shaped towards loan repayment. This finding reconfirms the position of Siamwalla *et al*, (1990) that some lenders accept the deposit of titles but this has no legal significance. The sole essence of collecting this title document is to prevent the debtor from borrowing a substantial sum from another source or from selling the land to a third party. The preference towards guarantee form of collateral may therefore be connected to the cost of physical security or assets realisation in case of default. Sarap (1991) had earlier opined that collateral requirement in a loan transaction shifts the potential capital loss from the lender to the borrower. However, when the cost of realising the collateral assets becomes very high, such assets become unacceptable to the lender. This situation is, however, different from other forms of assets used as collateral such as vehicle finance. For this asset, the lender simply legitimises his or her ownership by registering the asset in his or her name to avoid the sale of the asset before repayment of loan is completed. It also means that the lender can take possession of the asset in the case of loan default.

The basic features of contemporary indigenous usury system are amendable to the needs of individuals who choose to patronise the system. It is on this basis that usury clients interpret the actions of their creditors as a helpful or benevolent act even when the usury lender is viewed by others as seemingly exploitative. It is important to provide further explanation on the benevolent-creditor and the rational deconstruction of the seemingly exploitative relationship that has often been associated with indigenous usury lending. Irrespective of the interest rates and negative but popular assumption of the usury-creditor, availability and relative easy access to essential funds rationalises the usury-creditor, as a merciful helper or benevolent-creditor (*alaanu*). However, it is important to also note that the *alaanu-usurer* also makes a profit from these credit transactions. The usurer is a petit credit bourgeoisie, who makes profit by providing credit to cash trapped traders and formal workers. The relationship between the usury creditor and debtor is thus mutually beneficial. However, the transactional exchange between the usury lender and the lende is contextually embedded with meaning of benevolent assistance that is further reinforced by the divine intervention mandate to help. This is espoused by both lenders and lendees. Thus, indigenous usury system is a rational alternative to the modern formal systems of credit, which in most cases, may not be accessible to the lendees or clients. This subjective interpretative understanding of usury lenders as benevolent helpers has played a major role in the continued patronage of the system by its clients.

4.2 Social Relations of Indigenous Usury System

This section discusses the social relations of indigenous usury system. From the Weberian perspective, Mucha (2003) noted that social relations take place when social actions of a number of people are oriented towards each other in such a way that there is a chance that the social action of one actor will be met by the reaction of the other. Mucha further stated that the content of social relations are therefore guided by the mutuality of consent on values, norms, cultural or traditional prescriptions, associational or communal affiliations, length of interaction, economic exchange and the repetitive nature of such relations. Actions and reactions by rational participants are thus dependent on the subjective content of social relations. The relationship of rational actors within the context of indigenous usury system is based on individual self-interest objectives, which can be achieved either through mutual cooperation or even conflict.

The social relations of indigenous usury actors are governed by their embedded culture, norms and values. These values, norms and rules create expectations to which rationally selective actors must orientate their behaviours. Social relation in contemporary usury system is based on the reputation of the alternative collateral. Alternative collateral in this study refers to non-tangible assets which include the reputation of the introducer, guarantor or the institution within which the lender works or transact business. For the trader-lendees, the reputation of the market authority to enforce loan agreement can serve as comfort to the lender. For formal-worker lendees, usury lenders provide loans on the basis of the organisation's ability to enforce repayment especially when there is loan default. The lender has a history of interaction with the source of alternative collateral and has overtime established a dependable relationship such that the lender can rely on the judgement and commitment of the source of collateral regarding the creditworthiness of the lender. This is usually the catalyst for every initial social relations between the lender and the lender in contemporary indigenous usury system. However, just as the social relations of indigenous usury actors are based on mutual cooperation and benefits, it also has potentials for coercion and exploitation. Social relations can also be built on repetitive and mutually beneficial interactions between lenders and lendees. While there is mutuality of benefits, such benefits may not be equally distributed between the lender and the lender. The evaluation of the benefits and cost for both the lender and lender is based on the subjective interpretation of

each actor at a particular point in time. In other words, actions are significantly influenced by the costs and benefits of different alternatives. Social relations in indigenous usury are purposively constructed to achieve certain ends and actions are structured towards these ends.

The reputation of the alternative collateral creates mutual cooperation and benefits for the lenders and lendees. It is the reputation of this alternative collateral that makes credit referral possible, consummates transactions and also encourages repetitive credit relations. Ayyagari *et al* (2010) noted that informal microfinance institutions rely on relationships and reputation. The system also depends on its ability to efficiently monitor and enforce repayment than commercial banks and similar formal financial institutions can. Informal lenders rely less on collateral assets and depend more on social pressure, reputation and personal knowledge of borrowers or interlinked credit contracts for screening, monitoring and contract enforcement (Nissanke, 2001).

The evaluation of the reputation of alternative collateral particularly on the part of the lender comes into focus at virtually every stage of credit transaction in indigenous usury system. At the point of granting the loan, the usury lender examines the reputation of the introducer or guarantor, the lendeer or the institution that employs the lendeer. The lender engages in a holistic evaluation of these reputations in deciding whether to advance the loan or not. The lender thus engages in rational evaluation by measuring the risk of default peculiar to each lendeer and the inherent benefits of the transaction. An interviewee during an in-depth interview provided further insight on the importance of reputation of the introducer, lendeer, guarantor or institution of the lendeer in accessing credit. He stated that:

For local money lenders, we have to provide a guarantor who must be known to the moneylenders. The moneylender will have to evaluate the capacity of the guarantor especially as a trustworthy person who also has the ability to pay the money whenever the borrower defaults or can no longer repay the loan. This is the centre of the local moneylenders' relationship. Once the moneylender knows the guarantor and can trust him or her, it is much easier to enforce loan repayment (IDI/Formal-Worker-Lendeer/5th November, 2014).

In other words, usury transactions are predicated on the lender's knowledge or information of the reputation of the lendeer or the guarantor. Both the guarantors and lendees work towards the maintenance of a favourable reputation because the consequence of a diminished or negative reputation includes reduced size of loan and outright exclusion from future access to credit. Brown and Zehnder (2007) noted rightly that the availability of

information on past repayment behaviour of the guarantor or lender allows lenders to condition their offers on the borrowers' reputation. Since borrowers with good credit track records tend to receive better credit offers, there is therefore a strong incentive for the lenders to sustain their clean credit reputations by ensuring prompt loan repayment. An untrusted reputation is the consequence of loan default and non-faithfulness to the terms of the credit and this was made clear by this interviewee who stated thus:

It is expected that you will be honest in dealing with any moneylender. This will ensure that you can get whatever you want on time. When the moneylender can no longer trust you to pay back as agreed, they will not do business with you (IDI/Trader-Lender/4th November 2014).

Social relation in indigenous usury system does not exist in a vacuum. It is created and re-created by the continued interaction between and among the various actors within the system. While economic interest is the motivating force behind the lender's social relations, the lender is motivated by the desire to meet either social or economic ends or both. Therefore, mutual self-interest and cooperation form the basis for social relations in contemporary usury system. The social relation of indigenous usury lending is mediated by rational evaluation of the alternative collateral which makes transactions possible. However, a breach of reputational-trust can equally affect the social relations among the actors in credit relations such that further access to credit facilities becomes relatively impossible while securing a guarantor within the network also becomes difficult. This position confirms the findings of Nadan (2005) who stated that clients of moneylenders would always want to remain in the good books of their creditors because of the fear of future credit exclusion. From the rational choice perspective, a dependable reputation in a credit relationship reduces the risk of default because the selection of lenders is based on reliable credit history or a guarantor that has demonstrated the capacity to be trusted.

At this point, it is important to examine the social relations of indigenous usury lenders as it relates to the various social actors and their roles within the system. The first observation of contemporary indigenous usury credit shows a dyad relationship between a lender and the lender. It is also an economic relationship where there is a provider of value (loan) and a buyer who would purchase the value at a specified fee (interest) which would be paid at a later date. The start of this relationship is based on mutual self-interest and cooperation: the lender gets to have access to credit which he or she uses for productive or

social investment and the lender gets to collect the loan back at a later date with a profit margin. In other words, what is generally described by lenders as a form of help can also be described as an action that is actually motivated by economic or social interest. However, a closer look at the credit relations of indigenous usury system would indicate that this is hardly a dyad relationship as there are other parties that would have to contribute one way or the other in making credit facilities possible.

The original relation between the lender and the lendee does not occur in a vacuum as there must be a source of connection before such relationship can be consummated. The initial interaction is thus based on mutual self-interest and the reputation of another party which is usually the introducer or the guarantor. Therefore, the initial credit relation in indigenous usury system consists of a minimum of three actors namely: the lender, the lendee and the introducer or guarantor. Subsequent and successful interaction between the lendee and the lender may however exclude the third party, since reputational confidence may have been developed especially by the lender. However, this is not automatic as repeated credit and other forms of economic exchange of values are required for this reputational trust to develop. What is clear is the fact that indigenous usury actors such as lender, lendee or guarantor, engages in rational evaluation of alternative courses of action, based on mutual self interest and cooperation. While the lender seeks the maximisation of profit based on the image of providing 'help', the lendee would have examined and evaluated what he or she stands to gain or loss if the purpose for which the loan is being sought is met or not. Chavan (2003) observed that moneylenders interact on personalised or person-specific terms with their borrowers. The nature of these credit transactions in contemporary usury system depend to a considerable extent, on the socio-economic status of the borrower and his or her "prior relation" with the lender.

The mutual benefits are driven from the cooperation embedded in indigenous usury lending at the initial stage and sometimes throughout the cycle of a successful transaction. In other words, repetitive lending depends on prior but successful credit and other related transactions. By repeatedly interacting with the same borrower, lenders establish long-term relationships that enable them to structure their credit terms based on the past relationship with the borrower. As only good reputation leads to attractive credit offers from the incumbent lender, borrowers therefore have strong incentives to repay (Brown and Zehnder, 2007; Fehr, Brown and Zehnder, 2009)). In other words, loan repayment becomes the only

way the borrowers can build credible reputations and thereby obtain access to profitable future credit offers from the lenders. This lendeer provided a valid description of what a successful credit transaction would mean within the context of indigenous usury lending:

The system is based on trust and understanding between the lender and the borrower. It is a system that is based on mutual trust of both parties. The borrowers are people that are known one way or the other and have track records of loan repayment. Hence, trust is very important. There is also the need for confidence and the conditions are such that you can easily meet. The lender and the borrower should have a symbiotic relationship to the extent that the borrower continues to meet the loan obligations. Where this is not the case, the two parties will experience difficulties in their relationship (IDI/Formal-Worker-Lendeer/29th November, 2014).

Commenting on the mutuality of benefit in indigenous usury system, one of the lenders interviewed stated that:

It is easy to access indigenous usury credit as long as the lender and the borrower see each other as partners in progress. With this sense of partnership, both parties would overtime establish a good relationship that is based on trust and mutual benefits (KII/Lender/2nd February 2014).

Both lenders and lendeers understand that mutual benefit and cooperation are only possible when there is adherence to the repayment rule of lending. This rule simply says that loan advanced must be repaid as and when due. This rule is tied to the magnanimity perspective of the system which makes repayment a rational and moral obligation on the part of the lendeer. This is based on the narrative that the lender provides help by advancing loan to the lendeer for production and social investment purposes, especially when such needs are urgent. Therefore, it is expected that the most appropriate action of the lendeer is to ensure that the lender does not suffer any loss on the account of providing credit to the lendeer. The lendeer is to ensure that repayment is made as and when due. This is the moral obligation of lending which the 'help' perspective of indigenous usury reinforces. An interviewee provided further explanation on the moneylender's rules of repayment by stating that:

First, the loan you took is not your parents' money. Hence the simple rule of borrowing from the local moneylenders is that you must pay back. It is not good to default in the repayment of your loans especially to the moneylender because the loan is like a form of help and not paying back will portray the lendeer as an ingrate (*alai moore*) (IDI/Trader-Lendeer/4th June 2014).

Another lendeer also made this point clear in this statement thus:

The rule guiding local moneylender's interaction is very simple. Once you borrowed the money, you will have to repay at an agreed period of time and amount. If you do not repay, they would simply come and lock you and your shop. The lendeer must pay back and pay as and when due to avoid unnecessary embarrassment. If the loan is for a week, repayment of the loan must not exceed that one week (IDI/Trader-Lendeer/16th June, 2014).

In other words, the lendeer through the interpretation of the system as a form of help has a moral obligation to reciprocate the 'kind gestures' of the lender by making repayment as agreed. There are possibilities, however, that the lender could and do take advantage of this interpretation to exploit and coerce the lendeer especially when there is default. The outcomes of adhering to the rules of lending in indigenous usury lending is the observed operational and mutual benefits that underlines credit relation between the lender and other parties to the transaction. One of the case study lenders provided his view on the ideal lender-lendeer relationship within the context of indigenous usury system. Mr Osoba (not his real name) is a moneylender who also combined this business with that of providing plumbing services which also includes the sale of plumbing materials. He is a 62 years old moneylender as well and has been in the business for over 20 years. Mr Osoba inherited the business from his late father, who used to provide working capital loans to cocoa merchants. He stated that the relationship between the lendeer and the lender is mutually beneficial because when it is well structured, usury credit benefits both parties. For him, lending is all about helping the people such that everybody would benefit at the end of the day. The lender gave an instance of providing a loan of ₦10,000.00 to a trader for a period of three weeks. At the end, the trader achieved her objective of trading with the money, made profit and returned his money with an interest of 10 per cent on the principal sum. Mr Osoba noted that from his experience of moneylending, not all relationships are mutually beneficial as some lendees would default and refuse to pay back. On the other hand, he also acknowledged the fact that some lenders can deliberately work against their lendees so that they can confiscate and eventually convert the ownership of assets used as securities into their own. Mr. Osoba, however, stated that his personal disposition to lendees is to pray for their success and also visits them from time to time. Through these actions, he is able to consolidate on existing relations with his lendees. This is an indication that he wants these lendees to make good use

of the loans and return it on time so that the lendees can collect whatever is used as collateral. Mr Osoba insisted that he had gained a lot in terms of wealth and popularity from the business of moneylending. Many people that he had helped usually acknowledged him everywhere. In most cases, he would not even remember dealing with these lendees. Mr Osoba is always encouraged by the fact that people really appreciate him such that some of these lendees would present him with gifts as signs of gratitude even after they would have fulfilled their loan obligations.

The benefits contemporary usury system to the lendees can take several forms, including speedy access to credit, the progressive lending, assurance of future credit and the privilege to serve as a source of referral for the lender. This is quite different from other forms of informal credit, including credits that take the form of patron-client relationship where economic transactions are realised or exchange for other forms of social relations. Manig (1996) noted that credit relations in informal lending is just one component of a multi-stranded networking relation among people. Manig affirmed that credit relations between lenders and borrowers are embedded in the social, economic and political relations of the people such that the principle of reciprocity or pay back can take different forms. In other words, when credit is granted, the lender expects and receives something which is marked by the predominating relation. In the case of relations predominated by politics, the return service can consist of loyalty and support in political disputes. In the case of relations of an economic nature, a trader, for example, secures for himself the marketing of the borrower's products or a landowner seeks the guarantee of tenancy relations with the borrower. This is not the case with contemporary usury system where credit transactions do not take other forms of repayment outside monetary exchange of values. Therefore, credit relations are restricted first to credit relations which simply mean that monetary exchange starts and ends every successful credit cycle.

Alluding to the relationship between the quick and relative easy nature with which a lendeer can access moneylender's loan and the value of trust, this interviewee stated that:

The relationship between the moneylenders and their clients is largely built on trust. The lendeer would agree on the percentage of interest that will be paid to the lender and signs the dotted lines after which the lender will give the client the money. It affords the lendeer the opportunity to meet most pressing needs at that time (IDI/Formal-Worker-Lendeer/24th November, 2014).

Another interviewee who is a trader also stated that:

For me, indigenous usury system is very important because it helps my business. For instance, when there is an urgent need to stock my shop and this purchase is unexpected, I quickly run to these lenders and because they know that I have been faithful in the past by making repayment as and when due, they will lend me the money (IDI/Trader-Lendee/3rd June 2015).

A series of completed credit transactions creates a credit history that is dependable such that the lendee who has such good history would access credit from the lender in quick record time. This credit history, therefore, makes movement from one lender to another quite costly and expensive. Siamwalla *et al* (1990) had posited that though a high degree of competitiveness may exist among moneylenders, the fact remains that most borrowers are unable to use multiple sources of informal loans or to switch easily from one lender to another. For Siamwalla *et al*, creditworthiness of an individual lendee *vis-a-vis* the lender takes considerable time to build up and sometimes this effort can span several years of continued patronage. Switching of lenders does take place, but it has to be done slowly and may involve some costs and risks to the borrower as well. This means that lendees would patronise one or very few usury lenders with whom they have a good credit history of loan repayment because this would facilitate access to credit in future. The quick access is guaranteed because little or no time is spent on getting information on the lendee and provision of a guarantor. This is the benefit of a good credit history which differentiates a regular lendee from one who is either a first time client or an irregular lendee.

Another outcome of social relations for the lendee is encapsulated in the progressive lending mechanism embedded in indigenous usury lending. This is a gradual increase in the size of credit to lendees such that the size tends to increase as previous ones are repaid successfully. A formal worker who also patronises indigenous usury lenders has this to say about the issue of trust and progressive lending in the system:

When I started borrowing money from local moneylenders, I first got ₦20, 000.00 and I paid back as agreed. I have borrowed severally from the moneylenders now and the last loan that I took from the money lender was ₦500, 000.00. You can see that I started with ₦20, 000.00 but I am now borrowing up to ₦500, 000.00 which shows that when you pay back and can be trusted, the lender will give you more volume of loan.

That is, when they start with small amount and when you prove that you can be trusted by paying back as and when due, they will increase the amount as you repay the previous loan amount (IDI/Formal-Worker-Lendee/24th November, 2014).

A lender interviewed in this study also presented a similar position by stating that:

The minimum amount that I give out as loan starts from ₦10,000.00 and it is a loan amount that I can forget if the lendee refuses to repay. I would simply accept my fate and leave it for God to judge. But for my most credit worthy clients, I can give a loan up to ₦150,000.00 at once or it can be divided into two tranches of ₦100,000.00 and ₦50,000.00 depending on the need of the lendee (IDI/Lender/ 5th June 2015).

Progressive lending is a trust and reputation building strategy, where the size of loan advanced to the lendee increases as the lendee makes repayment on previous loan. This creates reliable credit history that engenders reliability and reinforces the lender's conviction that higher volume of loan will be repaid by a trusted lendee. The usury lender is always in search of clients with good reputation and they tend to rely on existing relationship to discover new clients. The repayment of the initial loan would lead to a repeat of the credit transaction and when the lender has been able to establish the credit worthiness of the lendee, the size of the loan is increased depending on the loan request and the risk evaluation of the lendee. The size of loan advanced in indigenous usury system cannot be compared to that of the formal system because unlike formal institutions like the modern banks, indigenous usury lenders do not collect deposit from their clients either on a regular basis or as a pre-condition for accessing credit facilities. This thus, limits the loan or working capital available to the lender. Also, indigenous usury lending is rooted in informal credit and trade transactions such that the size of their clients' business may not require large working capital when compared with the clients in the formal financial institutions. The size of credit that usury lenders provide in contemporary credit system reflects the nature of their clients' businesses, the limitation of capital and most importantly, the risk evaluation of the lendees. The perspective on the loan size is in two folds especially among the usury lendees. There are those who are of the view that usury lenders do and can provide any amount that is requested by the lendees and there are those who opined that the range of the loan size is limited. The lendees who are of the view that lenders can provide any loan amount based their assertion on the fact that the lenders can provide any amount that is requested by the lendees as long as he or she

possesses the right credit history. This usury lender's statement encapsulates this view point thus:

It is the amount that you want or request that the moneylender would lend to you. Like for me, when I started borrowing from them, I collected ₦200,000.00 and paid back the money with the agreed interest. I have collected loan from the moneylenders for about four times now. It has been ok even though I have defaulted once but I paid the following week (IDI/Trader-Lendee/12th December, 2014).

Another usury lender made the following statement concerning the range of loan size that the usury lender can provide to his or her clients' thus:

The moneylenders provide loan ranging from ₦40,000.00 upward to even ₦100,000.00 or ₦200,000.00. The loan amount is always based on their assessment of the lender's capacity to repay the loan. Though sometimes, they would start with a small amount and then increase the loan amount based on the performance of the previous loan amount that was given (IDI/Trader-Lendee/16th October, 2014).

Providing further explanations on the size of the loan that usury lenders can advance to their lenders, one of the key informant interviewees stated thus:

The range of the loan that you can collect from the moneylenders is from ₦50,000.00 upward. Like when I collected the loan I collected ₦200,000.00 and someone collected ₦500,000.00. Your loan amount will depend on how long you have been dealing with them and how faithful you have been (KII/Lendee/2nd February, 2014).

One of the usury lenders interviewed also commented the loan size range by stating thus:

I can give up to ₦1.5 million for a period of two to three months but we can give a maximum of six months to people that have long history of borrowing with us (IDI/Lender/4th October, 2014)

The foregoing indicates the salient considerations of loan size in contemporary usury system. The first consideration of contemporary usury lenders in determining the value or loan size that lenders can access is the availability of capital to lend and this is closely followed by the need to avoid risk concentration. Risk or loan concentration is when the larger percentage of a lender's loan size is given to a single or few individual lenders. Usury indigenous lenders engage in credit transactions for the purpose of economic interest and for

many, it is their major source of earning a living. Therefore, when a large sum of loan goes to an individual lende, it reduces the loan capital available to other lendees and when clients cannot access loan from the lender as expected, they tend to move to another lender. This is to the detriment of the former lender because in indigenous credit market, credit history and repeated credit interactions help in creating and maintaining a reputable client base.

Lenders place a threshold on the limit of loan because of the need to avoid huge losses in case of default, the size of loan advanced by the lender is also based on the credit history consideration of the lende. The lender is able to have information from his or her credit records on the size of loan that has been previously obtained and how well it was paid back. This is a pointer to the capacity of the lende to repay the loan based on the volume of loan that has been accessed in the past. Another consideration is the purpose of the loan. Usury lenders use the purpose of the loan and the nature of lendees' business to determine whether loan can be advanced to lendees. The volume and value of the business for instance, must justify the loan size requested by the lende. While there may be exceptions when it comes to formal worker lende, but for trader lendees, the nature and capital outlay of the business can inform what the lender can provide as loan. There is also the evaluation of the economic status of the guarantor in the consideration of loan size that lendees can access. The economic value of the guarantor can be used to match the loan size that is being requested. Contemporary usury lenders in effect provide credit and credit amount based on specific considerations that either point to a high chance of repayment or recovery in case of default.

Indigenous usury actors possess mutual orientation towards a shared course of action such that one actor takes into account the behaviour of the other actor which has both causal and reciprocal effect. The lende knows that a reliable credit history will propel the lender to engage in repetitive and incremental lending. Both actors have engaged in rational selective course of action that is mutually beneficial despite the seemingly exploitative evaluation of this relationship especially when it relates to the issue of interest rate. A cooperative and mutually beneficial relation ensures repetitive access to credit such that future loans can also be obtained. This is why the problem of loan default does not benefit the lender but most especially the lende who is shut out of future credit opportunities. Hoff and Stiglitz (1990) had opined that a direct mechanism to prevent loan default in moneylending system is the threat of future loan exclusion. The threat of future loan exclusion is so real that lendees

would engage in loan refinancing in order to remain clean and stay in the good books of the lenders (Mallick, 2012).

The reputational trust in alternative collateral also provides the lendee with the ‘benefit of the doubt’ during repayment crisis. There may be unforeseen circumstances whereby lendees are unable to meet the loan repayment as expected. A faithful lendee with good credit history can enjoy additional repayment period within which the loan can either be repaid or restructured to meet the present realities and capacity of the lendee. This also constitutes the benefit of a cordial and mutually beneficial relationship in contemporary usury lending. This is obvious in the following focus group data where discussants agreed that a good credit history can also facilitate credit re-structuring in indigenous usury system:

The issue of ensuring that you are trust worthy is very important in local money lending system. And this is why when you are dealing with the usury lenders, you have to tell them the whole truth and come clean to them such that when you have issues or difficulties repaying their loan, the money lender can give extension of time for loan repayment. This happens when I do not have enough money to pay back. The lender knows that I will eventually repay the loan (FGD/Female-Trader-Lendee/ 19th June, 2015).

Corroborating this position, another usury lendee stated:

Honesty and faithfulness to the terms of credit are important qualities when dealing with moneylenders. This is necessary at the beginning of the relationship and even when you are having issues which would make it difficult to repay their loan. This would enable the lender to know how to help the lendee in time of crisis (IDI/Trader-Lendee/20th April 2015).

The submissions above indicate that usury lenders use progressive lending and loan re-structuring strategies to reinforce existing social relations. These are more effective methods of securing loan repayment than the alternative use of force or harassment. It has been stated that one of the means through which usury lenders secure repayment is by depending on the reputation of the lendee or the guarantor (Ayyagari *et al*, 2010). Social relations thus become embedded in the reputation of credit relationship between the lender and other parties to the transaction. Within the context of indigenous usury lending, rational trust is based on the exchange relationship whereby the lendee meets the expectations of the lender and the lender in turn reciprocate by doing more business with the lendee. A good

reputation is central to usury lending because it forms the basis for present and future relationship which can be through direct lending or lendeer referrals.

Social relations of indigenous usury system also entail rational economic exchange of value. Manig (1996) stated that informal credit relations between lenders and borrowers in developing countries are embedded in the people's economic, political, social network of personal relations. That is, credit relations are only one component multi-stranded network of interactions. This is the case when credit transactions are given in exchange for social prestige or political patronage for instance. The usury lenders in this study tend to separate the business of lending from other forms of interactions such that loans that are advanced in cash are repaid mostly in cash. The rational exchange of value occurs when lenders also patronise their lendeer by purchasing goods and services that may be required by the lenders. This is part of the benefits of an enduring relationship between the lenders and their clients. While this form of exchange of values further promotes mutual cooperation between the lenders and their clients, it also serves as a means of monitoring the business activities of their clients. The exchange of values may entail regular visitation to the shop or business location of the lendeer and this would enable the lender to examine or observe whether the lendeer is actually making progressive or not. A lender revealed thus:

I also sometimes patronise my lendeers by buying what they sell to keep them in business. There was a time we wanted to organise a party in my family and we have to select an *aso ebi*. The *aso ebi* which was *aso oke* cost ₦10,000.00 per person and I have this lendeer, who sells this type of cloth. I contacted her for the business and she made profit from the transaction. You know that this type of connection will help her business and also affect me too positively. This is because she will make profit and I will be able to get my money back as and when due (IDI/Lender/5th June, 2015a).

Therefore, rational economic exchange of value in contemporary usury system enhances the lendeer's business because the availability of working capital through usury credit, affect the business of the lendeers positively such that the chance of loan repayment is further enhanced. The lendeer on the other hand views this action as a further confirmation of the benevolent disposition of usury lender. The lender can opt not to patronise the lendeer and the lendeer would still have to repay the loan. The lender also extended this notion of help for

mutual benefit to the sharing of business and related information. One of the usury lender stated that:

Also, I look out for information that can help lendees who are my clients. There was a lady that I gave loan to buy kerosene in bulk and when I heard that the price of kerosene had gone up, I quickly called her so that she could take advantage of the increase in price. It helped her because she was able to sell at a higher price, which increased her profit. This was also good for me too because I was able to get my money back in good time (IDI/Lender/5th June, 2015b).

Economic exchange of values reinforce the notion of a usury lender as a 'merciful or benevolent-helper' and this enhances the loyalty of the lendees even as they are economic empowered. A moral and real sense of obligation to repay the loan is, therefore, established on the part of the lendees and this tends to rationally negate the exploitative exchange in favour of the lender.

The alternative collateral or guarantor system in indigenous usury system is a pointer to the triad relations embedded in the indigenous usury system. This is a situation whereby the lender requires that the lendees provides a guarantor before credit is provided. In a triad usury relations, the lender takes into account the actions of the lendees and the guarantor; the lendees takes into account the behaviours of the lender and the guarantor and this also applies to the guarantor who ensures that the obligation to repay is met as and when due. Apart from helping to mitigate the risk of default, the guarantor also increases his or her own reputational-trust when lendees repay their loans. The importance of the guarantor in this triad relationship was made clear by this usury lender:

The guarantor is liable because he or she will repay the loan when there is default. That is why it is very difficult sometimes to get guarantor for loan to be collected from local moneylenders. If it is providing guarantor for loan from banks, you are likely to get guarantors on time, but for local moneylenders it can be hard if the person is not very close to you and also trust that the lendees will not misbehave or default. This is because the guarantor knows that when there is default such that the borrowers cannot pay, they will be asked to repay such loan and they must repay the loan (IDI/Trader-Lendees/4th November 2014).

While a dyad relationship exists in contemporary usury lending, most credit relations are made up of more than two individuals. From the rational choice perspective, the usury lender and lender would opt for a mutually beneficial relationship based on self-interest and cooperation. From the rational choice perspective, both actors would opt for a cooperative relationship as it guarantees the satisfaction of their ultimate goals.

The usury lender is in the credit relations to make economic gains and sustain the business while also advancing the interpretation of the system as providing merciful help financially to their clients. In the process of maximising the benefits of credit relations, what was hitherto a relationship based on mutual cooperation can be transformed into a conflict relationship between the lender and lender. The guarantor or the lender would rationally opt for a stable and beneficial relationship because the consequences of a conflict relationship are not desirable. The moneylender also prefers a stable relationship as this would guarantee loan repayment.

However, the financial strain which the system can impose on the lenders may underline the exploitative tendencies of the system that is further reinforced by the recovery strategies employed. What constitute the benefit to the lender and the forms of repayment enforcement tend to indicate that lenders may in monetary terms exploit the credit position of the lender. Guerin (2014) noted that informal finance institutions such as moneylending are clearly shaped by and constitutive of hierarchy and inequality. Guerin further stated that informal finance, therefore, represents a powerful method of regulating relationships which results in considerable modes of exploitation. The lender goes into a credit relation after a careful evaluation of the risk of repayment. While the lender is able to meet the social or productive purpose, the lender provides the loan with the notion that it is a form of help.

The lender has three major advantages in the process of loan or credit relations that can be used to exploit the lender. One, the lender is usually in a better position to draft a more favourable credit contract and negotiate the price of the credit. This is because the lender has the resources which the lender sometimes urgently needs. Two, the lender creates an image of help, which camouflages any form of exploitation at least at the initial stage of the relationship. Third, there is the consideration of the loan purpose such that when the purpose of the loan has more value than the monetary cost of the loan, the lender could increase the rate of interest on such loans. The lender loses credibility when payment cannot be made even when such payments include a high rate of interest. The moneylender could

thus employ various strategies to pressurise the defaulting lendee into submission. The monetary price of the credit creates an image of exploitation because the lendee is often in a weak position to negotiate the pricing of the loan and the popular notion is that the lenders tend to accrue more benefit to the detriment of the lendee.

The relatively high interest rate and the coercion during loan recovery reflect the possible exploitation that are inherent in indigenous usury lending. Scholars have also pointed to specific practices that show the systematic exploitation of lendees by lenders. Saika (2010) noted for instance that Indian Moneylenders often lend money to poor peasants in times of needs but these transactions are usually one-sided as lenders tend to always dictate the terms of the loan such that when there are defaults, the lender can manipulate documents to his or her advantage. This also leads to situations where the lendees have to pay more money due to the arbitrary increase in the rate of interest as indicated by the moneylenders.

In their analysis of moneylenders laws in Nigeria, Eja and Bassey (2011) observed that moneylenders charged extremely high interest rates and the borrowers were always at the mercy of the lenders. This is because the lendees are usually in a disadvantaged position and tend to succumb to unfair contract terms. Falola (1993) outlined at least four practices of moneylenders that constitute exploitation in colonial moneylending. There is the high interest rate that featured prominently in moneylending throughout the colonial period of Yoruba society. In addition, there is the collection of debt which is usually prompt and brutal. Third, when the borrower defaulted, the moneylender could take the matter to court or resort to indigenous methods of loan recovery. This indigenous method may often involve the threat to use traditionally diabolic powers if the lendees refuse to repay the loan. In addition, exploitation can also be in form of cheating lendees. For instance, the lender can make the lendee to indicate that they collected an amount that is actually more than what they collected. Fourth, the threat to go to court or report the matter to the government would compel many debtors to find money to pay, usually by taking a further loan. These are some of the practices of traditional moneylending that have made the profession unpopular in societies where they operate.

However, the profession of moneylending has a contrasting image because even as people may detest moneylenders especially when there is conflict in relationship between the lender and the lendee, moneylenders are also viewed as benevolent helpers who come to the rescue of lendees during financially difficult situations. Therefore, even when the interest is

high, it becomes both a moral and contractual obligation on the the part of the lende to ensure and keep to the terms of the loan (see Appendix vii). Adebayo (1992) also observed that the moneylenders in colonial Yoruba society had unlimited leeway to cheat the borrower. In addition to a high interest rate, the lender could coerce the borrower into indicating that he had collected more money as principal. Therefore, the popular view that usury lenders exploit and oppress their clients is as old as the system itself.

Lenders also employ coercive means of loan recovery that creates an image of a system that is brutal when it comes to recovering loan repayment (Schrader, 1992). Stereotypes such as loan sharks and shylocks have be used to describe professional moneylenders since the lenders often dictate the terms of the loan and the borrowers in most cases are not in the position to negotiate any favourable terms (Tsai, 2003). Sarap (1990) noted that where valuable securities are involved, the lender may introduce a short repayment period in the loan contract. This type of loan arrangement may be preferred by the lender and be agreed upon by the borrower, if the demand for a loan is extremely inelastic (e.g. a loan for medical purposes) and when an alternative source of borrowing is not available. In the event of failure to repay within this short period, the borrower would lose the whole of his or her valuable. Moneylenders also engage in exploitation through land alienation whereby the right to land is passed to the lender in exchange for loan to finance social, productive or state mandatory obligations such as payment of tax (Rao, 2009). The huge debt burden occasioned by the multiple repayment amounts would lead to a situation where landed properties used as collateral or assets are no longer returned to the lende because they are in perpetual debt.

This study indicates that some of the modes of exploitation have reduced or taken new forms in contemporary usury lending. The high rate of interest has remained part of the indication of exploitation especially as the rate, which is usually 5 or 10 percent, is calculated in absolute terms based on the principal outstanding per month. There is the upfront charge that is collected from the principal loan amount as interest for the first month. By implication, the lende tends to collect less than the loan value that was agreed by both parties. However, the major aspect of the system that lendees tend to recognise as exploitative is the mode of loan recovery which has been described as very harsh and coercive. The use of coercion during default or recovery may have informed why some lenders prefer not to do business with their kins and close friends. This interviewee who is also a moneylender states that:

Just some few days ago, an insurance employee, who is also a family member came to me and requested for money in form of a loan. However, because he is close to me, which means that it may not be possible for me to fight him when he defaults; I referred him to another moneylender. I know that the other moneylender will call me to confirm if I actually sent him before dealing with him. I do not lend money or give loan to my family members because I know that I cannot collect it back. The moneylender that will lend to that my kin would treat him as a client and carry out all due diligence before the loan is advanced. The moneylender knows that this is strictly business (IDI/Lender/4th August 2015).

The data above describes a usury lender who prefers to do business with lendees outside his kins cycle because of the difficulties that may be experienced in loan recovery. Usury lenders always attempt to separate credit from other considerations including kins relations. Thus, some lenders systematically exclude their kin members from the credit process. However, this is not the case with all moneylenders as there are exceptions. A typical example is Mr Godwin (not his real name), a case study interviewee. He is a 69 years old professional moneylender who retired from one of the old generation banks as a clerical officer. After his retirement some 25 years ago, he ventured into the business of moneylending. This was because as a former banker, he understood why people need money and the fundamentals that would ensure that even when the lendees decide to borrow, they would be able to pay back. Commenting on the link between his business and his kins and friends, Mr Godwin stated that he provides loan to anybody that he is comfortable doing business with including his kin members and friends. He has provided loans to his kin members in the village including his sisters and they have used it to finance the educational expenses of their children. Since, it is a form of help; Mr Godwin argued that such help should also be extended to his kin members and friends as well. The loans that he had advanced to kins and friends had also enabled these kin members to build their houses and bought landed properties. While there are no evidence that moneylenders give preferential treatment to their kins and friends, what is however obvious is that kins and friends may not be exempted from credit transactions, especially when contemporary usury lending is described as a form of help.

There is semblance of exploitation in the structure of contemporary usury lending, even though it is not in the same magnitude as we have in colonial moneylending practices. In other words, certain development in contemporary society may have made certain modes

of exploitation impossible. One of such development is the advancement in education which has reinforced the act of writing and documentation; it has made the practice of false or lack of documentation in indigenous credit transaction negligible. Both lenders and lendees in our urban setting now possess certain level of education either directly or through their children, colleagues or kins. Contemporary usury lendees execute loan agreement or forms which would stipulate among other details, the rate of interest and the mode of repayment. The use of post-dated cheques or bank's withdrawal slips has also made it possible for lendees to monitor instances of overpayment. This is usually the case with lendees who work in the formal or organised sector. For trader-lendees within the traditional market space, records of repayments are done through regular update of repayment cards given by the usury lenders at the start of any credit transaction. Some also keep personal records of what has been paid to the lender and what is outstanding. One of our interviewees articulated this view thus:

The moneylender would normally come to educate both the lende and guarantor on the consequences of not paying back the loan as agreed. They also follow up on a regular basis by visiting their clients to know how they are doing especially on the business. The moneylender would greet us and also provide some form of advice on how our business can grow. We have a time table of all the repayment dates such that you, the lende would know when you will repay the loan and the amount that is expected of you (IDI/Trader-Lende/21st July 2014).

Another usury lende has this to say on the documentation and tracking of loan repayments:

Once you have been told that you will for instance pay back ₦150,000.00 for an ₦100,000.00 loan that you took, your weekly repayment is well known to both you the lende and the lender and even in some cases your guarantor would also know the repayment expectations. In fact, the moneylender would give you a repayment card where they will mark and sign off the repayment that you made week-by-week (IDI/Trader-Lende/20th December, 2014)

Contemporary usury lenders can also monitor lendees' obligations through documentation and the use of mobile phones as indicated by this lender below:

... I also charge additional N500.00 for the purchase of recharge cards which I use to call my all my lendees from time to time. I have different network on my phone. I can call my lendees to remind them of the repayment date, any outstanding payment and even harass those that defaulted to ensure that they repay their loans (IDI/Lender/5th June, 2015).

Lenders can make phone calls or send short messages via their mobile phones to the lendees to among other purposes, inform the lendees of the outstanding balances of the loan and when the next repayment will fall due. The implication of the development in education, documentation and communication technology means that lenders cannot force or literally indicate an amount that is more than what was actually collected as loan by the lendees. Further, it should be noted that the guarantor is actively involved in the process and thus ensures that what is given as loan is what is actually documented since he or she knows that the risk of repayment would be transferred to him or her in the event of default.

The rate of interest charged by lenders has remained one of the reasons of exploitation in contemporary usury system. Ojo (2007) had stated that there are variations of interest rate across space and time and this has implications on the debt burden of clients of indigenous usury system. Ojo also noted that in the 1850s, Egba traders paid up to 2.5 per cent every ninth day as interest on working capital loans. This translates to an annual interest rate of 100 per cent. Twenty years later, Ojo noted that the rate averaged about six pence per pound sterling in less than three weeks in the Yoruba hinterland, while it rose six fold in Lagos from 5 to 10 per cent to 30 to 60 per cent in Lagos. By the end of the nineteenth century, Ojo opined that the interest rate on working capital or trading loans stood at 300 to 400 per cent among the Ijebu of South West Nigeria. Consequently, high interest rates meant that the longer a debt remained unpaid, the greater the burden on the debtor and uncertainties for the lender.

Contemporary usury lendees acknowledged the fact that lenders charge high rate of interest over a relatively short period of time. Even though our study did not discover annual rate of interest that is as high as 300 or 400 per cent, lendees still consider that the rate can be lower. This is because most lendees engage multiple sources of lenders in the formal and informal finance system. While the common rate of interest is 5 to 10 per cent per month, there were few instances of 15 or 20 per cent rate of interest per month. Eboh *et al* (1991) commented that one major problem facing those who borrow from indigenous usury lenders is their high rates of interest relative to institutional interest rates. Eboh *et al* further stated that, interest rates charged by private money lenders have variously been described as "usurious", "exploitative", "exorbitant", "unrealistic", "regressive" and "anti-developmental".

A hypothetical scenario would suffice at this point with a bulk or bullet form of loan repayment. A usury loan of ₦100,000.00 at 10 per cent per month for 12 months would result in an interest rate of 120 per cent per annum and total interest rate of ₦120,000.00 would be paid on the principal sum. This translates to ₦10,000.00 interest rate per month. On the other hand, even at an extreme interest rate of 30 per cent per annum using the simple interest calculation in formal finance institution, a loan of ₦100,000.00 would only lead to a monthly interest rate of ₦2,500.00 and an annual interest payment of ₦30,000.00. Therefore, for the usury lendee, the gap between ₦120,000.00 and ₦30,000.00 annual interest rate payment is high and reflect the debt burden which the lendee has to bear within the context of contemporary usury system. The argument that the system may be exploitative from the interest rate charged is based on the premises that the lender may have taken far more than the fair share of the transaction. Concerning the high rate of interest which usury lendees have to pay on their loans, one of our interviewees stated that:

The challenge that I see in money lending is in the high interest that we have to pay on loans collected from moneylenders. For instance, if I borrow ₦100,000 from the local moneylender, I would have to pay back ₦150,000 in three months. I would have to sell a lot of goods to cover the interest rate of this loan but we have to repay the loan once we have taken it (IDI/Trader-Lendee/10th April, 2015).

The high cost of borrowing from the usury lender was also echoed by this worker in the organised formal sector who added that:

If you borrow from the local moneylenders, they would not want you to pay back the principal. So most times you end up paying just the interest element every month such that you may end up paying an interest amount that is far more than the principal sum itself (IDI/Formal-Worker-Lendee/1st February, 2015).

For some lendees, therefore, the expectation of loan repayment is further complicated by the huge cost in terms of the rate of interest that has to be paid in addition to the principal repayment. While the issues of high interest rate and the mode of loan recovery are brought to the fore when it is time for loan repayment or when there is default, what has not been disputed so far, is the acknowledgement by lendees that the lenders have been benevolent helpers, who have provided funds to meet their urgent needs. The expectation of loan

repayment was discussed in one of the FGDs and the following comment represents the general opinion of the participants thus:

We cope differently with the pressures of loan repayment in usury system. Some of the lendees have developed hypertension while sourcing for how to repay the loan they took from these local money lenders. It can sometimes be very difficult if you are not that bold and strong to withstand their pressure (FGD/Female-Trader-Lendee/19th June, 2014).

The foregoing indicates that the burden of loan repayment and the negative consequences of default are the two major fears of lendees in contemporary usury system. The loss of future access to credit in case of default is an implicit sanction mechanism which helps in the recovery of loan in indigenous usury lending. Borrowers would honour the loan contract because when there is default, it affects the lendee's credit history and therefore, diminishes the chances of future access to such credit facilities (Sarap, 1991). While relatively high rate of interest exists in contemporary usury credit, the major indicator of exploitation is the coercive recovery method of indigenous usury system. The use of coercion by usury lenders is partly responsible for the oppressive image of the system. The capacity to enforce repayment through coercion is typified by this comment:

When a lendee defaults, the usury lender may come with the police and the lendee would be arrested and locked up until the lendee makes necessary arrangement to pay back the money. The lender may not even arrest or go after the borrower in some cases. All they would do is to look for the guarantor, arrest him and lock him up in the police cell. And you know that once the surety has been arrested, there would be no rest or hiding place for the borrower because the guarantor has been arrested. The money lender can also confiscate the properties or goods in the house or shop of the lendee or surety (IDI/Trader-Lendee/11th December 2014).

The data above describes the deliberate or purposive intent of the lender to either embarrass the lendee or the guarantor by arrest or confiscation of properties. In a situation where the lendee is a trader, the effective approach is to confiscate the stock of goods in the lendee's shop. Some lenders would, however, focus on the guarantor and the strategy of harassing or confiscating the goods of the guarantor is to indirectly embarrass the lendee. This is because kins, family members and the co-workers or traders would view such

defaulting lendee as an ingrate who has repaid the 'kind gesture' of the guarantor with public embarrassment and suffering in the hands of the lender. Another usury lendee corroborated this assertion by stating thus:

For some usury lenders, they will go to the house of the guarantor or lendee and make noise or shout like town criers that the borrower in question owes a certain amount of money and have failed to repay the loan. For other moneylenders, their recovery strategy especially when the loan is big is to use the police to harass and arrest the borrower and the guarantor. They will lock the lendee and the guarantor up till they get their money back or reach an agreeable repayment arrangement (IDI/Trader-Lendee/7th January, 2015).

The fear of future credit exclusion and social embarrassment contributes essentially to the drive of lendees to ensure that the loans obligations are met. This is encapsulated in the Yoruba concept of *Gbomu Le Lantan* - a description of the expensive and coercive recovery strategy of indigenous usury system of lending. *Gbomu le lantan* in literally means putting the breast of a woman on the hot surface of a burning lantern. The male version of *gbomu le lantan* is called *Gbepo La Lantan* which means putting the scrotum of a man on the hot surface of burning lantern. This describes the relative uncomfortable nature of borrowing from moneylenders and the pressure the system brings to bear on the lendee to ensure repayment. It is an expression of the capacity of this system of credit to be an advantage and a disadvantage at the same time. It is an advantage when the social relation is based on cooperation that is mutually beneficial and it is a disadvantage when the interest burden and recovery strategy of the lender brings to the fore, the vulnerability of a lendee. This FGD participant aptly describes this concept thus:

... Some even say it is a loan that is difficult to pay back. That is why it is called *Gbomu le lantan* or *Owo alaje ma su* (meaning a loan that does not give the lendee any comfort or rest of mind). It is a loan that you would continuously make repayment without knowing what you have done with the money. That is, after paying the interest only, the lendee would be left with nothing and he or she would still be indebted to the moneylender (FGD/Female-Trader-Lendee/6th June, 2014).

Another usury lendeer captures this system succinctly thus:

Indigenous usury system is what we called *gbomu le lantan* because it is a form of loan that will not give you rest of mind until you repay the loan (IDI/Formal-Worker-Lendeer/ 10th April, 2015).

The description of indigenous usury lending as *gbomu le lantan* or *owo aleje ma sun* highlights the 'expensive' nature of this system of lending especially in terms of the economic or social consequences of not keeping to the terms of the loan's agreement. The economic consequences show the importance of usury lenders as benevolent helpers, who the lendees cannot afford to lose. This because usurers are sources of raising funds either as working capital or money for meeting emergency needs. *Owo alaje ma su* in literally Yoruba translation to loan that would not give the lendeer 'peace of mind' or the money that you will collect and be unable to sleep. This description shows how entrenched indebtedness can be made possible through indigenous usury lending. For the lendeer, the scarcity or limitation of sources of credit makes the local moneylenders, a relationship that should be maintained. Thus, the lendeer is always concerned and conscious of loan repayment because this is what would guarantee a repeat of credit relations with the lender. In a situation whereby the lendeer is unable to make repayment and a defaulter status is assigned to the lendeer, access to credit becomes difficult especially within the context of traditional market system where information flows easily. Such a defaulting lendeer is often referred to as *Onigbese*, a Yoruba word for a chronic debtor. It is often used to qualify a loan defaulter or someone who has failed to meet his or her obligations. Falola (1993) stated that for a lender, the borrower was a debtor (*onigbese*) who was at the mercy of a lender and since the lenders believe that they are performing an essential service by giving favour and gratification to those in trouble, repayment of debt was non-negotiable.

The consequences of *Onigbese* are numerous. Credit exclusion would thus result in shortage of working capital required for running the business with the possibility of the eventual collapse of the business if other means of credit cannot be sourced. It also raises credibility problem for the lendeer who defaults because both colleagues and friends may start to doubt the credit worthiness of such a lendeer. This has obvious consequences in terms of economic and social relations. Lendees thus would always endeavour to avoid any situation that would create doubt over their credit worthiness when dealing with lenders and other

individuals within the context of social and economic relations. This is possible when the credit transaction that was conducted in dyad or triad becomes a public knowledge especially when defaulting lendees are subjected to public harassment and ridicule. The concern over social embarrassment is of notable and raised by this usury lendeer:

The issue of embarrassment is a major problem for this type of lending. When you default or have one problem or the other such that you are unable to meet your obligations on time, the experience can only be imagined because what very few people knew would now become public knowledge. The non-repayment of moneylender's loan attracts very high and serious punishment. In fact, you will be tired of living in the world. This is because they would come with police men and if you do not cooperate, they would handcuff you even when you have not stolen anything and parade you through the market. This is a big embarrassment as they may even come to the shop and pack all your goods. Some lenders go to the extent of going to your house and confiscating your properties such that your neighbours will be wondering what you might have done wrong. You would agree with me that this is a big disgrace and people always want to avoid such possibilities (IDI/Trader-Lendeer/ 11th November 2014).

The coercive and public embarrassment strategy reinforces the general rule that usury loans must be repaid. An interviewee emphasised this position in this statement:

You must find a way of paying their money else it will not be palatable for you. It has not happened to me but I have heard and seen cases when I went to stand as a surety for someone, I saw a guarantor that was held up in the office of the lenders because the borrower who happens to be the wife could not pay the money. So the moneylender had to detain the husband, who happens to also be the guarantor till they were able to arrange the money for repayment (IDI/Formal-Worker-Lendeer/20th May, 2015).

Providing further insights into the reputational damage which the recovery methods of usury lenders can cause, this trader-interviewee opined that:

The issue of disgrace is my major challenge with the system (indigenous usury). Sometimes, the lender would bring the police or law enforcement officer to chase you around such that people within the market would know that you are indebted to them. People within the market and even customers will feel or think that you have committed a crime like stealing or something unheard of but in actual fact it has to do with loan repayment default. Through this harsh method of loan recovery, your image would

have been damaged and it can even erode peoples' trust in you. So you try to avoid such situation from happening. (IDI/Trader-Lendee/15th November, 2014)

The concept of *gbomu le lantan* points to the system's ability to attract repayment using any means possible. Repayment is thus viewed as compulsory not only because it may hinder future access to credit but also because of the social embarrassment that can be created by the lenders who would do everything possible to ensure repayment. It therefore, presupposes that the lendees would have subjected the option of borrowing from the usury lender to rigorous rational evaluation. The lendee is thus aware of the negative consequences of non-repayment and would work consciously to avoid default or bad loans. The consequence of wanting to avoid default may lead to additional loan to pay off existing loan. This would mean that the lendee would have to pay more interest on a loan that is used to refinance existing loan without adding to the working capital pool of the lendee. This cycle of using debt to refinance debt is at a huge cost to the lendee. The debt burden can adversely affect the business. It could get to a point whereby the lendee would no longer be able to service the loan as expected and with mounting interest, the lendee is trapped in a web of bad debt. Thus, as the burden of loan repayment increases, the likelihood of further debt increases to a point where the lendee is no longer able to repay the loan. Social relations that are initially based on mutual cooperation and benefit can also turn into a conflict relationship. In an ideal world, both creditor and debtor are pleased with an agreement that allows for the expansion of economic value. However, people can also become trapped in a vicious cycle of debt, from which they cannot escape (Shah et al, 2007; Peebles, 2010).

Social relations of usury lending are essentially in two forms. First, there is the usury lending based on the reputational trust of alternative collateral which creates a credit relationship that is mutually beneficial. Second, this same mutually beneficial relationship can also turn into a conflict relation or be viewed as exploitative depending on the contextual realities of the lendees. The lender in such conflict relation uses coercive methods to intimidate and eventually make repayment possible. However, what this study discovered is that the actors within the system would always want to maintain a conflict-free relationship. For lendees, this ensures relatively quick, easy and future access to credit. For the lenders, it secures the patronage of existing and new credit relationship and for the alternative collateral,

it strengthens the de-collateralisation process, increases reputational trust and the referral system.

The question regarding the continued patronage of contemporary usury lenders lies in the subjective but rational evaluation of lendees' alternative course of actions. Accessing loans from usury lenders reflects the socio-economic realities of the lendees in terms of the alternative sources of lending that are available and the demand of the society to meet certain obligations. The lender on the other hand engages in a rational selection process that at least reduces the risk of default and ensures profitability. According to Biggart and Castanias (2001), actors actively use their social relations to advance their economic interests and in some instances, social relations can form the basis for market activity where atomised actors cannot. Thus, social relations in contemporary usury lending is created and sustained by the reputational trust of alternate collateral, the possibility of future credit exclusion and the fear of social embarrassment. Therefore, while the perceived or real image of the system as exploitative or oppressive still persists among usury lendees, its relevance as a means of raising needed funds may out-weigh such perceived or real negative image of the system. This tends to confirm the position of Fernando (1988) that efforts at describing informal credit systems such as usury lending system as exploitative, parasitic and a constraint on development may not be valid as developing countries have found it difficult to either restrict or out-law this system of lending.

From the rational choice perspective, indigenous usury has continued to exist because what is described by the by-standard or an outsider as exploitation may just be a disproportionate social relations that is known and acknowledged by social actors within the system. The lendeer in entering into such relationship would have evaluated the course and consequences of accessing and not accessing loans from the lenders. Labat and Block (2012) noted that the moneylending is a rational act of consenting individuals and loan agreements, at any interest rate, are part and parcel of this freedom. Credit relations are rationally and purposively constructed either through existing or new social relationship. Rational choice explains the basis for maintaining or terminating existing social relations due to the propensity of actors to always evaluate the cost and benefit of their relationship.

4.3 Networking in Indigenous Usury Structure

Kristiansen (2004) described social network as consisting of a series of formal and informal ties between the central actor and other actors in a circle of acquaintances. Networks represent a means to reduce risks and transaction costs and improve access to ideas, knowledge and capital. Social networks are almost synonymous with social capital (Glanville and Bienenstock, 2009). Social network consists of nodes that may be individuals, groups, organisations, or societies. It is a structure indicating how individuals are connected to one another through various social relationships or ties (Yang, 2007). The ties may fall within a level of analysis such as individual-to-individual ties, individual-to-group ties or group to group ties. For the purpose of this study, social network is viewed as the influential and persistent sets of interrelationships among actors (Arora and Sanditov, 2015). Networks are important in social and economic life because they are sources for the acquisition of scarce resources such as capital and information (Arun, Annim and Arun, 2015).

Rational actors select, maintain and modify networks based on the need to satisfy subjective rational ends. Networking within the context of indigenous usury system includes the intra-networking activities of indigenous usury lendees, inter-relationship among lenders and the referral system within indigenous usury system that shows the inter-networkings between the lender and the lende. Intra-lende networking is an important feature of contemporary usury system. Intra-networking takes place among social actors who most times share the same socio-economic conditions. These individuals also engage in social interaction across different fronts. Networks are typically multiplex, meaning that individual actor shares more than one type of tie (Katz, Lazer, Arrow and Contractor, 2004).

Intra-network of usury lendees is the structure of relationship or ties among usury clients. It presupposes that certain ties exist among clients of usury lenders which help them to facilitate usury transactions. Intra-lende networking thus becomes a form of social capital that can be employed to generate credit information, consummate credit transactions and serve as contingent rescue plan in the case of default. The study discovered that usury lendees engage in intra-networking for the purpose of obtaining credit information on usury lenders, securing guarantors for credit, access to credit and default bail-out. Intra-lende networking was made clear in the statement by one of the interviewees who affirmed that:

One of the important ways through which a lendee can identify the lender is for such lendee to ask questions especially from those who have benefitted from those moneylenders in the past. Often times, usury lenders do not go around advertising their businesses. So, the lendee must first ask people who may have benefitted from the lenders for information on the processes and everything that the lendee needs to know about the lender before such lendee will approach the lender for loan (IDI/Formal-Worker-Lendee/29th November 2014).

Another usury lendee, who is a market trader also noted:

I have friends who are fellow traders and they are in this market. So if there are opportunities to help one another, we usually oblige especially in the area of getting funds to run our businesses. We do inform ourselves of different opportunities of getting loans from cooperatives, moneylenders and the rest (IDI/Trader-Lendee/ 20th April 2015).

One of the key informants alluded to the fact that intra-networking is prominent first because lendees have prior relations as close friends, colleagues in the market, members of various informal associations and even kin members. In other words, lendees who engage in credit relations are the same individuals that relate at different levels as kins members, co-traders, and colleagues at the office, religious colleagues and members of tribal or social groups. What this tells us is the fact that intra-networking for the purpose of credit is established on prior or existing social networkings and relationship. Thus, individuals have to leverage on their membership of diverse social groups to network and obtain credible information on sources of loans. One of the key informant interviewees has this to say about intra-networking for the purpose of information gathering information:

Most of the customers of these moneylenders are traders within the market and we know ourselves as co-marketers. Some of the moneylenders' clients are even close friends and family members. This makes information relatively easy to get on the operations of these moneylenders and how one can access their loans (KII/Trader-lendee/4th April, 2014).

The second reason is the peculiarity of this form of lending which makes intra networking very important. Moneylenders rarely advertise their services and would rather depend on current and previous lendees to disseminate their activities and where they can be located. Ayyagari *et al*, (2010) noted that networking is central to accessing credit in informal credit market and these networks include common friends and individuals with prior social

relations. Advertisement by usury lenders is uncommon but our study noted that some usury lenders do move from one location to another to advertise their services. This was noted in some of the comments made by lendees such as the following statement:

The moneylenders and their agents do come to the market. Some of the lenders normally put on a form of identification so that you will know that they are around. Some would put on vest or apron with an inscription of what they do or they can wear T-shirts with their name such that you would easily identify that they are moneylenders (IDI/Trader-lendee/22nd October, 2014).

Another trader lendee also confirmed the face-to-face advertisement strategy of moneylenders by stating that:

I presently have a loan from a moneylender within the market. How did I get to know the lender? Well, it happened that on a particular day, I sat with some other market people and the moneylender approached us. We discussed and they gave us the requirements and that is how we started (IDI/Trader-lendee/6th July, 2014).

Some lenders who operate within the market visit the lendees to ascertain the state of their business, remind lendees of obligations that will fall due and also collect the repayment for those that have fallen due. The moneylenders or their representatives tend to move from one location to another and in the process, they advertise their business by putting on visible tag that displays what they do. Moneylenders also put on clothing materials that has inscriptions that showed that they lend money to traders. This open display of the business of moneylending indicates that it is an acceptable and legitimate source of funding within the context of African traditional market. Other lenders also have call-cards which contain information on how they can be located, their cell phone number and these cards are distributed mainly in places where the lenders have network and influence.

The different forms of covert or overt advertisement strategies tend to compliment the much preferred direct referral of indigenous usury system. Usury lenders tend to usually insist on referral from someone within the cycle of lendees or guarantors. Therefore, social networking is important even in obtaining the required credit information. Credit information gathered through intra-lendee connections or ties enables lendees to become familiar with the modalities for accessing usury loans and the peculiarities of each usury lender. Usury lendees informally share credit experience including what to expect from the identified lender. Expatriating on intra-networking within indigenous usury system, a trader-lendee stated thus:

Some of our friends within this market and other markets do come to inform us that there is one man or one woman or an organisation somewhere that can give us loan. Through our market friends, we would get the complete information on the lender, the amount that can be accessed and advantages of taking the loan from such money lender. After getting all the needed information and the lendee is satisfied, he or she would then approach the money lender for the loan (IDI/Trader-Lendee/4th November, 2014).

Intra-lendee networking shows the rational and methodical process of accessing indigenous usury loans. What is also obvious from the data above is the fact that intra-networking in usury system relies on existing social relations among lendees. Individuals who have existing social relations share credit information that would assist potential lendees in securing credit from moneylenders. The data above also point to the content of information that lendees sought through various intra-networks. The content of the information include the length of time for accessing the credit, the dynamics of the size of credit, the process itself and the experience of other lendees who had accessed credit from the moneylender in the past. In other words, usury lendees actually engage in some form of information gathering and informal analysis of the moneylenders before deciding on which lender to approach for the credit. Commenting on getting information on indigenous usury lending, this interviewee confessed:

Yes, before you access loan from money lenders, you will approach or find out from people around who may have accessed loan from the money lenders in the past to find out how they go about their loan processing and which lender should you approach. So it is a form of assistance and a way of seeking advice or information on the best way to go about getting the loan (IDI/Formal-Worker-Lendee/14th May, 2015).

This shows that in spite of that fact that lendees may approach moneylenders for urgent needs, there is however some form of rational evaluation of the lenders by potential clients. Credit information gathering is not only limited to usury lenders. The focus of information has been on how informal lenders such as usury lenders overcome the problem of information asymmetry which has been a major challenge to formal finance institutions (Stiglitz and Weiss, 1981; Hoff and Stiglitz, 1990; Chavan, 2003; Pham and Lensink, 2007; Zhou and Takeuchi, 2010; Gine, 2011).

However, what is clear from this study is that lendees also engage in information gathering on moneylenders including especially on their terms and conditions. Usury lendees, therefore, use informal information sharing as a tool for informal screening of moneylenders as well. Information on the features, terms and agreement of lenders are quite important because of the cost of moving from one lender to another. Through information and experience sharing, lendees are able to weigh the reputation of the lender and based on the advice of fellow lendees, approach a particular lender. The lendees would rather do business with one or few lenders because of the issue of credit history. Therefore, knowledge of the lender is crucial before any particular lender is selected for patronage. The lendees would have to 'sell' him or herself to the lender such that the lender would be comfortable dealing with the lendees. When lendees share credit experience, modalities on how they can approach the lender such that the lender would have a favourable rating of the lendees are also discussed. The lender is interested on how to mitigate moral hazard and adverse selection on the one hand and the lendees are also expected to create an image of someone that is reliable and can be trusted on the other hand. This was the point of discussion during a FGD session as stated below:

If we do not interact with one another, it will be difficult to get fund for our businesses. Information is very important to us and we have to depend on one another for information on how to get finance including patronising local money lenders that have money to give out as loan and how best to approach them (FGD/Female-Trader-Lendees/19th June, 2014).

Therefore, while the lender evaluates the lendees to determine whether credit would be advanced, the lendees also display an image of someone that can be trusted. Laszlo and Santo (2009) stated that in addressing the concern of adverse selection, borrowers need to signal that they and/or their project have a high probability of success. Consequently, lenders might look for such attributes as previous success, educational or business training experience, or even more informally, family status, as signals of borrower type. Laszlo and Santo further noted that individual characteristics that would mitigate the problems of moral hazard would include traits of trustworthiness or reputation.

Intra-lendees networking also provides a pathway for securing collateral especially the guarantor that is required by the money lender. Identifying and presenting a guarantor for loan could be a major challenge in usury lending. This system has a long age perspective that

is centered round the exploitation of its clients and because the duty of loan repayment falls on the guarantor, individuals who do not have regular contacts with the lenders may not be obliged to stand as guarantor for the lende. It is further complicated by the fact that usury lenders have the capacity to enforce repayment and also recover bad loans.

Therefore, getting a surety especially someone who has never had any credit interaction with the indigenous lender would constitute a major challenge or obstacle to accessing credit from moneylenders. While it may be difficult getting individuals as guarantors when they had never been involved in moneylending activities either as a lende or guarantor, it is less difficult when such an individual already has the experience and knowledge of indigenous usury credit system. Expressing the possible difficulties that lendees may face in getting a surety for indigenous usury credit, one of our trader-lendees stated thus:

Locating or identifying the person that would stand as guarantor can also be a big challenge in this system of lending. This is because the guarantor knows the risk involved when repayment is not made by the borrower or lende (IDI/Trader-Lende/ 12th December, 2014).

The position that securing the guarantor required for the credit facilities in indigenous usury can become a hindrance towards accessing credit in usury lending, was captured during a focus group discussion session by a female trader:

The issue of guarantor can affect one's ability to get the loan from the money lenders. People are sometimes scared of having anything to do with them and when you cannot get the guarantor that is acceptable to the lender, you will not be able to get the loan (FGD/Female-Trader-Lende/5th June 2014).

Through intra-networking, a lende can secure an individual who would stand as the guarantor for the loan. Lendees connect one another through existing social relations and through this medium, they can obtain information on how and who can stand as a guarantor for usury loans. Intra networking enables two individuals with direct connection or prior relations to establish credit relations whereby one individual who may not be indebted to the lender takes up the responsibility of securing the loan. This study discovers that this is

common especially when a husband stands as surety for the wife or where a mother with considerable assets or stocks would stand as a guarantor for her child's loan application.

There are also instances of master-apprentice relations where the master becomes the guarantor for his or her once apprentice who requires initial or additional working capital. This particular action is most prominent in mutual guarantee of lendees whereby two individuals who are clients of the same lender would in turn access the loan. In this case, one individual would stand as the guarantor for the other lendeer and when the cycle is completed, the reverse turn is observed. During each of this session, the guarantor would not be able to collect any loan until the lendeer for which he or she is the guarantor fully makes payment. Therefore intra-lendeer networking becomes very crucial in ensuring that the right and acceptable guarantor is provided for the loan accessed from the usury lenders. What intra-networking among lendees also does is to create the opportunity to connect individuals that can stand as guarantors even when they are not directly linked by the network. This is the case when the guarantor is connected to another individual that is also linked to the lendeer. The ideal or prevailing practice is that the guarantor must have sufficient knowledge of the lendeer such that the guarantor is sure that the lendeer would not disappoint when it comes to meeting the agreed obligation.

Usury lenders also endeavour to advise individuals against standing as guarantors for lendees that are not well known or do not have any close relationship with the guarantor. However, some of the guarantors took the risk because they are interconnected to individuals that have direct relationship with the lendeer. Unlike in colonial moneylending where the guarantor would charge a fee for the service rendered, there are no evidence that such practice still exists in contemporary usury lending. An individual who is not directly connected to the lendeer would stand as a guarantor at the instance of another individual that connects both the lendeer with the guarantor. It is to this end that Davern (1997) stated that a social network consists of a series of direct and indirect ties from one actor to a collection of others, whether the central actor is an individual person or an aggregation of individuals. The gesture whereby an individual stands as a guarantor is often an act of favour or solidarity to the individual who linked the lendeer to the guarantor rather than an act that is meant to be compensated with economic or monetary value.

Indigenous usury lendees also rely on intra-networking to solve the problem of loan repayment. Indigenous usury credit, just like any other type of credit, projects future

repayment on the basis of present realities. Repayment crisis may arise when future projections are altered by forces sometimes beyond the control of the lende. The simple rule however, is that the loan collected must be repaid and considering the fact that a clean credit history is at stake, lendees are motivated to find means of loan repayment. One of our interviewees submitted that:

When a lende collects loan from the usury lenders to buy goods and the goods get spoilt or prices go down, it poses a challenge in terms of how to get money to pay back the loan. And you know for the moneylenders, you have to pay back their money (IDI/trader-lende/3rd June, 2014).

The usury lendees are very much aware of the negative implication of loan default, particularly on existing and future relationship with the lender or the guarantor. Therefore, in order to preserve the cordial relationship with the lender and also maintain a good credit history, usury lendees use their ties with fellow lendees, friends, colleagues or kins to access funds that can be used in meeting loan obligations. In other words, solidarity among lendees comes into play when a fellow lende has repayment difficulties. The following statement confirms that position:

I think there is some level of cooperation and support among some of us that patronise local moneylenders because we have known ourselves long enough to assist one another. For instance in this government establishment, when someone does not have money to meet up with his or her loan repayment to a usury lender, such a person can engage fellow lendees and we would arrange how to help that person by raising the money required for loan repayment. It has happened a lot times (IDI/Formal-Worker-Lende/13th April, 2015).

Another interviewee and a worker in the formal sector shared similar experience by stating that:

Before, we become co-lendees; we were and are still friends or colleagues at work. We were very much connected to one another and we still share difficult moments together. Therefore, we connected with one another and we help ourselves to get the loan or the available sources of getting these loans. We also have situations where we help ourselves by borrowing one another money to pay off the moneylender because sometimes my friend can come to me and request for money to pay her obligation. I will oblige

because when am in similar problem, she too will help me out (IDI/Formal-Worker-Lendee/20th July, 2015).

This form of lendees' solidarity in times of default is described as lending a helping hand to friend or colleague who should not be made to face the embarrassment of moneylenders such that he or she would be excluded from future credit opportunities. Such help is expected to be reciprocated when others are in similar situations. As rational choice actors, usury lendees work towards loan repayment especially when the choice or alternative to default is future credit exclusion and social humiliation. Also when a lendee who is connected to another lendee or lendees is harassed and humiliated, other lendees indirectly shares in the fate. According to Hansen (2009), actors relate to one another from network positions that both constrain and enhance their interaction.

Hansen further stated that the relationship between actors (often called "ties") are conduits for the exchange of resources (such as money, information, expertise, jobs, connections, market access, authority, legitimacy, clientele, customers, physical resources, and staff and volunteer time) that help network members in meeting their needs. Intra-networking in indigenous usury system shows that credit transactions in this system does not involve just the lender and the lendee. A typical credit transaction, therefore, involves several social actors including the lender, the lendee, the introducer, the guarantor, fellow known lendees, and informal relations with the local hierarchies of the lendees' source of income, among others. Intra networking enables lendees to have access to what can be called informal credit information on the moneylender, who should the lendee approach for loans and the preferred structure of loan repayment. Information gathered and processed by the lendee often aid the choice of either selecting moneylenders as source of credit or opt for other informal or formal alternatives.

While intra-lendee networking is crucial towards accessing usury loans, the same is not always true in networking among indigenous usury lenders. Brown and Zehnder (2007) stated that in credit markets, borrowers typically have more information about their investment opportunities, their own character and prior indebtedness than the lenders. Brown and Zehnder also noted that in many countries problems of asymmetric information are aggravated by the fact that loan contracts are costly to enforce. One response to asymmetric

information and costly enforcement in the credit market is information sharing among lenders about the characteristics and behaviour of their borrowers. The study discovered that relationship and networking among contemporary indigenous usury lenders is at best cautiously limited only to lendeo referrals from one lender to another, fluid cooperation to prevent default when two or more lenders have lend to the same lendeo and irregular partnership for the purpose of raising lendable funds.

The study also discovered that unlike the usury lendeos, the level of interaction among lenders within the area of study is very limited. Usury lenders interviewed had little or no information on the existence of other lenders. This situation can be attributed to certain reasons. First, the urban features of the study area implies that usury lenders though are spread at large settlements and operating in a relatively densely population unlike a situation where the area of operation is rural and limited in size. Second, the underground nature of the profession would mean that a lender could operate covertly without others knowing that he or she engages in such business or profession. These lenders can only be identified by those who are their clients. At this point, it is important to note that the lender sometimes chooses not to reveal the identity of others because of their near secret form of operation in some instances and the need to protect other lenders. This may become necessary in a profession where referral from known sources is the main source of linkage between the lendeos and lenders. Third, there is the sense of competition among lenders for limited creditworthy lendeos. This makes arms-length interaction more common among usury lenders. The data below indicated that lendeos do patronise more than one lender which also means that they can also change patronage. This was affirmed by one of the lenders during an in-depth interview conducted by the researcher:

We know ourselves because lendeos will take loans from different moneylenders thereby creating a scenario for instance where a lendeo is indebted to more than one lender at the same time. This is how some moneylenders get to know one another. This means that we have to cooperate with one another at times to ensure that the lendeo repays the loans at the end (IDI/Lender/7th July 2015).

What is obvious is that lenders inadvertently connect one other through prospective or existing lendeos who patronise more than one lender. This situation tends to compel usury lenders to interact and cooperate with each other when they finance the same lendeo. Usury lenders who finance the same lendeo tend to cooperate because they share the same risk and

must work together to prevent default. The limited intra-networking among observed lenders is reflected in the ability of lendees to seek finance from more than one lender at the same time. This is not to suggest that lenders do not possess information on the fact that lendees do sometimes patronise more than one source of funding including the formal and informal institutions. The lender believes in his or her capacity to a large extent enforces loan repayment. It could also be an implicit means of sharing risk since one single lender would not have to provide all the credit needs of a lendeer. Usury lenders can also deliberately connect one another for the purpose of raising additional lending capital. Lenders who experience insufficient capital to meet credit request can approach fellow lenders for additional funds. One of our interviewees, who is also a female money lender provided an instance of how lenders could partner each other to raise funds for on-ward lending to lendees thus:

A moneylender had approached me for loan in the past and I know that he is a rich person, who has the financial capacity to provide loans to a lot of people. When I asked for the purpose of the loan, this moneylender said that he needed the loan for one of his lendees. This lender explained that one of his lendees approached him for loan but the money he had was not up to the amount requested by this lendeer. He needed the loan to augment the short fall of the loan request from his lendeer. I did not give him the loan for personal reasons but if I had given the loan to this moneylender, our partnership would have started from that time (IDI/Lender/5th June, 2015a).

From the submission above, it can be deduced that indigenous usury lenders do approach one another for the purpose of raising additional capital for loan purpose. This can be described as *back-to-back* form of lending. This is when one usury lender provides capital to another usury lender, who would in turn lend to his or her lendeer. With this strategy, the lender is able to maintain existing customer base or create new ones. While this form of raising capital through other lenders may exist, it is however not widespread among usury lenders. The fluid interaction among usury lenders can also take the form of *lender-introducer* whereby lenders refer lendees to one another for the purpose of accessing credit facility. Referral among lenders is common when there is limited capital to fund all the loan request of their lendees at a particular point in time. This is because most lenders are disposed to keeping their clients population which is usually small. One of our interviewees, who is

also a local money lender provided a vivid account of referrals between lenders by stating thus:

It is not all the time that the lender would have the money that he or she would give out as loans to his or her lendees. In a situation where I am short of funds to lend for instance and I know that the lendeo is a trustworthy person, I would refer such lendeo to another lender that I know can provide the loan (IDI/Lender/4th May 2015).

Intra-lenders referral though not common, may be a strategy by the lenders to share risk and ensure loan repayment. This may happen when lenders are not fully disposed to lending to kins and friends because of the sentiment that such clients may not repay the loan. This is in addition to the fact that the capacity to use coercion to secure repayment from kins or friends is also limited. Some lenders employ this strategy to maintain credit and kin relationship balance. A *lender-introducer* can refer trustworthy lendees and sometimes, friends and kins to other lenders for the purpose of accessing loans. This enables the lender-introducer to indirectly maintain the patronage of such referred lendees. The lender-introducer maintains the patronage and loyalty of such lendeo because the loan was advanced partly on the basis of the recommendation of that lender. In this case, the lender-introducer assumes the role of a secondary guarantor for the loan because it is expected that the lendeo that is being referred must be trustworthy. This constitutes the unspoken rule guiding the lender-to-lender referral system in contemporary usury system. Reaffirming this unspoken rule in intra-lenders networking, a moneylender stated thus:

I do not usually like sending my existing lendees or new lendees to other lenders that I know. This is because when a lender refers a lendeo to another lender, it is an indication that the first lender is providing something like a guarantee that the lendeo would not default if the loan is advanced. However, the lendeo for one reason or the other may end up defaulting and the other lender would not take it likely with the lender who referred the defaulting lendeo (IDI/Lender/5th June, 2015b).

Another usury lender who also admitted sending some of her clients to another lender has this to say about lender-to-lender referral:

Money lenders do cooperate sometimes whereby some of our customers would take a portion of the loan from us and another loan from other money lenders that they know. However, in some cases when we refer them to other

lenders due to non availability of funds, most customers will either say that they have been to that lender before or they do not want to go to the lender. They would rather wait until we have money to give them. Most times, when I may have exhausted the money with me; I do not go out to borrow from any moneylender again. However, I can send the lendees to try their luck with other lenders (IDI/Lender/ 15th June 2015).

While lender-to-lender referral helps to reduce the degree of default in contemporary usury system because such lending is based on the recommendation of another usury lender, it is, however, not widely practiced by lenders because of two probable reasons. First, such referral carries high element of risk because when such lendee eventually defaults, the source of referral would be traced to the referring lender. This situation thus has the possibility of creating an impression that a lender knowingly referred an unworthy lendee to another lender. However, this study observed that lender-to-lender referral also has an unwritten informal caveat such that it is expected that the other lender would observe due diligence in assessing the creditworthiness of the referred lendee without prejudice to the lender-introducer. This does not however exonerate the primary source of referral which is the initial lender. Second, lenders also try to discourage sending their clients to other lenders because of the possibility of eventually losing such clients to competitors. The eventual lender is thus able to make a rational decision based on the recommendation of the lender-introducer.

However, a more prominent form of referral in contemporary usury system is the lendee-to-lender referral. Referral is when a new customer enters into a transaction with a firm or individual and attributes the motivation for the transaction to a current customer (Kumar, Petersen and Leone, 2010). In this case, existing indigenous usury lendees connect or introduce new lendees to the lenders for the purpose of accessing credit. This mechanism performs several functions including acting as source of reliable information that would aid the lender's credit decision process, screening and monitoring of lender, provision of collateral and means of increasing lenders' client base among others.

According to Aryeetey (2003), formal financial institutions have not been able to effectively penetrate and sustain their presence within the informal sector because they lack adequate information on the borrowers or lendees. In addition, formal financial institutions also face the challenge of loan enforcement. On the contrary, contemporary usury system relies on the lendee-to-lender referrals to solve the twin problem of information adequacy and

loan enforcement. It is essentially the credit information at the disposal of the lender that makes the lender overcome the problem of moral hazard and adverse selection¹².

Shem and Atieno (2001) provided further explanations on the information edge which informal microfinance systems such as the indigenous usury have over the formal financial system. The provision of credit relies to a large extent on possessing sufficient information about borrowers' ability, reliability and willingness to repay the loan. Shem and Atieno further stated that the absence of reliable information, therefore, explains why lending institutions may choose not to serve some borrowers. To cover credit risk, lending institutions may increase loan interest rates. The move to raise interest rate can become counterproductive since the creditworthy borrowers, who view these loans as expensive, may refrain from borrowing. This leaves the institutions, mostly formal with poor creditworthy customers. It inevitably leads to the problem of adverse selection. In addition, borrowers may opt for riskier ventures to meet the high costs of borrowing, thereby creating the problem of moral hazard. These two problems are hardly encountered by informal lenders who rely on personal knowledge of their clients. Personal knowledge are derived either from firsthand experience in dealing with the client or through trusted referral sources, who would provide information on the lende. It is more difficult and costly for formal institutions such as banks to obtain accurate information about smaller borrowers (Nissanke, 2001). Hence, banks perceive small or low income borrowers as more risky; they often propose and charge higher interest and use collateral requirements as a credit rationing device. However, despite the large sums spent on loan screening, banks are often forced to devote more resources to monitoring and contract enforcement than the informal financiers. This is because usury lenders depend on existing lendees' referral for clients and this puts the lender at an advantage because they are able to obtain information on the character and possibility of repayment of loans from the new clients. Thus, moneylenders tend to leverage on existing ties with lendees to network new lendees who can access loans easily because they have well

¹² Herath (1996) explained the twin concept of moral hazard and adverse selection. Adverse selection occurs when borrowers who obtain a loan are more likely to default than other potential borrowers—either those refused a loan or those who do not apply. This may occur, for example, if dishonest borrowers seek loans more often, or in larger amounts, than honest borrowers. Moral hazard occurs if the fact that a loan has been advanced given an incentive to the borrower to give less attention to risk management than he or she otherwise would, or if a borrower is otherwise encouraged to default. Both adverse selection and moral hazard increase the risks for lenders, who need to take actions to protect themselves from these risks, or to recover the costs of defaults.

known guarantors in existing lendees. The idea that long-term relationships and reputations can enhance trade is well documented (Macleod, 2007) and it is this idea that usury lenders employ by depending on existing lendees to get new clients. Stating the importance of this structure of referral, a trader said:

You cannot just go to the moneylender to ask for loan and the lender will just give you the loan just like that. It does not work like that in indigenous usury system. The potential or new lendee must go through somebody that is familiar with that particular lender. If the new lendee was not introduced by another existing lendee or someone that is known to the lender, then the new lendee will not get the loan because the moneylenders do not deal with strangers (IDI/Trader-Lendee/ 14th July, 2015).

The term 'stranger' that was used in the data above suggests how difficult it is for unreferred individual to access credit in indigenous usury system, at least for the first time. In other words, the potential lendee is basically an 'outsider' until a trustworthy referral is obtained. Consequently, it can be argued that social networking reduces transaction cost including the cost of information, contract enforcement and monitoring loan repayment (Pearson and Richardson, 2001). The referral system in contemporary usury lending serves as screening mechanism for lenders. Potential lendees that are recommended by existing lendees or reputable sources can quickly access credit facilities in contemporary usury lending. However, this is still subject to the lender's availability of funds. This is based on the expectation of the lender that the introducer would not want to introduce someone that would not want to repay the loan, thereby, jeopardising the existing relationship between the lender and the introducer. In other words, the lender is confident that available information and recommendation of the introducer can be trusted, based on the relationship between the two parties. The referral system in indigenous usury is a reflection of the risk inherent in the system. Credit involves an advance of funds in exchange for a promise of repayment later. Thus, there are risks for all the parties involved including the lender, borrower and guarantor or introducer as the case may be. The lender faces the possibility that the borrower will not repay as promised, while the main risk for the borrower is the possibility of being unable to meet the interest and repayment obligations. A lesser risk for the borrower is that the investment would yield an amount that is less than the loan costs, so that the borrower's net income is reduced. The introducer or guarantor risk the chance of losing the reputation of a dependable lending source that has been built overtime. The relative risks faced by all

contracting parties are related to the level of information possessed individually. Moreover, there is asymmetrical information between the borrowers and lenders, with the borrower possessing more information than the lender. A borrower may plan to default on a loan, but the lender may not know this. Thus, the referral system solves the problem of selecting a client with the tendency for what is called voluntary default.

The referral system in indigenous usury system serves as a perfect mechanism to mitigate the challenge of adverse selection. Contemporary usury lenders depend on this referral system because of the dynamics of lending, especially in an urban area like Ibadan. In the past and within the rural context, the lender is an integral part of the community where he or she operates and thus has first hand information on the lendees and their potential for loan repayment. The twin challenge of adverse selection and moral hazard is adequately mitigated. Contemporary usury lenders, especially those operating in urban centre do not have such luxury due largely to the diverse and spatially wide nature of their area of operations. This is further aggravated by the loss of social sanctions that are synonymous with heterogeneous urban settings. Consequently, the lenders had to fashion or design how to hedge the risk associated with moral hazard and adverse selection in informal credit market. It is on this basis that the lende-to-lender referral becomes a substitute for community embeddedness of associated with past usury lenders. Another usury lender made his stand known on the importance of referrals in the following comment:

Any person cannot just come to me and request for loan without a referral. This is important because I only deal with people that I know either directly or indirectly. A potential lende cannot just say that he or she heard about me from somebody or somewhere. I will not do business with that kind of person. But if the new client comes through somebody that I know and the introducer is confident about the intending borrower, the introducer will bring that person to me and if I am satisfied after proper evaluation, I will give the loan (IDI/Lender/5th November, 2014).

In most instances of lende-to lender referral, the introducer also ends up becoming the guarantor. While this makes access to the credit in indigenous usury system faster, it places continued obligation on the introducer cum guarantor to monitor the lende throughout the tenure of the loan. The source of referral may not necessarily serve as the guarantor for the loan though some will equally assume that role to provide further

'repayment comfort' to the lender. This formal worker lendeer also commented on the importance of referral in indigenous usury credit market by stating thus:

Getting loans from moneylenders depend on how connected you are in terms of who you know can take you to the lender. It is when you know or connect people who know these moneylenders that will determine your easy to access to usury loans. If you know people that can take you to the lender then it can be very easy to obtain loan from the moneylender (IDI/Formal-Worker-Lendeer/29th April, 2015).

The statement above indicates that lendeer-to-lender referral structure is central to indigenous usury system. Zhou and Takeuchi (2010) stated that formal financial institutions cannot function effectively among the poor segment of any population, particularly in rural areas because they lack the capacity to obtain information on the borrower, the inability of the borrowers to provide acceptable security, inherent risk associated with such lending and the use of loans for non-productive ventures. The lendeer-to-lender referral system ensures stability of indigenous usury system because screening and monitoring of the lendees becomes the joint responsibility of the lender and the introducer. Credit worthy borrowers has interest in ensuring that information about them is accurately revealed because it directly affects their access to credit (Sasson and Fjeldstad, 2009).

Therefore, when the lendeer introduces another client to the usury lender, it indicates that the intending borrower has a creditworthy character that can be trusted. Further, lendeer-to-lender referral overcomes information asymmetry problem because the introducer/guarantor provides the lender with the required information, particularly on the credibility and ability of the lendeer to repay the loan. It also reduces the risk of default and ensures recovery in case of default. The lendeer-introducer solidifies his or her credit relations with the lender by serving as source of reference for new lendees. This enhanced relationship obviously results in more lendees' patronage for the lenders while the lendeer-introducer also has or enjoys some benefits. This includes faster access to credit, increase size of loan, reduced rate of interest, longer loan tenure and the use of personal guarantee instead of the conventional third party guarantee or the provision of tangible assets. Therefore, when a market trader introduces another fellow trader to an indigenous usury lender, an intra-networking has resulted in a lendeer-to-lender referral, which consequently activates access to credit. The credit referral system also shows that this system essentially runs on a face-to-face basis whereby the lender obliges loan request based on physical and mutual acquaintance

with the source of referral and the lendee. Access to credit by proxy does not exist in contemporary usury lending. Both lenders and lendees must engage in physical discussions, particularly as it relates to the terms and conditions of loans before such loans are consummated.

Networking in usury lending is not limited to intra-networking and referral among individuals. Usury lenders also provide loans to lendees who work or are associated with certain formal organisations. Usury lenders are comfortable lending to clients from these institutions either because lendees from these identified institutions has maintained repayments discipline or the lender has informal relationship with the local hierarchies of such institutions which can be used to enforce loan repayment. In other words, usury lenders are disposed to providing credit to lendees who are mostly formal sector workers basically because of their knowledge of the structure of such institutions. These formal organisations include government agencies, banks and other financial institutions. Lenders literarily 'know their way' round such institutions where they have clients. The availability of stable income makes this set of lendees very attractive to lenders. Reacting to why the lendee base of usury lenders are usually not large, Mr Godwin (not real name), one of our case study lenders earlier mentioned, stated that he only deals with the staff of a particular bank.. When he first started the business of moneylending, he had lendees in various private and public organisations. The staff of these organisations would collect the loan from him, issue post-dated cheques in his name and he would go ahead to cash the money. However, it got to a point where lendees would write post-dated cheques and he would not be able to cash the money because there was no money in the accounts of these lendees. This led to a lot of loan defaults and because he did not have any personal relationship with the superiors of these lendees, the debt increased overtime. Presently, Mr Godwin only lends to staff of a particular financial institution and this has been the case for now. The lendees of this organisation know that he is one of them by virtue of the fact that he retired from the same organisation. In addition, he has informal relationship with the superiors of these lendees in most locations such that when there are credit relations issues, he can contact these superiors who would help in lona recovery. Apart from this, the lendees in this institution do not like to have problem or default on their loans because they know that he is an old man and they see him as someone old enough to be their father.

The structure of networking in contemporary usury lending addresses the major issues that have prevented formal financial institutions from functioning within the informal and poor segment of the society. These include information asymmetries, lack of suitable collateral and high transaction costs (Eboh, 2000). In many economic settings, informal financial networks fulfil a critical function of determining access to credit (Garmiase and Moskowitz, 2003). The inter-networking between lenders and lendees constitutes part of the mechanisms that ensures that lenders are able to acquire the necessary information and security needed to secure usury loans. And when there is default, the system of network and referral could assist such that the problem associated with the loan is adequately addressed.

The structure of usury lendees networking and the referral system has continued to provide the basis for the continued existence of usury lending in contemporary society. This study discovered that the process and procedures for accessing usury credit in the study area is built round the networking and referral system. No transaction especially for lendees who are new to any particular lender can commence without an element of networking or referral. The importance of a referral or an introducer is best appreciated when viewed within the context of limited personal information that the lenders possess on any potential borrower. In other words, the assertion that moneylenders have wide spread and sufficient information about their borrowers may only apply to their existing customers. This is perhaps why door-to-door advertisement of their service is a rare occurrence. Mr Osoba (not real name) during an interview admitted that he does not engage in open advertisement of his services as a lender. Doing so, for him, would lead to a lot of problems. First he would not be able to deal with the crowd because everyone needs one form of financial assistance or the other. Second, he would not be able to ascertain their credit worthiness and thus, such loans would likely go bad. Instead of outright advertisement, what he does is to rely on his network of referrals whereby people that have patronised him and made payment in the past would spread the good news to others that may need funding. The lendees that he has been lending to are individuals that are known either directly or indirectly through other people and this has been an effective means of getting lendees for the business.

The referral system of contemporary usury lending is the most reliable source of getting new lendees. This can be attributed to the changing condition of lending particularly in contemporary urban areas. Access to reliable credit information is one of the major advantages that moneylending has over formal financial institutions. Moneylenders minimise

the risk of default, which reduces the profitability of lending operations, by carefully screening their potential borrowers and collecting as much information as they can about them so as to assess their creditworthiness (Okurut & Bothole, 2009). The required information about the lender can be easily sourced from the community such that when there are challenges with repayment, the lender can locate the lender or kins and take appropriate actions at loan recovery. Thus, new lenders cannot walk straight to a lender to request for loan. It has to be through an existing social and credit relations. Therefore, usury lenders would rely on the contacts, that is, existing lenders and those who know what they do to introduce or refer clients to them for the purpose of lending. However, lenders advance credit on the basis of the personal knowledge of the lender or source of referral. This is possible even when there have been no prior credit relations. This is normally the case when the lender or introducer is well known in the community or works in a credible organisation. This interviewee who is also a moneylender made this point in an interview thus:

Even when you have an introducer who has not had any dealing with us before but we know him and he signifies his intention to stand as guarantor, then we will give the loan but if the introducer is not sure, we will not (IDI/Lender/ 4th October, 2014).

When a credit process starts with a referral, the lender has practically solved the problem of information deficiency and this reduces the time spent on ascertaining the reputation and credit worthiness of the potential lender. The debate over credit information has remained an integral part of discourse on financial dualism in developing countries, particularly as it relates to the continued existence of these informal credit institutions (Atieno, 2001; Nadan, 2005 and Okurut *et al*, 2005). This is further tied to the concerns over how lenders are able to select credit worthy lenders and ensure that payment is made as and when due. These two concerns are encapsulated in the concepts of moral hazard and adverse selection. Okurut *et al* (2005) accurately captured the concepts of adverse selection and moral hazard in the formal and informal credit market. Adverse selection occurs where borrowers with safe (and low default risk) ventures decide to opt out of the credit market in the face of rising interest rates, while more risky ventures with potentially higher returns but with a higher probability of default are attracted into the market. Moral hazard in credit market is a situation where borrowers with low risk ventures shift to high risk projects that promise higher returns but with a high probability of default. Moneylenders have been able to make

use of social networking to gain prior or additional information about the lendeers. This ultimately, reduces the credit decision making process.

Access to formal loans is typically contingent on factors such as repayment ability, collateral requirement, and perception of lendeers' creditworthiness. These issues are further compounded in countries with high levels of poverty, where the poor represent large sections of the population and are often priced out of the credit market. Under these circumstances, Johar and Rammohan (2011) posited that informal networks, such as friends and family members, often play an important role in supporting the credit needs of low-income individuals. Networking structure of contemporary usury system enables both the lenders and lendeers to resolve the challenges of inadequate credit information, credit processing turn-around-time, collateral deficiency and loan repayment. Moneylenders depend on this network structure to gain new lendeers while maintaining existing ones. For the lendeers, networking is the social capital through which moneylenders' loans can be accessed.

4.4 Ventures Financed by Indigenous Usury Lenders

This section examines the various ventures that contemporary usury lenders finance and the reasons for financing such ventures. Individuals have various needs that are influenced by social, economic and even environmental considerations. These needs are predominantly met through the instrumentality of cash even though some of these needs can also be met in-kind (Soyibo, 1996). Ojo (2007) noted that apart from commercial credit transactions, people in pre-colonial Yoruba society also borrowed money for other activities like marriages, funerals, community fines, ransoming, redemption of relatives from slavery or pawnship, medical expenses and so on. Usury lendeers approach lenders for various purposes. In his study of rural credit, Jodka (1995) observed that local peasants required the services of professional moneylenders all through the year to finance payment of land tax, wedding expenses and even consumption. According to Aryeetey (2005), money lenders have a wide ranging clientele which includes farmers, market women, other traders, non-farm entrepreneurs, and other self-employed craftsmen. Aryeetey further stated that lenders also borrow for funerals and other social events.

The data from this study showed that contemporary indigenous usury lenders finance economic and social investments. However, the ventures that most usury lenders finance are tied to the repayment source of the loan. In other words, whether productive or social investment, usury lenders tend to ensure that the source of loan repayment is either directly or

indirectly related to what is being financed. This concern is always well articulated by the lender at the start or consideration of any credit. This level of analytical risk sophistication is still being exhibited in contemporary usury lending. The study discovered that usury lenders are interested in the purpose of the loan at the start of any loan request. For the lenders, this is one of the major determinants of future outlook of the relationship. Where the purpose of the loan is not directly related to the repayment plan as in the case of business finance, there should be an indirect link as in the case of financing school fees. A usury lender made this position clearer in the statement below:

When you engage moneylenders, they would ask you for the type of business that you do and your level of experience in the type of business that you want them to finance. More importantly, the lender would request to know exactly what you want to do with the loan. They could also follow the borrower to the shop to confirm the business and also ask around the area for additional confirmation or information (IDI/Trader-Lender/5th June 2014).

One of the usury lenders also pointed to the importance of purpose in credit in the statement below:

...I have situations where people will come and collect loan for business and will come back again for additional money. I normally do sit them down and ask for the purpose of the loan and I would advise in such a way that the money (that is, loan) they are rushing to collect would not end up becoming a burden to them and by extension to me in the future (KII/Lender/8th April 2015).

The rational calculation of the outcomes of any venture plays a pivotal role in usury lender's consideration of what they would finance. The data from this study indicate that usury lenders provide loans for ventures that are considered productive and profitable. These are economic activities that would generate income for the lenders and hence, make it possible for the loan to be repaid. This can be observed from the advice that lenders give to intending lenders. This advice is to orientate the lenders towards the acceptable behaviour, which is to use the loan for direct productive ventures because of the positive effect that it has on loan repayment. One of the interviewed lenders confirmed this position in an interview thus:

The lenders do advise us not to use the money for something else other than the ventures that will bring returns or be profitable. This is because the lenders have experience on how best to use the loan. Therefore, they would encourage lenders to use the loan for businesses or trading

activities. The fact is that when the lendee use the loan for business purpose, he or she is not likely to default on the loan (IDI/Formal-Worker-Lendee/14th April 2015).

Another interviewee also pointed to the fact that the lenders in contemporary usury lending are concerned about the purpose of the loan that they advance to their lendees because it is the purpose of the loan that would determine whether the lendee would be able to repay the loan or not. The lendee continued thus:

Also the lender would seek to know the purpose of the loan and whether this purpose has been well thought out. The lender would spell out the full rules guiding the loan and would also advise the borrower on how to spend the money wisely (IDI/Formal-Worker-Lendee/7th August, 2015).

Indigenous usury lenders 'encourage' their clients to use the loan for productive activities on the grounds that this would keep the business running such that enough cash flow is generated to meet the lendees' expenses including loan obligations. Usury lenders tend to promote the act of taking loan for productive ventures by first seeking to know the purpose of the loan and subsequently providing advice that is skewed or biased towards productive ventures. The strategy for encouraging borrowers to invest in economic activities that would generate adequate funds for loan repayment was noted in the comment of this usury lendee:

The moneylenders do advise us a lot especially on the utilisation of loans obtained from them. For instance, when we collect the money or loan, they will say ask us not to use the money for party, naming ceremony, burial and other forms of social activities. Further, they would advise that we should only use the money for the business or venture that we are currently doing, so that our business can grow (IDI/Trader-Lendee/5th November, 2014).

For usury lenders, providing the 'right kind' of advice based on their lending experience is a duty that they owe their clients since the loan has to be repaid once it is given out to them. Apart from helping to also secure the repayment of their loan, such advice also provide justification for actions that would be taken when the lendee does otherwise and ends up defaulting on the loan. However, this study noted that contemporary usury lenders tend to provide more of this 'economic or productive venture' advice to clients who are traders, suppliers or contractors and the reason is not far-fetched. Lendees who are traders or suppliers have unstable inflow of income and it is highly dependent on how much revenue that is

generated from those activities. Consequently, when a lendee diverts loan fund into other unknown or unproductive ventures, the real business or trade that is supposed to generate the income is starved of working capital and this may ultimately lead to the collapse of such business or trader. This position was confirmed by a moneylender in this categorical statement when asked why they opted to always advise their clients on the best way to utilise the loan they get from them:

I advise lendees on the need to only use our loans for investment that would repay the loan. Indirectly, I am telling the lendee that the type of business he or she intends to use the loan for must be profitable because you cannot come and cry at the back of my house that the money is gone or that you have been duped such that you cannot meet up with your loan obligations (KII/Lender/4th December 2015).

This study revealed that usury lenders closely monitor the utilisation of loan given to trader-lendees than clients in the formal sector. This is done through visits to the trader or business locations of the lendee and intermittent exchange of values with the lendee. However, for formal worker lendees, the source of loan repayment is basically their monthly salaries which are more stable and constant. This means that even when such loans are used for other purposes other than what was stated at the point of request, repayment would still be possible. This study discovered that the dynamics of venture finance for formal lendee tend to differ from that of the informal lendees. In other words, the level of monitoring and advice given to trader lendees are not usually applicable to formal clients. Consequently, usury lenders tend to monitor trader lendees utilisation of loan funds more than they do for formal-worker lendees. This indicates that the risk evaluation for trader-lendees is different from that of formal-worker-lendees. In the case of the latter, the source of repayment is not necessarily tied to the productive use of the loan but rather it is tied to another external source of repayment- the monthly salary. The risk of default is mitigated because formal workers to a large extent have regular salaries; they have permanent jobs and addresses and cannot risk public embarrassment in case of default. Therefore, while diversion of loan funds may be a challenge when lending to trader-lendees, it is not the same with formal lendees, who are at liberty to use the fund either for defined or undefined purposes. This formal worker made this assertion during one of the interviews by stating that:

Unlike the bank for instance that gives you loan and also inspect the projects for the loan or how the loan is utilised, the moneylender cares less about the loan utilisation. All they are interested in is your ability to pay and your source of loan repayment. The loan is given on on the basis of trust and mutual cooperation (IDI/Formal-Worker-Lendee/29th November 2014a)

A worker in the formal sector, who is also a lendee, made the following comments during an in-depth interview thus:

The money lender is not concerned about what you use the loan for but he is concern about the primary source of repayment. This is because you can tell the lender that you want to rent a shop to do business and you are not even nursing such venture in the first place. The lender is only interested in the source of repayment that gives him comfort on repayment. That is why their market is restricted to few like bank workers, government officials and big businesses that people can see. Moneylenders believe in people who work and earn salaries because once you sign the post dated or undated cheques they will collect their money as agreed (IDI/Formal-Worker-Lendee/29th November 2014b).

The data above indicate that formal lendees tend to have some level of flexibility in terms of how they utilise the loans collected from moneylenders. This does not, however, mean that lenders do not inquire about the purpose of the credit but it shows that lenders tend to place more priority on the source of the repayment which in this case, is the salary of the lendee in the formal sector. This was confirmed by this usury lendee who stated that:

The purpose of the loan must impact the life of the lendee positively. Some lendees would collect the loan for construction of houses and others would even purchase vehicles for the purpose of running their businesses. For the moneylender, as long as you have the means of repayment like salary payment, they will give you the loan (IDI/Formal-Worker-Lendee/20th July 2015).

The data above shows that usury lenders finance various ventures such as building projects, working capital needs, vehicles and other assets. The focus, therefore, is on the authenticity of the lendee's claim, regarding the salary amount that he or she gets from the employer, the modalities for salary payment and the actual payment date. Usury lenders demonstrate their information advantage over the formal finance institutions through the use of informal

networks to obtain information on the lendees' organisation, particularly on the verification of the actual salary of the lende and when salary payments are made. Therefore, while some formal lendees would collect loans to finance their private business activities and investment outside their paid employment job, others use the loan to finance consumption and social needs. Asserting that the loan obtained by formal workers should be used for economic ventures, a lende stated that:

Let me use myself as a typical example. As a civil servant, I decided to start my own business. I wanted to start a supermarket around the area where I live. I needed to rent a shop and stock the supermarket. I have some savings but definitely, it was not enough. So, I approached a moneylender and since I am a salary earner, the moneylender obliged and gave me the loan. (IDI/Formal-Worker-Lende/20th May 2015).

The information above confirms earlier study of Jones (2008) which stated that urban moneylenders provide mainly working-capital loans to small enterprises and consumption loans for government employees, particularly during non-receipt of regular salaries. This indicates that usury lenders evaluate the inherent risk of both civil servant and trader lendees before taking credit decisions. The rational evaluation of credit by usury lenders can lead to a situation where lenders tend to limit their credit credit market to a specific group of people. A usury lender stated thus:

Loan size and repayment are based on the amount that the lende earns as salary. It also determines the time and frequency of loan repayment. I personally do not give loan to anybody that is not a salary earner. That is, you must be someone that works in a formal organisation. Even if the trader-lende comes with a guarantor, I will not give because I have provided loans to trader-lendees in the past and these lendees ended up defaulting. In fact, the guarantor of one of the traders who defaulted said she would only pay 50 percent of the loan, that I should go and meet the borrower to find a way of repaying the balance of the loan (IDI/Lender/4th October 2014).

The foregoing shows that lenders tend to take into account their lending experience in delineating the type of people, occupation or ventures that they would finance. Where lenders have experienced loss of fund through bad debts, lenders often blacklist such market or

purpose as a preventive measure. The investment advice which lenders provide for lendees, especially trader-lendees is based on the tendency of lendees to divert the loan utilisation into other ventures that may put the loan repayment at great risk. This is regarded as credit fungibility. It is a form of 'diversion' whereby the actual use of the credit may differ from the reason stated at the point of requesting for the credit (Okurut and Botlhole, 2009). This is a constant feature in usury lending because it is usually the major highlights of advice that usury lenders give to their clients. The statement below from one of the lendees illuminates further on the issue:

Yes they normally do advise us that the loan that they lend to us should be strictly used for business purpose and not for social event. They know that our people have the tendency to make use of the loan for social events such as burial and birth ceremony, among others which can be different from the purpose of the loan when they were requesting for it. The essence is to make sure that the money is used for business purpose so that they can get their money back (IDI/Trader-Lendee/4th October, 2014).

The following statement from a formal worker also confirms the prevalence of this practice

Some do collect the loan and use it for something else such as organising party hoping that the revenue from the party would repay the loan. But the reality is that the lendees who do this are not sure of getting the money back from the party. I think that is why the lenders make it an obligation to advise their clients on what is expected of them (IDI/Formal-Worker-Lendee/10th June, 2015).

This was also reaffirmed in one of the FGD as stated thus:

Some will want to use the money for one party or the other through which they hope to get money to repay the loan but they will not tell the local money lender this real intention. That is why the money lender will advise us against using the money for social events because it is a gamble that may and may not bring returns (FGD/Female-Trader-Lendee/18th June 2014).

Usury lenders who exclusively finance business ventures tend to discourage the use of usury loans for social purposes including educational expenses, health-related expenses, house rents, and travelling expenses. This may however not discourage lendees from the practices of diversion in contemporary usury lending. The diversion of loan only becomes obvious when the lendee can no longer meet his or her loan obligation. There are instances where trader

lendees who require urgent financial needs that are social in nature, would approach usury lenders for loan as working capital for their business. The lender, therefore, provides the loan on the premise that it is to finance productive related transactions. However, the real intention of the lendeer is to sometimes utilise such loan for urgent social needs. In most cases, these social needs do not constitute tenable loan purposes for the money lenders. One of the lendees attested to the prevalence of this practice by stating thus:

We have situations where lendees will get these loans from their lenders and divert it to activities such as burial or other social events. This can make it difficult for the lendeer to repay the loan when it is due. So, the usury lender will always advise and warn the lendees to keep to their existing businesses and use the loan strictly for the present line of business (IDI/Trader-Lendeer/21st February, 2015).

One of the key-informant lenders in this study recounted his experience on the diversion of business-oriented-loans into non-business needs in the statement below:

I recently had a case where a woman collected the loan from me for business purpose but she eventually used the loan for her parent's burial with the hope that the people she would invite will give her money as 'gift' during the burial ceremony. But the people she invited did not give her the money as expected because their shops had been destroyed by government some few days before the burial. Now, she is having problem of repaying the loan because she has not used the money for the real purpose of the loan (KII/Lender/5th January, 2015).

Another instance of diversion which resulted in loan repayment difficulties was narrated in one of the FGD sessions:

You are expected to use the loan collected from moneylenders for what you are doing but some people will divert the money to go and do burial or even buy jewellery. I know of one lady who used the money she borrowed from the local moneylender to buy jewellery. The problem now is that she is the headache because market is not moving as stated and repayment has started to suffer as she can no longer meet her repayment as expected (FGD/Female-Trader-Lendeer/6th June 2014).

Loan diversion by lendees may not have significant effect on the system basically because lenders possess relatively effective recovery strategies. They recover bad loans either forcefully or through repayment by the guarantor, who would pay to protect his or her credit history as well. Fungibility of credit particularly as it pertains to lendees, in usury lending, can be described as the '*strategy*' which employed some lendees to be able to access funds from usury lenders for purposes other than that of business or trading. This is essentially a workable strategy when there is an urgent social investment which the present business capital and liquid fund cannot accommodate. In essence, it is a strategy to 'get around' the system and get finance for purposes which moneylenders would not advance loan even though the proceeds from their business would adequately cater for the loan repayment. This much was said by one of our interviewees who stated thus:

Most people use loan collected from moneylenders for business purposes. Some also use the loan for other needs such as to pay school fees of their children with the intention that they will have to repay back from the proceeds of their business. For instance it can be difficult for someone like me to just remove ₦70,000.00 from my business capital and use it to pay school fee at once. That may affect the smooth running of the business. That is why some will prefer to borrow from moneylenders and repay back in instalment over a given period of time (IDI/Formal-Worker-Lendee/9th April, 2015)

The fungibility of credit may not necessarily affect usury loan repayment among informal lendees because the screening and enforcement mechanisms of the system can mitigate its effect. In other words, the fact that the borrower may not actually use the money for the purpose of the loan is mitigated by the guarantee system of collateral which the lender has the ability to enforce. Therefore, while fungibility of credit may be a major problem in formal lending systems, it is certainly not an issue for indigenous usury lenders. Usury lenders may be aware that their clients can divert the loan amount into other ventures but the basic assurance of repayment gives the lender adequate comfort. Atieno (2001), in her analysis of credit policies and use of credit fund, opined that credit is issued only for specific purposes because of the availability of market for the produce which guarantees loan recovery. Although this is justified by the institutions as being intended to promote certain activities and ensure loan repayment, it tends to create false demand for funds by lendees who later diverted the fund for other uses. Therefore, usury loans can finance social investment

either directly whereby the lendee would have stated this as reason for the loan or indirectly when productive purpose loans are used to finance social investment needs. This was indicated in one of the FGD sessions as noted in the statement below:

Loans collected from moneylenders for business or even for social events because you can also get money from social events such as like burial or even wedding. So it is not out of place to use some of this loan for that purpose (FGD/Trader-Lendee/Male/ 20th June, 2015).

Diversion of loans in indigenous usury system can also take the form of loan re-financing of existing loans with other usury lenders. Loan refinance is when a lendee takes another loan either directly or indirectly to finance the repayment of an existing loan. In other words it is a situation whereby usury lendees collect loans in order to finance business-related objectives but the lendees eventually utilise the loans to repay other loan obligations. The lendee can obtain the loan from the formal or informal credit institutions to pay up loans in indigenous usury system. The lendee can equally take up loans from the usury lenders to service obligation in other institutions. A moneylender confirmed this practice of using one lender's loan to finance another due obligation by stating that:

We have cases where lendees would obtained loan from one moneylender and use such loan to repay another loan, This act of using one loan to repay another loan can make some clients to be in perpetual debt. In fact there was a recent case where someone defaulted on my loan and when I made enquiries, he told me that he actually used the money to settle another overdue loan collected from another moneylender (IDI/Lender/5th June 2015)

Usury lendees make use of loans re-financing strategy for the purpose of maintaining their status as trustworthiness persons and therefore retain the privilege of accessing credit in the future. Loan refinancing in usury lending can be rationalised on the basis that lendees have to maintain a reliable credit history that would support future loan request. Loan refinancing is common among lendees who patronise more than one usury lender. This affords the lendee the leverage to borrow from one lender and repay another lender. Lendees result to this strategy in order to maintain the good credit history that is required in obtaining credit from usury lenders. Referring to instances of loan refinancing, Jones (2008) stated that money lenders also finance less obviously production-related loans, which are taken for 'finance' purposes. Such examples include, providing deposit to open a bank account, payment instalments on bank loans, and to repay loans within the informal system. In

addition, several scholarly works have also noted that people borrow from the formal institutions to settle loan obligations in the informal and vice versa. This is required in order to prevent future credit exclusion while also maintaining a good credit history (Nadan, 2005; Adeboye, 2008; Mallick, 2012).

This study, however, discovered that certain lenders restrict their lending activities to business related purposes. This is usually the case when the lendee is not an employee in the formal sector where monthly flow of income is assured. The fact that there are lenders who exclusively provide credit for 'productive' investment purposes shows the large demand for usury loans for working capital finance. A trader-lendee commented further on this:

As long as it is a recognised trading line, the money lender will oblige and provide the loan. Though money lenders do not have specific ventures that they finance but they prefer providing loans for trading or business-related purpose with quick turnover and profit (IDI/Trader-Lendee/10th April 2015).

A lender also reiterated the preference for productive or trading purposes lending by stating that:

It is essential that we advise the borrowers so that they would not use the loan for social events such as the burial of in-laws or naming ceremony. Even if lendee does not have money for vehicle tyres for the purpose of running the business, we can give him or her money for it so that the lendee would continue to remain in business (KII/Lender/10th December 2014a).

Apart from the income which lenders generate from the businesses that they financed, a large concentration of lendees require loan for business or trading related purposes. The frequency with which traders use moneylenders credit as working capital may have informed the existence of lenders who lend solely for the purpose of production. And as trader-lendees patronise the lender and repay their loans, credit history tend to improve and that increases their chances of getting credit facilities in the future. Hence, it is rational for certain lenders to concentrate on lending for working capital needs. Soyibo (1996) had stated that traders constitute the largest group of clients of informal finance both in the rural areas and urban centres.

Usury lenders who operate within the traditional market system tend to provide loans exclusively for traders within such market. The usury lenders, who have clients within the

market space, have grounded knowledge of the prevailing structure within such market. Moneylenders can use this knowledge to their advantage, most especially when there are challenges with loan repayment. Usury lenders use their knowledge of the market to identify what to finance, who to finance and how to enforce repayment during default. Therefore, usury lenders are more disposed to providing loans to finance existing business ventures of their clients. In other words, usury lenders provide loans to support the present or existing line of business of the lendees. These lenders understand the dynamics of the market such that they know when to lend, who to lend and how to mitigate inherent risk of the business. This means that it is not only sufficient for lendees to state that the loan is to finance economic activities but that the lendees cannot use the loan for another business outside the existing line of business that the lendees are known for.

Therefore, it means that it would be difficult to use moneylenders' loans as initial capital for a new business. For the lender, this strategy reduces the risk of default because the loan would be used to finance a business venture which the lendees have expert knowledge. The rational assumption here is that the lendees who use the loan to augment working capital of an existing venture would have overcome the 'teething problems' associated with starting a new business. Another reason why usury lenders prefer to finance existing business of the lendees is because it guarantees the lender of an existing cash flow that can provide returns which would service the loan repayment. The interviewee stated categorically thus:

The moneylenders would only provide loans for the business that the lendees are presently doing. The lender will not finance anything that the lendees are not known for. And from the various questions which the lender will ask the lendees, the lender would know the purpose of the loan and how relevant the purpose of the loan is to the real business of the lendees (IDI/Trader-Lendees/15th November 2014).

Another usury lendees also stated that:

All that the usury lender would say is that the lendees should use the loan for the business which the lendees are known for and understands very well. Thereafter, the lendees should ensure that the loan is repaid at the appointed time (IDI/Trader-Lendees/20th April, 2015).

Providing further clarification, a usury lender emphasised the importance of financing existing trade or business by stating that:

I do tell my lendees that they cannot use the loan they get from me to finance new business or even open new shops that will sell what is different from their present line of business or trade. I prefer giving loans to suppliers because I will collect my money back every month. I also give loan to car dealers especially those who need the money to clear their cars from the port so that it will not enter demurrage (IDI/Usury Lender/15th June, 2015).

The data above indicates the importance of lendees expertise in an existing line of business and this is best appreciated within the context of loan performance. That is, the lendees stand the better chance of repaying the loan, when such loan is used to support an existing trade. This is rational because the lendees basically understand the complexities of such business or trade. Usury lenders who operate within the traditional markets that were studied were known to always visit their clients' shops before credit is advanced and some also go a step further by taking random stock value of the lendees business or shop. The aim is to compare the stock value with the loan size that is being requested so as to ascertain if the lendees or guarantor has existing stock that can generate the cash flow needed to fund the loan repayment. Such stock taking also enables the lender to be sure of the volume of business that the lendees is exposed to and can actually manage *vis-a-vis* the size of the loan request. This is because when the lendees' business does not show capacity that is related to the loan size, there is the likelihood that such loan would not be repaid as expected. One of the usury lenders provided an illustration of the importance of matching loan size with purpose and volume of lendees' transaction by stating that:

It is your business that will determine the loan size that I will give you because you cannot make more than the capacity of your business. Let me give you an example of what happened to me some couple of years back. There was a woman who came to me that she sells Indomie noodles and she requested for a loan of ₦100,000.00 and I gave her the loan since she had told me that she sells Indomie noodles in cartons. It was later that I discovered that she sells cooked rice and noodles. She is presently having challenges repaying the loan. She is presently paying back the loan in small instalments because her type of business cannot produce or support that kind of repayment. So when you come to me for loan and you have informed me of the type of business that you are into, I would then have to determine how much you can access based on the type of business that you do (KII/Lender/8th April 2015b).

The quote above is an indication that usury lenders also rely on their prior credit relations in dealing with their clients' request. It is this credit experience that informs certain credit stands of the lender such as the preference for financing existing business of the lendee and the consideration of the lendees' business volume. In other words, this study discovered that usury lenders do provide loan for a wide range of business ventures, which are sometimes determined by the knowledge and experience of individual lender *vis-a-vis* the venture to be financed. One of the trader-lendees interviewed made this point very explicit in the following comment:

Usury lenders do not have any special or specific ventures that they support. From my personal experience, these moneylenders can support any known trading or business venture including those businesses that are operated within the market (IDI/Trader-Lendee/10th December, 2014)

Corroborating the statement above, one of the usury lenders reiterated that:

The lendees can use the loan for any type of business that they do for a living. Personally, I do not have specific line of trade that I finance but generally I do advise my customers to be sure of the business they want to use the loan to finance (IDI/Lender/7th July 2015).

The range of ventures that usury lenders finance may also include supply contracts as stated below by this interviewee:

...Some lendees would be informed that they need to loan for business or trading purposes. For instance, I have two lendees who supply nylon bags that they use in one of these multinational supermarkets in town. After executing the supply contract to this supermarket, payment is made within three weeks. Once they collect the money, the lendee would come back and repay their loans based on our agreement. When these lendees have another contract, they would approach me and another cycle would commence. That is how I have been dealing with them (IDI/Lender/15th June, 2015).

From the data above, it is obvious that usury lenders who finance ventures such as the one described above rely extensively on the credit history of the lendee and the source of referral or guarantor. This form of lending is complex because the lender does not have control over the source of repayment. Thus, usury lenders have to depend on informal network to gather

information regarding payment of contract or supply proceeds. However, what is of utmost importance is the credit history of the lendee and the lendee would want to maintain this history to avoid future credit exclusion. Another lender provided further comments on their ability to finance contract projects and other forms of supplies thus:

Moneylenders support different kinds of ventures. Like now, the person that just left here is a diesel dealer and he is also my customer. He comes to collect loan every two weeks so that he can purchase and supply diesel to his clients. His business has grown overtime because when he started collecting loans from me, he used to collect ₦1.5 million loan to purchase half tank of diesel which is 15,000 litres. This same lendee now collects about ₦2.5 million loan to purchase thirty-three (33,000) litres which is full tank. My own business has also grown too because he pays more money as interest now than before (KII/Lender/11th March, 2015).

The information above indicates that indigenous usury lenders provide finance to lendees who engage in a wide range of economic activities. The usury lenders in an urban area like Ibadan provide credit services to individuals who engage in business transaction both within and outside the conventional or traditional market system. Business or trade outside the traditional market depend on working capital to thrive. The system also provides finance for other economic activities such as the purchase of assets or properties that would generate revenues required to meet the loan repayments of the lendee. Usury lenders carry out these types of transactions with lendees who have overtime demonstrated faithfulness and good credit history. However, such asset would be registered in the name of the lender with the original documents kept in the custody of the lender. This lender confirmed this practice thus:

Once you come that you want us to finance an asset, for instance, you have a car that you want us to finance, we will come and inspect the car. If we are satisfied with the condition of the vehicle, we would pay for the car, register it in our name and give the vehicle to the lendee. All these will be done after we have agreed the terms of payment for both principal and interest (KII/Lender/10th December 2014b).

By implication, the asset legally belongs to the lender because such asset is registered in the name of the usury lender. This constitutes additional form of collateral for the loan as well as a motivation for the lendee to want to repay the loan so that the ownership right can be

transferred accordingly. Upon the full payment of the loan, the original ownership document of the asset is handed over to the lendee for change of ownership. The transfer of ownership documents of the assets from the lender to the lendee is consummated upon the successful completion of the loan repayment. It is important that the lender transfers ownership after full payment because the reputation of the lender is also at stake especially as it relates to attracting new lendees. A major advantage of financing movable assets lies in the ability of the usury lenders to confiscate and even dispose the asset as quickly as possible because in the first instance the legally belong to the lender. This lender provided more insights into assets and other ventures that lenders finance in the following statement:

I also give loans to motorcycle riders popularly called *Okada* for the purpose of purchasing motor bikes that they use in doing their businesses. Most of the *Okada* riders were financed with loan from money lenders like me. I also finance cocoa dealers who require fund to run their businesses ahead of the cocoa sales period and they repay the loan after selling their cocoa to various buyers (KII/Lender/10th December 2014c).

The statement above is an indication of the diverse ventures that lenders in contemporary usury system finance even as they continue to demonstrate their relevance among their clients. However, while contemporary usury lenders provide rational lending for a wide range of business ventures, they can be limited by their knowledge or experience of specific business, the risk of default associated with some ventures and individual lender's view of business that should be financed. This study, however, revealed that while borrowers or lendees may have the impression and thus interpret that usury lender can finance any venture that is profitable, the reality points to the contrary. Contemporary usury lenders also consider personal beliefs and moral values in deciding what venture to finance. This usury lender clearly stated thus:

As a lender, I can provide loan for any business except the business of selling alcoholic drinks, cigarette and those trading in provisions. I cannot provide loan for those in the business of selling alcoholic and cigarette because it is against my religious disposition. For the provision traders, I do not give them loan because that business is not profitable. But I do give loan to traders selling fairly used cloths, sellers of food items in bulk, among others (IDI/Lender/5th June, 2015).

The credit experience of lenders also comes into play when determining what to finance and what not to finance. Specifically, the default experience of lenders has a way of shaping their credit decision process especially as it relates to the type of individuals and ventures that can be financed. Another lender supported this position when she highlighted the ventures that she is not disposed to financing thus:

I do tell the borrowers that they should not use my money for new business and opening of new shops. I prefer suppliers because I collect my money back every month. I also lend money to car dealers especially those who need the money to clear their cars from the port so that it will not enter demurrage (IDI/Lender/14th September, 2015).

Usury lenders also follow the current trends in the economy in deciding what they think is profitable to finance. The outlook of business venture is considered side-by-side with the prospect of such business. What this mean is that lenders are analytically rational by identifying the dynamic of business ventures such that certain businesses that are credit worthy in the past may no longer be profitable for credit based on present realities. The following statements by one of the lenders gave credence to this assertion:

Let me give you an example of what happened some years ago when GSM technology first started in this country. Somebody came to us that he wanted to start a phone call business. We looked at the viability of the business and we gave out the loan because then few people could afford phone and credit. The guy paid back within six months the ₦40,000.00 loan that was given to start up. Today people cannot come with such business and we will finance it again because it is no longer viable because virtually everybody now has phones and can afford credit cards (KII/Lender/ 8th April 2014).

Another lender also affirmed the same position on what is to be financed stating that:

I do not provide loan to people for school purpose or even for those who want to do social events such as burial or wedding ceremonies. I do not give such money as loan because it can be very difficult to retrieve such loan from the borrower (IDI/Lender/ 5th June, 2015).

The various quotes above point to the divergent dispositions of lenders and the fact that the choices of ventures that they finance are informed by several factors including individual risk evaluation of the purpose, experience on specific ventures, among others. These factors are known to influence the credit decisions of usury lenders aside the all

important referral and guarantee system. This has created lenders, who tend to specialise in different segment of the market. Some lenders tend to focus on lending to trading and business related transactions while others are comfortable providing credits to formal-worker lendees. There are however usury lenders that do not restrict their market segment to specific groups or occupation within the society.

Informal credit institutions such as moneylending have continued to exist partly because they provide finances for both consumption and production purposes. Okurut et al noted that informal lenders usually provide credit for consumption purposes, which can have a long-term positive impact on household productivity, allowing acquisition of skills or improvement in health status. This is essentially the interpretation when usury loans are used for education or healthcare. Adebayo (1992) therefore asserted that the position that credit in traditional African societies is used of frivolous and uneconomic purposes is untrue.

Traditional credit institutions have helped in providing funds for social activities with far-reaching socio-economic implications for the wellbeing and stability of the social system as a whole. The disposition of indigenous usury lenders towards financing social investment needs has given credence and justification to their claim that they are in business of providing benevolencehelps to lendees. Expenses involving house rents or construction, educational expenses, wedding and burial expenses are an integral part of the expenditures of Africans even though the amount tends to differ from one culture to another. These social expenses are largely driven by the values attached to the outcome of such expenses or actions. Zhou and Takeuchi (2010) opined that moneylenders loans provide people with the ability to cope with large expenses, often unexpected, such as sudden sicknesses, ceremonial occasions (e.g., funerals or weddings), and financing higher education for their children.

Both lenders and lendees subscribe to the fact that loans from moneylenders can be used to finance not only business related ventures but also credit for social needs of their lendees. These social needs include school fees, medical expense and burial expenses among other needs. Schrader (1994) noted that moneylenders are found in different places providing funding or credit for various purposes including bridging income gap, payment of taxes and revenues, organising social events such as marriages and funerals among others. A lender confirmed the use of usury lender's loan to finance social ventures by stating that:

For instance, when a lender wants to finance social events such as a wedding ceremony and a known introducer or guarantor brings such an individual to us, we will assist by providing the loan. At an agreed period, the lender will return the principal with agreed interest. We also finance burial expenses. There was this woman who lost her mother and she needed money to do the burial of her mother before the end of the month. She approached me and I gave her the loan so that she can perform the burial rites of her mother. She repaid the loan when she collected her salary at the end of that month. I also give loan to lenders who need money to take care of the health needs of their loved ones. I also finance the educational expenses of my lenders (IDI/Lender/14th October, 2014).

Another usury lender also alluded to the non-business financing by stating thus:

People need money for different purposes but most times, they cannot get the money or the loan that would enable them to meet their needs. But with usury system, such loans are made available. Some people want to use the money for school fee payment, or send their people abroad or even start a new business; usury loan can be very helpful so that such persons will not miss those opportunities (IDI/Usury Lender/7th July 2015b).

The fact that usury lenders recognise the importance of social investment and are willing to provide finance for this purpose may have strengthened the magnanimity claim of moneylenders. This is in contrast to the formal finance institution where emphasis is predominantly on lending to finance production or economic related activities. Thus, when lenders require loans to meet social obligations such as funeral and marriage expenses, the formal financial institutions are not usually considered as viable options because they are not structured to meet such needs. What is termed frivolous and unproductive expenses by the formal systems of finance is recognised by the moneylending system as part of the cultural or social demand that stabilises social relations within the society. Further, health expenses and educational loans are uncommon formal financial credit products. Consequently, borrowers would still have to resort to the traditional institutions such as indigenous usury system for 'help' in raising funds for such expenses. Adams *et al* (2003) noted that moneylenders portray flexibility in terms of the type of ventures they finance due to their ability to provide finance for productive and social needs. Adams *et al* further stated that moneylenders tend to structure any loan towards meeting specific needs of the lenders including the social ventures as well. Godwin, a 69 years old lender, earlier mentioned in this study, stated that he financed both social and economic needs for his lenders. Social ventures in this category include payment of

house rent, school fees and health-related expenses. The lender is very passionate about health related problems and when lendees approach him for such loans, especially when it is a life or death situation, he tries to make the money available so that whosoever is involved would be treated urgently to save life. Mr Godwin does not limit himself to the provision of loans just for social needs as he also supports lendees who need to engage in economic values. For Mr Godwin, the purpose does not really matter because the source of repayment which is the same, would repay the loan obligation.

For these usury lenders, financing social needs constitute part of the benevolent disposition of the system. This tends to explain their continued patronage by clients who would not get this kind of service from the conventional or modern financial institutions. Jones (2008) had noted that the willingness and ability of moneylenders to finance routine health and social expenditures in a speedy and un-bureaucratic manner, and with flexible repayment procedures, in an economy characterised by cash and in-kind transactions, along with the inability of formal sector banks to do this, accounts for the continued use, and indeed expansion of informal finance such as the local moneylenders. Buckley (1997) also noted that loans provided by moneylenders had short maturity period and these loans were used for consumption purposes, providing succour during moments such as funeral or medical expenses, and at certain times of the year for the payment of school fees. Patole and Ruthven, (2001) also observed that loans of informal credit institutions can be advanced for a wide range of activities including rent, marriage, festival, and the like, once the repayment capacity of the client is assessed and ascertained.

The lendees who alluded to the use of moneylenders' credit for social investment are mainly salary earners who work in formal organisations and the lenders have informal relations that would ensure that the loan is repaid. Though usury lenders may claim that providing loans for social needs is part of how they help individuals within the society, the fact remains that such loans are only provided after the lenders have been rationally evaluated and equally ascertained the dependability of the source of repayment especially with lendees who work with formal organisation. Whether traders or formal sector lendees and whatever be the purpose of the loan, the underlining motive of the lender is to remain in business and part of the strategy for remaining in business is to recapitalise by ploughing back profit margin into the business. Therefore, the lender tends to engage in rational evaluation of the course and consequences of each loan request, no matter the purpose of the loan. Indigenous

usury lenders employ the use of their personal experiences, history of default and knowledge of the lendees, in selecting what to finance and what not to finance.

The financing of social or domestic needs revolves round the popular sentiment that indigenous usury lenders are sources of funds with which people finance their needs as expected by the society, especially ventures that require urgent financial interventions. This is the idea behind the traditional description of moneylender's intervention as *asiri bibo* which is a description of how usury lending constitutes the 'saving grace' in meeting financial expectations both at the economic and social fronts. This formal worker lendeer explained the importance of indigenous usury lenders in the following statement thus:

It (that is, usury lending) is very important because it covers our shame (*o nbo asiri*). When you need to do business and the money you need is not up to the amount you have at hand, you will approach the moneylender who will lend you the money, and you will use it for business and return their money as agreed (IDI/Formal-Worker-Lendeer/17th January 2015).

The appreciation of indigenous usury loan is in the realisation that lendees are able to meet their economic or social needs without the 'public' or common knowledge regarding the source of the fund used in meeting these needs. However, whether the source is overt or covert, what is crucial is the timely intervention through the loans that moneylenders provide for their clients. Lending for the purpose of social investment including culturally prescribed events still exist in contemporary usury system as indicated in the comments below:

Someone who wants to do his or her wedding would require funds for the ceremony and in a situation where such funds would likely come after the wedding day; such individual can come to us for help. We can give such loan to the lendeer and as agreed with the lendeer, we would collect our principal and interest. Now there was a woman who happens to be the last born of her mother and the mother died. She needed to do the burial of that her mother before the end of the month and she approached us. We gave her the money and collected our loan plus interest when the salary was paid. We also give loan for those who need to take care of the health needs of their loved ones and those who need to pay their children school fees (IDI/Lender/ 4th October 2014c).

The use of moneylenders fund to fund social occasions like burials and wedding give social interpretation to the relevance of preventing shame (*asiri bibo*) because of the social

consequences of doing otherwise. In confirming this position, Guerin *et al* (2012) asserted that in a society where there is adherence to norms and values, particularly as it relates to certain festival, the use of credit to finance such activities or ventures becomes acceptable, considering the social repercussion of doing otherwise. This study is also in line with a research on the utilisation of informal loans in Pakistan, where it was noted that a large proportion of informal credit was used to finance social festivities and ceremonies as demanded by their culture (Jan *et al*, 2011).

Usury lendees justify the social investment on the ground that they are necessary to maintain social status, social acceptability and secure the future of their children. It is the perspective of social investment that may have contributed to the continued existence of indigenous usury lending especially when such social investment are necessary and urgent amidst limited or non availability of funds to meet these needs. Usury lending is thus often interpreted from the perspective of ‘help’ even when business evaluation is taken into consideration in advancing the loan. What this study has shown is that in spite the relative underground nature of indigenous usury system, the system subjects both the social and productive ventures to the process of rational evaluation of the cause and consequences of the loans. The lender is interested in getting back the capital that has been given out as loans and this includes making additional margin on the loan. Usury clients are individuals who have limited or no access to alternative sources of funding to meet their productive or social needs. For the moneylenders, using credit to meet urgent social needs should be an integral aspect of credit. The following statement from one of the usury lenders interviewed captured this perspective that:

In our country today, the Nigerian government and the banks are not helping matters when it comes to the welfare of the people. People would not know that they need money now untill their relatives or friends are sick and they need ₦40,000.00 or ₦50,000.00. But the bank cannot help because they have protocols which are meant to frustrate the loan request. However, the sick patient is dying and there is need for help. Therefore, people would come to us and within one or two days, we would give them the money so that they can meet their needs (IDI/Lender/4th October, 2014).

Usury lenders thus justify their financing pattern on the ground that the lendees have little or limited sources of finance. The lender’s disposition to the financing of social investments is based on the fact that it is as important as the economic aspect of social life.

The above brings into focus the intervention of state in terms of financial intervention towards propelling development in the area of productive ventures and the absence or near absence of social safety mechanisms that would assist people in meeting their social needs. Desperation sets in when people cannot rely on institutions including the state to intervene in their social needs such as education, healthcare and housing among others. A usury lender thus, becomes the available channel of meeting such ventures and people who can get this would surely view their existence in the positive light. It is a question of choice and usury lenders, who settle for moneylending loans, have done so on the back of rational calculation of the course and consequences which the system provides. Indigenous usury credit continues to be important for the rural and urban population in production-related requirement and also, for meeting consumption related needs in the absence of a strong social security net (Chavan, 2003). This re-echoes the sentiment that in the absence of state intervention and the failure of banks to make credit accessible, the option of patronising usury lenders stands justified on the base that they can finance both productive and social ventures. Tressel (2003) opined that the existence of a local credit market reduces the proportion of agents who are credit rationed in formal financial institutions. Hence, the existence of a local credit market is likely to improve the welfare of lenders relative to the situation where only banks exist.

The types of ventures that indigenous usury lenders finance are subjected to a rationally designed process that addresses the challenges of repayment enforcement. This study discovered that the dynamics of financing productive ventures tends to differ from that of social ventures because unlike the latter, loan repayments are tied to productive ventures of the lenders. Hence, lenders are known to take steps that would ensure that the productive activities that were financed are realised. The magnanimity of the system is further strengthened with the disposition of lenders to finance social ventures in the absence of state and modern financial systems intervention.

The key assumptions of rational choice theory are well reflected and articulated in the types of ventures that are financed by indigenous usury lenders. Monroe (2001) recapped the fundamental assumptions of rational choice theory and this indicates that indigenous usury actors are basically rational choice actors. Rational choice actors pursue goals and these goals reflect the actors' perceived self-interest. Behaviours of actors results from a process that actually involves conscious choice with the individual as the basic actor in the society. Actors have preference orderings that are consistent and stable and if given options, actors choose

the alternative with the highest expected utility. Actors are known to possess extensive information on both the available alternatives and the likely consequences of their choices. Indigenous usury lenders know that lendees at different times have needs that can be productive or social. For the lenders, the ultimate interest is the economic benefit that would be derived from the use of their funds as credit. The option of what to finance is based on the rational evaluation of the alternatives *vis-a-vis* the self-interest objective of economic returns.

On the part of the lendees, ventures for which credits are sought are products of the preferential ordering of their needs. What the lendees sought to finance are self-interest ventures whether they are social and productive. This is also reflected in the fact that each lendeer is individually responsible for the loan repayment. The evaluation of the cost and benefits of financing these needs are well evaluated and the choice of what is requested to be financed with usury credit reflects the rational process of the actor and his or her target objective.

4.5 Repayment Structure in Contemporary Usury System

A loan cycle is completed when the lendeer repays the expected or agreed principal and interest elements on the due date. The loan repayment structure of indigenous usury lending involves the forms of loan repayment, the rate of interest and the process of restructuring loans that lendees are finding difficult to repay as and when due. Contemporary usury system still maintains the short tenured loan structure of colonial usury lenders. The structure of loan repayment is also tied to the rate of interest charged. Srinivas and Higuchi (1996) described moneylenders as transactional credit suppliers whose credit is available immediately, usually on the same day or within a few days. Terms and conditions are usually more flexible and better enforced than other informal suppliers. Operations are regular and cyclical in nature. Jobs, income, past repayment records and acquaintance are some of the important criteria for evaluating borrowers. The interest rate of indigenous usury system is equally one of the features that differentiate it from other forms of lending. Soyibo (1997) noted that the structure of interest rate in moneylending differs and it is usually based on location, length of relationship and the structure of collateral that is offered for the loan. Soyibo further stated that interest rates in moneylending are usually calculated on monthly basis. It is not unusual for moneylenders to charge as much as 20 per cent per month which translates to 60 per cent for a loan that would mature in three months. Tsai (2003) opined that the high rates of interest charged by professional moneylenders reflect the high risk of

lending to clients and the unconventional forms of collateral that is acceptable in this form of lending. Mallick (2012) also reported that among Bangladeshi indigenous lenders, interest rates ranges from ten (10) per cent to two hundred and forty-nine (249) per cent per month. In addition, Mallick noted that there is also disparity in interest rate and purpose of the loan as loans for productive purposes attract lower rate than those for consumption purposes.

This study revealed that contemporary usury lenders charge interest rate on monthly basis and interest rate is calculated as a percentage of the outstanding loan balance per month. Interest rates ranges from ten (10) per cent to twenty (20) per cent per month. This interest computation is quite different from the annual simple interest calculation of modern financial system. Interest rate in contemporary usury lending is a straight forward calculation of a certain percentage of the outstanding principal at the end of every month or cycle. In other words, a per cent of the loan value or outstanding loan value is used in calculating the interest that the lendee would pay; this is usually at the end of each month. A key informant lender explicates further on this:

I do not want my money to stay for too long with my lendees, especially the new ones. That is why my loan tenure normally starts from one month. The interest is 10 per cent, such that, if you collect ₳30,000.00 for instance, you will be repaying ₳3,000.00 monthly as interest. My agreement is always that the interest and principal should be repaid at the end of the month. But after two or three days and I have been able to observe that the lendee is a trustworthy individual, I can give that lendee the loan and this can continue for upward of five to six months. (KII/Lender/8th April, 2015).

Another lender has this to say on the prevailing rate of interest in contemporary usury lending:

If you want to repay the loan over a period of three months, you would pay the interest every month and at the end of the third month you will pay interest and principal together. Our interest is between 10 to 20 per cent every month (IDI/Lender/4th October 2014).

The field work also revealed that lenders can charge higher rate of interest when it involves the financing of an asset that can be used to generate further or additional income. This is based on the premise that the lendee enjoys double benefits when such income generated assets are financed. First, is the fact that value of the lendee has increased due to

the additional asset purchased. And two, the lendee would further use the asset to generate additional revenue for him or herself. Lender may have also assumed that the lendee would have the capacity to repay the loan because such assets would finance the loan repayment. One of the usury lenders mentioned this practice in the following statement:

If you come to us that you want to buy a vehicle for commercial purpose, we would finance the purchase, register in our name and give it to you the borrower. All these will be done after we have agreed the terms of repayment. Sometimes depending on the purpose, we can add as high as 100% as interest and spread the repayment of both principal and interest over a given period. For instance, a car that we bought at ₦800,000.00 can be given out at ₦1.6 million payable over a given number of months (KII/Lender/10th December 2014).

The monthly principal percentage calculation of rate is higher than the assumed simple interest per annum obtainable in the financial institutions of the formal sector. This is assumed to be true because lendees of formal financial institutions, especially in Nigeria, may not be able to accurately calculate the actual rate of interest that is used for their loan. From one of the submission above for instance, the monthly interest rate of 10 per cent per month on the principal sum of ₦30,000.00 would result in a twelve months interest payment of ₦36,000.00 which when converted to simple interest rate calculation would result in 120 per cent per annum. This interest rate is far higher than an average interest rate of modern or formal financial institution in the country.

The reasons for this disparity in the rate of interest can be deduced from the features of indigenous usury practice itself. What is, however, certain is the fact that informal credit system may not be subjected to the same macroeconomics determination of interest in the formal financial system. But one obvious factor is the limited source of capital available to the lender. Capital limitation of usury lenders may be one of the reasons for the short cycle nature of this form of lending. Unlike modern financial system that accepts deposit from customers; indigenous usury lenders depend to a large extent on the re-investment of interest into their lending business as their main sources of capital. Moneylenders are the only informal lenders that do not lend to distinct groups of clients (Soyibo 1997; Nissanke, 2001). Toby (1991), observed that moneylenders relied almost entirely on their own funds for loan capital. Loan capital was thus limited to personal surpluses from interest on previous loans among others. In other words, the usury lender requires as much capital as possible to lend to

others and since the formal-informal linkage is not yet strong to the extent that they can get loans from the formal institution for onward lending to their clients, interest rate remains one of the only sure means of recapitalisation. Varghase (2005) specifically recommended a form of interlinkages between banks and moneylenders instead of introducing and developing another form of finance such as the formal microfinance system. Varghase further stated that while the banks provide production loans, moneylenders would provide bridge loans to enable lendees repay their obligations with the banks so that future access would be possible.

Beyond the capital limitation argument, the short tenure associated with usury lending also accounts for the relative high rate of interest. This is because with short cycle loans, the lendees would pay more interest and higher rate of pricing when compared to longer tenured loans whereby the lenders can afford to spread the rate. The fact that the lendees are using a higher amount to repay the loan within a short period tends to increase the burden of loan repayment. However, it should be noted that the short tenure of usury lending system allows the lender to examine and establish a trustworthy relationship with the lendees such that the lender becomes confident of providing loan to the lendees for a longer tenure. This reduces both the risk of default by the lendees or capital erosion of the lender. The cycle or tenure of loan repayment ranges from monthly principal roll-over to as long as twelve months. The cost of administration and monitoring of indigenous usury credit also forms part of the high interest rate observed within this system. A usury lender provides further insights on this cost by stating thus:

For trader-lendees, who make sales on a daily basis, I can give loan as high as ₦10,000.00. The lendees will use the loan for his or her business and at the end of the month; he or she will repay ₦12,500.00 as principal and interest. The interest rate is ₦2,000.00 which is 20% while the ₦500.00 is for recharge card that I will use to call the lendees to remind him or her of their obligation and any other information. I have different telephone networks which I can use to harass those that are defaulting (IDI/Lender/5th June, 2015a).

The high interest rate may also be the consequence of the profit motive that also underlines the operation of indigenous usury system. Both lenders and lendees use the term 'business' when describing indigenous usury lending. This presupposes that social actors within this system also realise that the lenders engage in this act because they also need to invest and make margins on their investment. Therefore, moneylending is simultaneously

described as a medium of ‘help’ and a business for profit making. A usury lender during a key informant interview provided further explanation on this perspective thus:

I lend money to people for various purposes but most especially for trading or business purposes. I am forty years old and have been in this business for over ten years. My parents were also moneylenders. Indigenous usury lending is for people who do not have money and we help them by giving money in form of loan so that they would trade and make or increase their profit (KII/Lender/24th January 2015).

In other words, usury lending is a form of help which enables loan beneficiaries to meet their business and other needs including the expectation that such loan would increase the profitability of the lendee. Thus, the lender is also expected to make profit in the course of providing credits to the lendees. This is required to sustain the business and also increase the capital base for wider reach. While lenders view their profitability as a necessary requirement in the course of doing business, the lendees view the interest as exorbitant and a major challenge to the system. This interviewee captured this perspective thus:

The negatives aspect of moneylending which I will still continue to mention is the issue of interest rate which is very high. This can have an adverse effect on your business and even your ability to repay if one is not careful (IDI/Trader-Lendee/16th June 2014).

The high interest rate is exploitative to the lendee to the extent that it can affect lendees businesses negatively. The rate of interest also reflects the high risk nature of this system of lending. With the reliance on reputational ratings of the lendees and guarantors, the high rate of interest becomes the price that has to be paid for accessing credit with such relatively easy-to-meet condition precedents. This was made clear in the following quote of a moneylender:

If a lendee collects a loan of ₦20,000.00, the repayment at the end of the month would be ₦25,000.00 and if the loan is ₦50,000.00, the lendee would have to repay ₦60,000.00 at the end of the month. But based on my evaluation, if I think that the business is very profitable I will give a higher interest such that even if the person eventually defaults on the principal I would have collected enough money to cover my principal in the first place (IDI/Lender/5th June 2015b).

The data above indicate that the relative high rate of interest is a pointer to the high risk nature of this form of lending. Therefore, lenders may use high interest to compensate for possible default within the system. In a system where lendees may not have stable flow of income and the most common form of collateral is the guarantor, the possibility of default or absconding lendees is real. Explaining the high risk nature of contemporary usury lending, one of the lenders stated that:

There are many challenges with this our business. Some lendees would borrow from us and spent it lavishly. They would later come back begging for extension of time or complete write off of the loan which is not possible. Some would come and say that their shops collapsed or fire gutted their shops. What can you do about that? When I told them that the money I borrowed is not to construct shops but they would now say that the shops collapsed on the goods or got burnt and everything was lost. Some will come with fake land receipt or survey plan. In fact there is one case of a man that is yet to pay back my money. He came with a registered survey plan and after I had given him the loan, I went to the site only to discover that what he called his land was actually a road and not a land (IDI/Lender/5th June, 2015).

Another lender explained the risk associated with lendees bringing repayment at unsafe period of the day by stating thus:

Also another major challenge of this our profession is the risk involved in the business. While I would give loan to people before 12 pm, when some of them want to return the money, they would bring the money to my house at night. And if I do not collect the repayment, the person may not repay the loan again. And when I collect the money, I stand the risk of robbers attacking me because information may spread that I have money or cash in the house. So when they bring such money at night like that, I will also not keep the money at home. I will go out of the house and keep the money elsewhere (KII/Lender/8th April 2015).

Therefore, the justification for a relatively high interest rate is based on the evaluation of the high risk nature of the business. This study, therefore, posits that unlike the formal financial systems that have standardised determinants of the rate of interest, the same cannot be said of informal finance systems such as indigenous usury system where the lender's appraisal is based on multiple considerations. These considerations include profitability, risk evaluation of lendees' businesses or purpose, credit history of lendees and capital availability

among others. Fernando (1988) stated that easy access, opportunity cost and risk premium are possible reasons for the high interest rate of moneylending. Adebayo (1992) also stated that the high rate of interest is based on the high risk nature of the system and the cost of loan recovery. In the rational evaluation of the lender, an 'expensive' system of credit is preferable to an inexpensive but inaccessible credit. This is considered along with the social cost of not meeting the needs for which loans were obtained. These social costs are very difficult to quantify in terms of monetary value. The realities of indigenous usury lenders is such that there are limited or no access to other forms of getting credit facilities. Thus, the issue of high cost as reflected in the rate of interest becomes secondary at the point of getting the loan. In meeting the needs of the lenders, indigenous usury system affects the social prestige of their clients in several ways. This may be in form of enhancing the economic and social status of the lenders or in preventing shame especially as it relates to societal expectations. Therefore, it can be argued that the 'expensiveness' of indigenous usury can only be ascertained when a cost-benefit analysis of the cause and consequences of the purpose is evaluated.

This study also discovered that the practice of upfront payment of interest can still be found in contemporary usury lending. This is usually the case in the first month of the tenure of the loan and they are deducted from the principal sum of the loan. This invariably means that the actual loan which the lender takes is the principal sum less the upfront interest. A key informant interviewed touched on the issue of upfront payment of interest in contemporary usury system. The usury lender stated thus:

Further, if a lender collects ₦500,000.00 as loan for instance, I will deduct ₦50,000.00 being ten (10) percent interest and I will give the lender ₦450,000.00; if the lender collects ₦250,000.00 as loan, I will deduct ₦25,000.00; ₦100,000.00, I will deduct ₦10,000.00 and for ₦10,000.00, I will deduct ₦1,000.00 (KII/Lender/8th April, 2015b).

Corroborating this method of interest calculation, loan repayment and upfront interest payment of moneylending, another usury lender stated thus:

The rate of interest on ₦200,000.00 is ₦20,000.00; ₦3,000.00 is collected as interest on ₦30,000.00 and it is ₦5,000.00 on ₦50,000.00 per month. That is, when you want to collect say ₦200,000.00 as loan, I will give you ₦180,000.00 because the interest for the first month is upfront. If the lender cannot pay both principal and interest at the end of the month, I will

collect the interest of ₦20, 000.00 and wait for another month. However, I do not expect the loan tenure to last for more than three to four months before the lendee will pay the principal. I do not want a situation where the lendee will get use to not repaying the principal at the end of the month. In fact, I have a woman that sells goods at *Agbeni* market here in Ibadan and she collected loan from me to stock her shop for festive period but she has not been able to repay the loan principal. She only pays the interest for now. The interest on her loan is 10 per cent (IDI/Lender/15thJune, 2015).

The data above bring to the fore, the peculiarities of contemporary usury lending when compared with other forms of lending, especially the modern financial system. The popular assertion that the interest rate of usury lending is high and exploitative still persists in contemporary usury system especially when compared with the formal system of lending. However, the interest rate structure of usury lending tends to prevent any form ambiguity or contention in terms of the actual amount expected by the lender and the lendee. It also reinforces acceptable credit behaviour because when lendees repay as expected, the period of repayment for subsequent loan is elongated. This study observed that for usury lenders, the first interest is collected from the initial principal. In other words, the first interest on usury loan is deducted from the initial principal sum which means that the actual principal or amount collected by the lendee is reduced by this upfront interest collected by the usury lender. This may seem exploitative but for the lenders, there is justification for collecting the first interest upfront. The advance interest collection in the first month prevents double jeopardy whereby the lendee defaults on both the principal and interest sum at the same time.

At this point, it is important to note the repayment tenure of contemporary usury system. The period of loan repayment in indigenous usury lending is short tenured, ranging from one to six months. One year tenure loan is rare in usury system of credit but it can be made available to lendees with good credit history. Longer period of loan repayment tends to attract higher interest rate repayment because of the default risk tend to increase with the increase in repayment period. One of the interviewees has this to say about the linkage or connection between interest rate and tenure of loan repayment:

The lender would ask for the duration of loan repayment. The simple rule is this: the longer the tenure of the loan repayment, the more the interest that will be paid on such loans. Some lenders would ask the lendees for the

tenure of loan repayment if it is for a month, three months, six months or even one year. Therefore, a lendeer that is repaying the loan in just one week or one month for instance would pay less interest than someone who is repaying the loan after six months (IDI/Trader-Lendeer/21st July 2015).

This study confirms the rationality of the repayment structure to the extent that indigenous usury lenders have the capacity to match the lendees' source of repayment with the repayment period of the loan granted. Therefore, trader-lendeer would repay the loan based on the business or trading cycle while the formal worker lendeer tends to repay on monthly basis as soon as salary is paid. This enhances the rate of repayment because loans fall due when salaries or incomes are received by the lendees will be paid as and when due. The high interest rate charged by usury lenders is used to cover part of the cost of possible default on loans that has been advanced. The data above also shows that usury lenders can apply different interest rate to different lendees based on their evaluation of the risk and level of profitability of the lendeer's business.

The method or patterns of loan repayment may have received little scholarly attention partly because it is assumed that once a loan is taken from the moneylender, it has to be repaid either upon maturity or through the process of loan recovery. What has attracted scholars' attention is the existence of possible interlinkages between the lender and the borrower during the process of loan repayment. According to Soyibo (1997), one of the characteristics of traditional credit institutions or market is the existence of informal sector interlinkages between credit transactions and transactions in other markets. Nadan (2005), also noted that money lending can be an interlinked transaction, whereby a contract in the goods market was simultaneously a contract in the credit market. Put simply, the credit interlinkage is when merchant moneylenders provide credit to clients who would in turn sell their farm produce to the moneylenders as a form of repayment. Though not common in urban moneylending repayment modes, a variant of interlinkages between credit and commodity market also exist. One of our interviewees stated that lenders can also be involved in credit interlinkages as described in the following statement below:

When we (moneylenders) give loan to the cocoa farmer for example, we would collect the cocoa during the harvest period, weigh it, sell and collect the loan repayment for both principal and interest. We would then remove

our own money with interest and give the balance to the farmer. This is necessary because if you are not plain to the farmer he will not patronise you again in future (KII/Lender/10th December 2014).

In this variant of credit interlinkages, the lender supervises the sale of the product to ensure that repayment is met as the product of the client is the main source of repayment. Therefore, the moneylender needs to monitor the process of sale and collection of sales proceeds. This form of interlinkages also increases the reputation of both the lender and lendee which invariably enhances the possibility of future credit and trade transactions.

This study has identified three main structure of loan repayment in contemporary indigenous usury system for loan tenures that are more than one month. These are: the principal-reducing balance repayment structure, the flat-repayment-structure and the bulk-principal-repayment. The principal reducing balance repayment is when lendees repay part of principal and interest on a monthly basis. The implication is that the monthly interest paid by the lendee tends to reduce with each monthly principal repayment and this is the trend until the loan amount is fully liquidated. The flat rate repayment structure is when the lendee repays the same amount throughout the tenure of the loan which would include the principal and interest. The bulk or single principal repayment pattern is when the lendee repays just the interest on monthly basis with the aim of repaying the principal upon expiration of the loan tenure. Discussing the pattern of loan repayment in indigenous usury system, one of the formal worker lendees interviewed explained thus:

Repayment in local money lending can be on flat or reducing balance basis. It is reducing balance when you collect ₦200,000.00 and you repay ₦50,000.00 every month as principal and the 10% interest rate. This means that in month 1, you will pay 10% of ₦200,000.00 as interest plus the principal of ₦50,000.00; in month 2, you will pay 10% of ₦150,000.00 plus principal of ₦50,000.00; month 3 you will pay 10% of ₦100,000.00 plus monthly principal and the 4th month, you will pay 10% of ₦50,000.00 plus the last principal repayment. But for the flat repayment type, if you collect ₦20,000.00 for two months at 10% interest, you will have to pay ₦12,000.00 each month. In real terms, the choice of what to use as repayment pattern is left to the borrower to decide (IDI/Formal-Worker-Lendee/29th November, 2014).

Providing further clarification, a usury lender stated thus:

The business we finance is between six to 12 months maximum loan tenure. If we give you ₦100,000.00 for instance as loan, you have two options. Either you pay ₦10,000.00 interest every month and another ₦10,000.00 principal repayment, making ₦20,000.00 per month for 10 months or you pay ₦10,000.00 every month as interest and when the tenor expires, you will repay the principal sum in bulk (KII/Lender/7th February, 2015).

One of the usury lendees also touched on the interest rate issue and the option of bulk or one off repayment by stating that:

If you cannot pay the principal at the end of the month, you would pay the interest only and roll the principal over into another month. When you now have the financial capacity, you will repay the interest and the principal and the transaction comes to an end. Let me give an example of what I am saying. For instance, if you collect ₦10,000.00 as loan at 10 per cent or 20 per cent interest rate per month depending on the lender, at the end of the month, you would be expected to repay the principal and interest. This is if the loan has tenure of one month. But if you cannot afford the principal element of the loan for that month, you would just pay the lender the interest and wait for another month to see if things would be better so that you are able to repay the interest plus the principal at the same time. When this is possible, you would repay both principal and interest and this transaction ends and another one can start even with a higher loan size (IDI/Formal-Worker-Lendee/ 1st February 2015).

What is clear from the quotes above is that indigenous usury lenders have different repayment patterns that can fit into the lendees' ability to repay the loan within the context of the source of income that would be used to pay back the loan. Within the context of trader-lendee credit, repayment must take into consideration, the trading cycle of each trader. This very important point was made by a case study participant, Madam Suliati (not her real name), aged 50 years old. She sells rice in bags and has been doing this business for about 30 years. Madam Suliati has been accessing loans from moneylenders for about 10 years. According to Madam Suliati, she has a standby moneylender who is ready to provide the funds she needed for her business. She acknowledged the fact that there are lendees who collected loans from the moneylenders but defaulted in loan repayment. She attributed this to

lack of fear of God by usury lendees and inappropriate repayment plan. Her repayment plan, however, is restructured in line with the trading cycle of her business. Payments on her loan are made on weekly basis at a specific point and time. For her, the repayment is not always convenient but it allows her to repay the loan as sales proceeds come into the business. By this arrangement, she is able to keep to her agreement with the lender and thus, maintain a clean credit history with her lender. In other words, repayment plans in indigenous usury lending are rationally structured to enhance loan repayment by ensuring that the source of repayment aligns with the expected period of loan repayment.

The moneylenders recognise the fact that the source of repayment and the rational evaluation of the source of repayment determine whether a credit transaction would successfully complete its cycle by way of loan repayment or not. Ojo (2007) noted the practice of bulk repayment and source of repayment in pre-colonial and colonial Yoruba society where there were no time limits for debts repayment. Hence a debt could remain unpaid for years, and if the interest was regularly paid, payments of the principal might not be enforced, unless at the onset a certain date for complete liquidation was agreed upon, or the lender became insolvent.

This brings to the fore, the issue of monitoring as a mechanism for loan management in contemporary usury lending. As stated earlier in another section of this study, there are some lenders that tend to specialise in certain segments of the credit market while ignoring others. This is largely due to the experiences gathered in the course of doing the business of moneylending. In other words, contemporary usury lenders screen and monitor the businesses of their clients to ensure loan repayment. Apart from the process of economic exchange of values and interlinkages, lenders constantly visit their lendees through a stop-and-greet style. This casual greeting has its significance as it does not only assure the lenders that the lendees are in business, it also serves as a reminder of the loan obligations. One of our interviewees stated thus:

The lender normally goes round the borrowers to be sure of what the borrowers are doing with the loans. One may just see them going round and they would just say they are on casual visitation or they are just 'passing-by' but in essence, they are trying to monitor the borrowers' businesses. The lender wants to know if the borrowers are still in business and if is moving as planned (IDI/Formal-Worker-Lendee/13th April 2015).

Another lender-interviewee provides further explanation by stating thus:

For me, my first role as a lender is to always pray for my clients so that they would prosper such that I would be able to get my money back. I also employ the services of pastors to pray for the success of my clients so that they would not default on their loan repayment. My husband also visits their shops to see how they are doing and if your shop is empty we will then investigate what you did with the loan that was given to you (KII/Lender/8th April 2015)

Another usury lendeer pointed to the monitoring role performed by usury lenders by stating that:

The major roles in indigenous usury system belong to the lender who will have to make money available and also ensure that the borrowed fund is actually used by the trader for the right purpose. For instance, in my own case, my money lender was still here day before yesterday to check on me and ask how business was going and if there are issues that we needed to discuss (IDI/Trader-Lendeer/12th December 2014)

The process of monitoring loan disbursement and repayment through various means are attempts at ensuring that the lendees do not default when it is time for loan repayment. The monitoring mechanisms also ensure that the lenders become aware of any crisis that would adversely affect the loan repayment. The early warning signs enable the lender to alert the guarantor, investigate the crisis and possibly restructure the loan. Indigenous usury lendees have also created means of ensuring that loan repayments are observed as agreed with the lenders. Indigenous usury lendees engage the services of mobile bankers (popularly known as *alajo* in Yoruba) by instalmentally saving a specific amount which would be collected at a specific period to service the moneylender's loan as it falls due for repayment. The following comments reflected the views of discussants in one of the FGD sessions:

My own repayment is on the 25th of every month and I have a specific amount that I must pay. I have a local bank collector that I save a specific amount of money with such that when it is time to make repayment, I will collect my accumulated savings from the local mobile bank (*alajo*) and repay the moneylender because once you cannot pay on time, there would be crisis (FGD/Female-Trader-Lendees/ 6th June, 2015).

Further, usury lenders also encourage their lendees to make use of this system of saving as stated by a moneylender in this data:

I also have a mobile banker (*alajo*) who I do tell to go and meet my lendees to encourage them to cultivate the habit of saving towards loan repayment. The lendees would not know that I was the one who connected the *alajo* man to them. The lendees would then come to me and I will equally encourage them to make use of the mobile banker to guide against loan default (IDI/Usury Lender/18th June, 2015b).

The use of mobile bankers (also known as *alajo*) to accumulate savings for loan repayment shows the level of rationality involved in indigenous usury lending, particularly as it relates to loan repayment and the preservation of a good credit history that helps in securing future access to credit. The use of one form of informal or traditional financial institution to fund transaction in another informal institution is also part of contemporary usury system. This points to the fact that lendees can engage in more than one informal finance system. Scholars have pointed to the participation or involvement of lendees in both formal and informal financial institutions (Adera, 1995; Nadan, 2005). Further, loan recovery relies on intensive monitoring, and as lenders with experience, moneylenders have the advantage of having already invested in this specific capital.

The issue of default has remained part of the features of contemporary indigenous usury system. Soyibo (1996) asserted that new theories about rural credit markets in particular and informal credit market in general indicate that all lenders are confronted with problems arising from information asymmetries, because they are unable to ascertain *a priori* who among the borrowers has a high probability of default. This is because as loan disbursement and repayment occur at different periods, the conditions assumed before repayment begins, may have changed or are no longer obtainable. In our study, some lenders and lendees view default as a major challenge of usury lending. This usury lender reiterated this issue by stating that:

Moneylending has a lot of challenges especially in urban centres like Ibadan. Some would collect the loan and disappear or relocate from where they are to somewhere else. That is why we now insist that lendees should provide two guarantors who are government officials and would not have anywhere to run to (KII/Lender/15th June 2015).

One of the usury lendees interviewed equally stated thus:

Most lenders now complain of the high rate of unfaithfulness of some people (lendees) who would get their loan and run away or would even use the money for party. Consequently, these lendees would end up not being able to pay back the interest not to talk of the principal. That is, sometimes, lendees use loans for something personal and not the business intended and this normally do affect the loan repayment (KII/Lendees/5th April 2015).

In spite of the information advantage in the selection of lendees, usury lenders are also confronted with the problem of loan default. A usury lender during an in-depth interview further confirmed the existence of loan default in contemporary usury lending:

I have seen and experienced so many things in this business of moneylending. I have seen where people will borrow the money from me and just disappear. Many lendees that would pray, cry and beg before getting the loan would eventually become unfaithful by refusing to make loan repayment as agreed. Some of these defaulting lendees would deny that they are indebted to us. And I feel this is so because they know that we may not report them to the police. This is because when you report the police or the court, they would settle the case by letting the defaulting lendees repay in piece meal, based on their own terms and comfort (IDI/Lender/8th August 2014a).

Nadan (2005) identified two types of default in informal credit market which are strategic and involuntary default. Strategic default is a specific case of moral hazard in which a borrower is able to repay but refuses to do so. On the other hand, involuntary default refers to a situation in which a borrower is not able to pay and, therefore, does not do so. While strategic default may be very difficult to achieve in informal credit system such as indigenous usury system, involuntary default is common in this type of credit system. This can be observed in the comments by one of the lendees:

... If the loan is not that big, the lender can afford to give the borrower some more time to pay back. And at the discretion of the lender, the moneylender can decide to charge additional interest for the grace period or not (IDI/Trader-Lendees/5th November 2014).

The information available to the lender and the consequences of default may account for why strategic default is an uncommon feature of indigenous usury system. Involuntary default on the other hand is due to conditions that may be beyond the control of the lendee. That is, lendees' expectations in terms of revenue projection may suffer various setbacks that would affect the smooth running and repayment of the loan. One of the interviewees who is also a trader lendee noted an instance of involuntary loan default by stating that:

What we see as a challenge in usury credit is when we borrow money to buy cows (interviewee buys and sells cows) and we have a situation where some of the cows dead due to some diseases. In such case, we would have lost money but the moneylender will still request that we pay back as and when due. Hence, we sometimes find it difficult to pay back our debt on time but because we will have to go back to them for more loan, we still have to make sure that such funds are repaid sometimes with little penalty attached (IDI/Trader-lendee/4th November 2014)

Commenting on the issue of involuntary default, another trader lendee also shared his view in the following statement below:

When we collect the loan and business is not moving, we will still have to repay the loan. Tragedies can occur such as when someone is attacked by armed robbers and the bandits collect your money or rain destroys your shop. These are events that you do not really have control over but you will still be expected to pay the moneylender when repayment falls due (IDI/Trader-lendee/12th December, 2014).

The statement above shows that usury lendees may sometimes have challenges that are beyond their control and these can lead to loan default. This is why the harassment or intimidation of lendees due to non-repayment of loans is not the first approach in the process of recovery when there is default. This means that lenders do take certain remedial actions before finally using the various forms of sanctions that are inherent in the system. That is, lenders do explore the option of restructuring defaulting loans so that lendees can repay and avoid any form of harassment. Guirkinger (2006) observed that cases of default in informal credit lead to the restructuring of bad debt. The main source of variation is the amount of additional time that the borrower is granted to repay his or her debt and this depends on the lender's evaluation of the lendee's present reality. The fact that lenders are opened to discussions and restructuring of default loans was explicitly stated by one of our trader lendees who asserted that:

That is why there is a guarantor or set of guarantors who would have to step in when there is default. However, before it gets to this stage, the lender will first visit the lendee to find out why he or she has defaulted because they always want to have the correct information before taking any action. This is necessary because some lendees may have good reasons for default like if they were hospitalised or cannot open their shops for one reason or the other. The lenders normally do give the lendees some grace period because they would opine that the default situation was not a voluntary action (IDI/Trader-Lendee/20th January 2015).

Still on the restructuring of usury loans, another usury lendee stated:

The lender and the lendee can reschedule the payment of loan if the borrower has genuine reason for defaulting like when the lendee is sick and cannot come to shop to do business (IDI/Trader-Lendee/10th May, 2015).

One of the usury lenders also restated the same position that lenders in contemporary usury credit are disposed on restructuring of the loan when there are uncontrollable causes by stating that:

If the lendee falls sick and cannot leave the house to perform or carry out his or her business activities, there is nothing we can do because it is from the business that such lendee will repay the loan advanced. This is part of the risk of this our business. We would have to wait until the lendee is better and then would have to restructure the loan so that they can repay the loan (KII/ Lender/12th July, 2015).

What is obvious from the above statement is that usury lenders engage their lendees with the aim of ensuring that the loan is repaid and this include interacting with the lendees for possible loan restructuring. This can take the form of extension of loan tenure, suspension of repayment until the lendee is capable and they can also provide further loan if it would enable the lendee to re-start his or her business. Further, as shown in one of the quotes above, the evaluation of what to charge as additional interest is at the discretion of the lender. Guirking (2006) stated that informal lenders tend to freeze or stop interest rate when there is default such that no additional charge is taken when the lendee defaults. This case study interviewee also alluded to some of these restructuring measures by stating that:

It is God that will continue to help us. We sometimes give out loan and some of the lendees would not return the money again. Even some people we know would bring their siblings to request for assistance but these

lendees would still default. Most times, we are handicapped because even the person that we know may not even have the money to pay you. What I normally do is to discuss with the borrowers when there are challenges with loan repayments and if he or she needs more fund, we can give more money as loans. We also do give additional grace period so that the borrower can pay back (IDI/Lender/8th August 2014b).

One of the formal lendees interviewed also mentioned how his loan with the money lender was restructured due to the outbreak of a disease that affected his sales' projection. The lendelee stated that:

For instance, I collected money last year from a moneylender to print books for the students upon resumption but due to the *Ebola* outbreak, school resumption was shifted. Consequently, I could not sell the books that I printed. I approached the lender and explained my constraints to them and I was given a grace period to repay the loan (IDI/Formal-Worker-Lendelee/15th July 2015).

The reasons for the initial negotiation between lenders and lendees and possible restructuring of loan in contemporary usury are not far-fetched. First, the lender would want to maintain the image of a benevolent-helper not just to the defaulting lendelee but also to potential lendees. This is usually the case when the lendelee has overt and rational reasons to default. Second, this creates a good image that is aimed at attracting other lendees while also retaining the patronage of existing clients. Third, the lender also wants to maintain his or her client bases which are usually not large. Thus, the process of loan recovery does not start and ends with the use of coercion or other forms of sanctions as lenders tend to explore means of regularising loan defaults.

Another option available to the lender, when there is default that remained unpaid, is for the lender to discuss with the guarantor or source of referral to ensure that the lendelee takes steps that would lead to the repayment of the loan. The guarantor (also known as *Oniduro*) is expected to initiate actions that would make the lendees to repay the loan as agreed. In a situation where the lendees are employees of formal organisations, the lenders interact with the local hierarchy of such formal organisation. The lender makes use of the hierarchies within such organisation to pressurise the lendees to meet his or her obligations. This usury lendelee highlighted the point about putting pressure on guarantors in the following comments:

That is why the guarantor has an important role to play in the whole process of lending in indigenous usury system. This is because if there is a default, the lender would call the guarantor to warn the lendee to repay the loan or he or she (the guarantor or *Oniduro*) should be ready to repay the loan. Therefore, the guarantor would have to put pressure on the lendee to make sure he or she repays the loan as agreed (IDI/Trader-Lendee/15th October, 2014).

The guarantor becomes a pseudo-loan recovery agent because the liability of repayment would fall on the guarantor if the lendee is not pressurised to repay the loan. Loan default does not automatically lead to sanctions as evidence from this study has shown. Usury lenders and lendees can re-negotiate the terms of the initial loan agreement such that the loans are restructured to meet the present realities of the lendees. Moneylenders and their lendees are aware of the negative consequences of loan default and this is why loan repayment plans are important part of the process of usury lending.

Repayment plans are structured to fit into the identified peculiarity of each lendee such that repayment period are made to coincide with the cycle of income of the lendee. The system allows for the restructuring of loans when lendees are having difficulties in making repayment. The use of coercive recovery strategy is seen by the lender as the last option when other means of repairing the loan becomes ineffective. The usury lenders make use of their informal relationship with law enforcement officials to enforce repaying the loans from defaulting clients. This brings to the fore, the legality of the operations of indigenous usury system. Eja and Bassey (2011) analysed the laws guiding money lending in Nigeria¹³. According to Eja and Bassey, the Moneylenders Laws of Nigeria sufficiently protect the borrowers against the excessive tendencies of the lenders through the imposition of stringent regulations on the lenders. Thus, the Moneylending Ordinance of 1927 and the various states domesticated moneylending laws were designed to protect the lendees by regulating the activities of usury lenders. The laws, however, neglected the informal relations associated with this system of lending to the extent that both lenders and lendees engage in credit

¹³ The Moneylending Act of 1927 as amended makes several provisions that regulate the credit transactions in moneylending including what constitute moneylending, who can practice the profession, what are the processes and documentations required for registration and consummation of credit transactions, what categories of interest can be charged, the prescribed forms of collateral, what constitutes a credit dispute and the legal process of seeking redress, among others

transactions outside the formal prescriptions of the law. For the lendees, the law can at best be described as secondary when sourcing for means of financing pressing or urgent needs.

Falola (1993) also extensively discussed the legality of moneylending and what is actually obtainable in practice. The moneylending law made several provisions that are meant to protect the lendee from possible exploitative tendencies of the lenders. The law made provisions for several aspects of indigenous usury transactions. For instance, money lending transactions must be documented in writing and signed by parties to the contract. While no form was prescribed, loan documents must include some essential details such as the date of loan transaction; the principal amount and the rate of interest in percentage per annum. The loan document or form may also include the payable in respect of the loan or, where the interest is not expressed in terms of a rate per annum, the amount expected as interest on the loan must be stated (Eja and Bassey, 2011).

In an attempt to formalise an informal system, the law also provided that lenders should keep a bounded record of transactions and must issue a receipt for every transaction or payment. These obligations or responsibilities when not followed by the lender would render the transaction unenforceable in the court of law. This invariably means that the lendee does not owe lender any money because the law would not recognise such transaction as legal. The law guiding usury lending in Nigeria also placed a cap on the interest rate charged. It ranges from 7.5 per cent per annum for secured loans and 48 per cent per annum for unsecured loans at simple interest calculation. The law also prohibits upfront payment of interest rate by the borrower. While these and other provisions exist in the law books to guide moneylending transactions, indigenous usury lenders and their lendees often operate outside these provisions even in contemporary Yoruba society. This study discovered that there is lack of clarity regarding the legal status of moneylending especially among usury lendees. This also includes the total ignorance concerning the privileges and limitations of the system. Thus, the study identified three categories of lendees vis-a-vis the views on the legality of usury lending. They are: those who are of the perspective that the system is actually legalised, those who tend to have the feeling that they are not at least legal in practice and those who do not care about their legal status as long as the lenders have been able to meet their financial needs. Referring to the legality of usury lending, one of the trader lendees stated that:

I think there is government support and legal backing for moneylending. In fact, I think government is very happy that we have a group of people who would be helping traders by lending them money. You can imagine the level of crime that we would have had in the society if the local money lenders cannot provide fund which government and even banks cannot provide for us (IDI/Trader-Lendee/5th November, 2014)

Another lendee justified the legality of moneylending from the perspective of law enforcement officials by stating that:

I think there is government involvement and that they actually recognise this form of lending. Why I am saying this is because, whenever anybody defaults, the moneylenders use the police, a government agency to arrest the defaulter after which arrangement will be made to pay back the loan (IDI/Trader-Lendee/3rd June, 2014).

One of the lendees who stated that this system of lending is not legal asserted that:

I do not think that moneylending is legal in this part of the country. And I think maybe we are risking our lives because if we have problems with these moneylenders and we decide to approach the police, they might ask us why we did not patronise the bank that is recognised by law (KII/Lendee/5th April 2014).

However, for the moneylenders, the business is best practiced outside the prescription of the law establishing the system and to that extent; their business is best described as not having the backing of the law. One of the lenders stated that:

Because we are not licensed or legally authorised by government to do this business, we sometimes camouflage as car vendors or some other forms of business that is legal. But, we have people who know our real business such that they would inform others to come and patronise us by obtaining loans from us (KII/Lender/5th April 2014).

Another set of lendees are more interested in the accessibility of credit which the system provided than the legality of the business. This view is represented by this participant in an FGD session:

We do not really know if the moneylenders business is legal. We are only interested in the relationship of lending and paying back the loan as agreed. We are less concern about the legal position or status of moneylenders (IDI/Female-Trader-Lendee/18th June 2014).

The general indifferent or deliberate ignorance regarding the legal status of indigenous usury lending appears to enhance the informality of the system. However, while the legal provisions guiding indigenous usury lending may have favoured the lender, the actual practice of usury lending tends to favour the lenders who can use the lender's 'ignorance' or indifference to their advantage. Therefore, while usury lenders would maintain the informal process of lending associated with this system; modernisation has necessitated that certain documentations are put in place so as to have records of their various transactions. Such documents can also be used to establish the legal right of loan recovery even when the enforcement of these rights may not necessarily get to the law court. The loan documents including the loan forms and agreements become instruments that are used by the repayment enforcement agents of the lenders, that is, the real or fake lawyers employed and the police, to pressurise the defaulting lender and the guarantor to make repayment.

The relative sophistication of contemporary indigenous usury system is best appreciated at the level of the repayment structure of the system. Interest rates may still be relatively stable and high but the justification for the seemingly high rate must be placed within the context of usury lending. This is with reference to how a rational choice actor like a lender would evaluate the cost and benefits of accessing indigenous usury credit. Usury lenders still default on their loans in contemporary indigenous usury system even though such phenomenon is not that wide spread as we have in the formal finance sector. The process of loan recovery starts with an objective evaluation of the cause of default with a view to determining whether it is voluntary or not. Where default is not voluntary, steps are taken to re-strategise through a process of loan restructuring but when this fails, the guarantor is then called in to either enforce repayment agreement with the lender or take up the responsibility of loan repayment all together.

4.6 Default Sanctions in Contemporary Usury System

Usury lenders have structured means of encouraging acceptable behaviours and discouraging unacceptable behaviours in credit relations. Be that as it may, default on loans still occurs in contemporary usury credit. It is not uncommon for lenders to become insolvent and thus renege on loan repayment (Ojo, 2007). When defaulting loans cannot be repaid, lenders explore various methods of loan recovery. Soyibo (1996) noted that contemporary lenders confiscate collateral assets of loan defaulters when personal threat fails. Soyibo further stated that moneylenders use 'personal' but unorthodox methods to forestall repayment default while

more formal and 'impersonal' approaches such as legal suits, police action, and the like, are rarely used. The confiscation of lendees' properties or assets was also heightened by a trader-lendee who stated thus:

Well, nobody would pray not to pay back the moneylender's loan because it is a form of help. However, when such happens, the lender can seize the property or properties of the borrower that has enough value to cover the loan (IDI/Trader-Lendee/5th November 2014).

A trader-interviewee affirms this position further:

Once there is default, the moneylender would call the borrower to find out why payments were not made and if the situation did not improve, they will then call the guarantors. It is the duty of the guarantors to warn the borrower and arrange the means of getting the loan repaid because the consequences are not always palatable (IDI/Trader-Lendee/16th October, 2014).

In other words, the seemingly harsh and ruthless recovery method of usury lenders is only employed after the lendee and possibly the guarantor have failed to take necessary action to ensure that the loan is repaid. The recovery of bad loans through coercion is actually the climax of a structured and methodical recovery process. Several informal sanctions are strategically used to enforce repayment and equally prevent strategic default. The careful usage of various sanctions is meant to prevent a situation where the lender loses clients who genuinely cannot repay due to changes in their material conditions which may be temporal. Macleod (2007) explained the intention and effect of informal enforcement of sanction especially between two or more consenting parties. Under informal enforcement, the offended party notices that a breach has occurred and then carries out actions that harm the reputation of the breaching party. This has the benefit of reducing enforcement costs because punishment can be inflicted immediately. Hence, the evolution of successful informal agreements depends on a number of interlocking elements, including a mutual understanding of the events that determine contract breach, the actions that the injured party may take in response to the perceived breach, and, finally, the effect of the offended party's actions on the breaching party's reputation. Informal confiscation of collateral assets is still being practiced in contemporary usury system. A lendee provided details of how confiscation of goods or assets is a sanction in contemporary usury by stating that:

When the lendee cannot make payment at the end of the month or when repayment is due, the lender will come and make enquiries as to why repayment has not been made. If the reason or reasons are tenable, they will agree on the sum to be paid at the coming month end or at a specific point in time. When you are to pay back, you are expected to pay back as and when due. If the lendee defaults, the lender will give him or her one week but after the second week and the lendee still cannot repay, the lender will come to the shop of the lendee and pack all the goods and may even arrest the lendee or the guarantor until repayment is done (IDI/Trader-Lendee/14th June, 2014).

Corroborating this position, a usury lender stated that:

When a client or lendee defaults, we will first listen to why he defaulted on either the interest or principal or both and look at how such issues can be resolved. However, when he cannot be located or repayment cannot be made, we will lodge a complaint with the police about the default and we will exercise our right as provided for in the signed agreement, which is to sell off the physical assets that may have been pledged as security. We will also arrest the individual that stood as a guarantor for the loan (KII/Lender/2nd February 2015).

The use of coercive method of loan recovery remains an integral part of contemporary usury lending. For the lenders, it is an effective means of ensuring that clients who default pay back the loans. It also prevents other clients from defaulting on their loan obligations. But for some of the lendees, this method brings social embarrassment and shame that may be very difficult to repair. At this point, it is imperative to identify the specific forms of sanctions that are still being used by usury lending when there is default or bad loans. Of course, the first and most direct form of sanction is the exclusion of such lendee from future credit opportunities (Soyibo, 1996). This invariably serves to de-motivate default behaviours. Money lenders also use public or social harassment to pressurise the lendee or guarantor or kins of the lendee and even friends to come to the aid of the defaulting lendee. The social harassment can take different forms including making public the fact that the lendee has defaulted both at home and in the market or office. There is also the confiscation and lock up of the lendee's shop or goods. The lender can also make use of law enforcement officials to arrest the lendees. The statement of this usury lender affirms the use of harsh and coercive methods of loan recovery method thus:

My own experience is a very sad one because I was locked up in their toilet for some hours. The embarrassment from the market to their office was so great (sobbing). If not for this discussion, I do not like to remember that sad moment in my life. In fact, when I could not pay, I use to hide from the lender by sending my child to shop. I know that they were also monitoring my movement. One day they came to pick my child and I had to follow them because I do not want them to lock up my child in that their toilet so that she will not contact any disease. That is why it is called a loan that you collect and cannot sleep (translated in Yoruba language as *Owo ala je ma sun*) (FGD/Female-Trader-Lendee/6th June 2014a).

Another participant in an FGD session also stated that:

The embarrassment can be so great especially when it is within the market. And even when they visit you at home, the whole street would know that you borrowed money from the user and you cannot pay back. It has a way of affecting your image among your people negatively (FGD/Female-Trader-Lendee/6th June 2014b).

The social harassment is also tailored towards showcasing the lendee as an unreliable individual within the immediate community where the lendee lives or works. This can effectively and negatively affect the reputation of such lendee both at work and at home. Social embarrassment is also effective in recoverings loans from defaulting lendees who work in the formal sector. In fact, some lenders are very careful in the use of this strategy in the formal sector because it could ultimately lead to the disengagement of such lendee from his or her employment; and this would affect loan repayment. One of the formal-worker lendees made this point very clear by stating that:

The lawyer would write and invite the defaulting lendee to his or her office. The lawyer can also visit the lendee that has defaulted. Two other people would come with the lawyer and they will sit down with you and arrange for when the loan will be repaid. It does not really involve using the police because it is not wise to use police to arrest the person in the office except if you want to sack the lendee from work. But because the lendee is mindful of the implication on his reputation especially at work, he or she would arrange to either visit the lender or lawyer so as to avoid negative publicity (IDI/Formal-Worker-Lendee/2nd February 2016)

The use of law enforcement official as a means of sanction and loan recovery was mentioned by several lendees and lenders in the course of this study. What is, however, clear

is that while some of the law enforcers intervention may come in form of dispute resolution, some of the usury lenders make use of their informal relations with the law enforcement officials to intimidate their debtors. The lenders use this connection to their advantage when any lendee refuses to make repayment after prior restructuring or appeals have failed. The law enforcement officers can for instance, arrest and lockup the defaulting lendee until the loan is paid or an agreement is reached on the modalities for payment of the loan. One of the usury lenders described the use of police to enforce or harass defaulters further:

Most times, what I do is that after giving the loan and the lendees cannot repay as agreed, I have a neighbour who is a police man. I normally use him to *shakara* the lendees so that they would think that our profession is legalised whereas it is not legalised. One of the lendees could not pay back the loan and I had to use the police to harass the person. In fact, I pitied the man because the police man asked him to go under the table in their office and I later had to beg the policeman to release him after many pleas from his family members (IDI/Lender/5th June 2015).

Another lender has this to say on the use of law enforcement officials like the police in loan recovery thus:

The lendee has signed for the loan and so he or she must pay me my money. I would go to police to enforce the signed loan agreement documents. We normally do not go to court and neither do we take laws into our own hands. I will first go and meet him and talk to him or her and if the fault is not that of the lendee, I will reschedule the loan though it comes with additional interest. After that rescheduling and the lendee can still not repay the loan, we would take him to the police and he will have to pay. There is no way he will not bring out the money because there is a Yoruba proverb which says: The child that knows how to wash his or her hand will eat with elders (*omo to ba mowo we aba agba jeun*) (IDI/Lender/4th October 2014).

While the use of diabolic powers or charms was not explicitly mentioned as sanctions for loan repayment, a usury lender acknowledged the use of supernatural sanctions as only a form of threat on defaulters. This usury lender admitted to the use of supernatural power (known by the Yoruba as *Ogun*) to harass loan defaulters and anybody who tries to intervene with the aim of subverting efforts at loan recovery by stating that:

They will beg and sometimes, I will lock their shop and equally report them to the landlord of the shop. I will harass and even threaten them that if anybody dare attempt to open the lock, I will go spiritual with the person and you know that once they hear such threat, people will naturally stay away (IDI/Lender/2nd March, 2015).

The confiscation of defaulters' assets and arrest of the lendees or guarantors can be described as the modern version of a pre-colonial loan recovery strategy. Ojo (2007) articulated this practice in his study of seizure as loan recovery strategy in pre-colonial Yoruba society. During the nineteenth century, Yoruba creditors resorted to a variety of means for collecting debts. At one extreme, a lender could threaten to kill himself/herself on the property of the debtor. Should the threat be carried out, the deceased, in local parlance, would *ku si orun onigbese* (die on the neck of the debtor). Under the Yoruba legal tradition, the debtor was considered to have forced the lender into a humiliating situation that required him or her to commit suicide. Such a situation was sufficient to have the debtor charged with involuntary manslaughter or even first degree murder, punishable by death. At other times, the entire household of the debtor could be sold into slavery. The most punitive, but not uncommon, form of credit enforcement was *emu*, or seizure for debt, also known as Panyarring. *Emu* empowered a creditor or an aggrieved person to hold a community collectively responsible for the liabilities of one of its members until the debt was paid. If payment was not made, victims of debt seizure or seized properties could be sold into slavery to recover the loan. Panyarring or the "attachment" of the property of debtors allowed the seizure of property and people that were connected to bad debts and the goods and people were held until debts were paid.

Usury lenders can harass the guarantor if he or she also refuses to take up the responsibility of loan repayment or enforcement. The strategy is to put additional pressure on the guarantor who would attract the sympathy of the public and that of the lendees on the ground that the act of standing as a surety is interpreted as another form of assistance to the lendees and the lendees are supposed to reciprocate by making repayment. One of our trader-lendees interviewed in this study emphasised the coercive loan recovery strategy of the lenders by stating thus:

For some money lenders, they would go to the house of the guarantor or lendeer and shout like town criers informing everybody that the lendeer or the guarantor has collected loan without repayment. For other moneylenders, especially when the loan is big, they would use the police to arrest the lendeer and possibly the guarantor (*Oniduro*). They can lock them up till they get the money to repay the loan or arrange how they will repay the loan in the police station (IDI/Trader-Lendeer/21st July, 2015).

Another lendeer confirmed that part of the strategy of recovery may include the arrest of the surety for the loan:

When a lendeer defaults, the lender may come with police and the lendeer would be arrested and locked up till arrangement is made to repay his loan. However, in some cases, the lender may not even arrest the lendeer. All they would do is to look for the guarantor, arrest him and lock him up in the police cell. And you know once the surety has been arrested is that, there would be no rest for the borrower since the guarantor has been arrested (IDI/Trader-Lendeer/4th June 2014).

Thus, the system essentially provides two options for the guarantor which is to either voluntarily take up the responsibility of repayment after the loan may have been restructured or the surety is forced to do so through arrest and intimidation. The statement above shows that contemporary usury lenders make use of coercion for loan repayment. While some of the old recovery strategies such as stopping the burial of an indebted lendeer and sending a leper to the house of a defaulter's house may have gone into extinction, methods designed to socially and continuously embarrass the defaulters are still been employed in contemporary usury lending. However, debtors can also take pro-active steps to either forestall or limit the degree of embarrassment from usury lenders. A usury lender observed this particular action by stating thus:

Some of the lendeers have collected the loan for over a year and they have refused to pay back. Some would even inform or report themselves to the police particularly at *Iyaganku* that they are indebted to me. The police will then invite us and we will all state sides of the story. The lendeer would normally admit to the Police that they have defaulted but they would also claim that they do not have the money needed to repay the loan. The Police will then draw up another repayment plan and we will agree on new dates. The police would even request that we should reduce the interest rate from 10% to 5% so that the debtor can pay (KII/Lender/4th August, 2014).

Therefore, the use of law enforcement officials is not only to the benefit of the usury lenders as usury lendees also make use of the law enforcement officials to reschedule their loans, prevent harassment and even reduce the rate of interest. The resort to the law court in case of default is not a common feature of usury lending. The lenders tend to avoid court cases on loans. This is largely due to the general perception that the court processes may take a long time, coupled with the fact that existing laws are largely against the lenders. The use of coercion can also be taken to the extreme as indicated by this usury lender who stated thus:

If a lendeer defaults and refuse to pay, we have a group of boys that we employ to trace the car and confiscate it. They will bring the car to our office and before you can collect the car again, you will have to clear your overdue payments and also pay ₦5,000.00 as fee to the group of boys that assist in confiscating the car. This group of boys have the job of looking for loan defaulters and they would deal with them to ensure that they pay back. This does not involve taking the loan defaulter to the police at all but after thorough beating has been meted out to the lendeer such that it would even land the lendeer in the hospital, the lendeer would still have to repay the loan (KII/Lender/10th December 2014).

This 'group of boys' constitutes the recovery team of the lender and can be used to either warn the defaulting lendeer of the danger of none-repayment and when there is default, assets belonging to the lendeer are confiscated by the 'group of boys' who are often know as 'area boys'. This extreme use of coercion may result in inflicting bodily injury on the defaulter and equally instils some level of fear such that repayment would be made. For the lender, this is largely an informal credit system and thus, the option of using the courts to get repayment enforcement would not yield the required result. Even when the service of law enforcement official is employed either by the lendees or the lenders, the ultimate goal is to get the loan paid without resulting to the legal option which would end in the court of law. This strategy is also employed to sensitise and indirectly requests the intervention of the relatives, friends or colleagues of the loan defaulters in order to secure loan repayment. This study, however, discovered that usury lenders coercive strategy is the last option after the process of negotiations and loan restructuring may have been unsuccessful. It should, however, be noted that the various measures used by moneylenders to prevent default are not necessarily negative sanctions. The system also has inherent positive sanctions that are meant to encourage appropriate credit behaviour. These measures include progressive lending, quick access and 'privilege' to stand as either guarantor or source of referral or both. According to

Okurut *et al* (2005) informal lenders use various measures to limit loan default. These are repayment incentives such as pardoning part of the final interest payment if all repayments are received on time; speeding-up subsequent loan approvals; and increasing borrowers' credit limits if repayments are made on time. Further, lenders tend to reduce default especially in the long run, by confining lending to a limited cycle of honest borrowers (Chipeta and Mkandawire, 1992).

Moneylenders have default sanctions that are applicable to defaulters in contemporary society. These sanctions serve dual purposes in the sense that they are employed to force loan repayment while also serving as a form of deterrent to others. There are social, moral and economic implications of default sanctions in contemporary usury system. Default sanctions negatively affect the lendees' credit history and can lead to credit exclusion. The social embarrassment as a form of default sanction has relational and economic implications because lendees can suffer reputational damage within their community. Reputational damage to a large extent can affect social relations and in the case of trader or formal-worker lendees, it can affect interactions with social and economic consequences.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The establishment of formal financial institutions has created opportunities and contradictions especially in the organisation of credit and loans in African societies (Falola, 1993). The requirements and limitations of formal financial institutions have led to the exclusion of a large segment of the population who had to fall back on the traditional forms of credit to meet their investment and non-investment needs. Traditional financial institutions such as *esusu*, *ajo* and *owoele* had to undergo various forms of adjustment and modification in order to cope with the complexities associated with modern societies.

Contemporary indigenous usury system had to cope or adapt to the large, heterogenous and weak traditional mechanisms for sanction and control that are typical of urban societies. The structure of indigenous usury system has made it possible for the system to survive the modernisation of the credit and loan system in most developing countries. The system has endured overtime by addressing the three core issues that have limited the growth of formal financial systems especially among the low income and informal segment of the society. These are the challenges of credit information, collateral for loan and the enforcement of loan repayment. The popular image of indigenous usury system as exploitative and oppressive especially as it relates interest rate and loan recovery strategy, has remained prominent even in contemporary financial credit system. However, the experiences of contemporary usury lenders and lendees tend to suggest the existence of a dual image of the system. The negative image exists concurrently with an emerging positive image of indigenous usury system. The positive image has been propelled by a combination of various factors including the rationally subjective and contextual interpretation of indigenous usury system as a form of benevolent-assistance (positive image may have contributed to the sustenance of the system) in the midst of widely perceived exploitative and ruthless image of the system.

The dual interpretations of indigenous usury lending as a form of benevolence-assistance and the divine mandate to lend tend to create a sense of obligation and responsibility on the part of the lendeer and/or the guarantor to honour the terms and

agreement of usury loans. While lenders make it a point of duty to re-emphasise the system's help interpretation, their lendees have also internalised the understanding with an interpretative meaning that the system is benevolent despite its exploitative and punitive dimensions. This is rationalised on the ground that the system is perhaps the only source of financing that has been able to address their financial needs through a relatively easy and timely process. Thus, lendees would tend to associate their success with the intervention of usury lenders while equally downplaying the exploitative tendencies and the perceived ruthless loan recovery strategies of the system.

Access to credit is relatively quick and easy in contemporary usury system due to the de-formalisation of the credit process. This is a situation whereby the lender is able to relate with the lendeer based on the existing social relations with either the lendeer or the source of referral of the lendeer. Priority is, therefore, given to the positive credit history or reliability of the lendeer or the source of referral than documentations which are typical of formal financial systems. This, however, does not imply that there are no documentations in indigenous usury credit process but such documentations are simple, minimal and unambiguous in terms of the expectations of all the parties involved in the credit process. Social relations is thus based on the reputational-trust of the alternative source of collateral- the guarantor (also known as *oniduro*) or the source of referral. This is linked with the de-securitisation of the collateral required for credit facilities in indigenous usury system. This means that usury lenders tend to place more emphasis on guarantee or surety as the most acceptable form of security for loans. Usury lenders place less value on tangible forms of security because of the difficulties encountered in disposing such assets when there is default. Usury lenders also encounter difficulties in validating the authenticity of such tangible security.

The value of reputational trust of the alternative collateral or the source of referral is at the heart of the value system guiding indigenous usury lending. This is the reputation that has been built over time and this creates a credit history that ensures repayment and reduces the risk of default on loan obligations. Lendees or guarantors who have stock of trusted reputation could use it to access more credit, increase loan size through progressive lending, refer other lendees to the usury lenders and also stand as guarantor for loans. In other words, lendees trust is held in high esteem in usury lending and such reliability is rewarded with a

range of privileges and opportunities including increase in loan size, repetitive and progressive lending and mutual guarantee system, among others.

The social relations of indigenous usury system is connected to the structure of networking within the system. It is the structure of this network that enables the system to acquire credible credit information, accept guarantee as a reliable form of security and enforce loan repayment. The structure of networking in contemporary usury enables both the lenders and lendees to gather credit information which would influence the choice of lender that the lendeer would approach and equally determine whether the lender would advance the loan or not. This is embedded in the entrenched referral structure of indigenous usury lending. In rural money lending, there is information advantage because the moneylender resides within the community and they have adequate knowledge regarding the credit worthiness of their clients (Gine, 2011). However, for urban moneylenders, the referral system is very important in accessing credit information. This is due to the fact that urban centers have large population that is essentially heterogeneous. The nature of interaction among usury lenders is however limited to cooperation when two or more lenders have given loans to the same lendeer and the referral of lendeer from one lender to another when there is shortage of capital to lend. Lenders also approach one another for additional capital for onward lending to lendees in what can be called *back-to-back form of lending*. However, this type of lending is limited to usury lenders who have a working and enduring relationship.

Indigenous usury lenders finance both investment and non-investment or social needs of their clients. However, users do not provide loans for these purposes without the rational assessment of the credit risk and the chances of loan repayment. For investment or productive ventures, usury lenders easily disposed to providing loans are used to finance existing line of lendees' businesses. The rationale behind this strategy is to ensure that the lendeer has relatively established expertise in the business to be financed. The lendeer is expected to utilise the loan based on his or her knowledge of the business and this translates into a higher chance that such loan would be repaid as agreed. This significantly reduces the risk associated with the trial and error possibilities inherent in the start and operations of new businesses.

One of the reasons for the continued patronage of usury lenders is their positive disposition towards lending to finance social needs. These non-investment needs such as payment of school fees, hospital expenses, burial and naming ceremony rites, among others do not have the direct capacity to repay the loan. What usury lenders essentially do is to identify the sources of loan repayment that is independent of these social needs. It is the reliability of the source of loan repayment that determines whether the lender would advance the loan or not. Non-investment loans are usually advanced to usury lendees who are employees in formal organisations and have the reputation for prompt payment of loans advanced with their salaries. Non investment purpose loans are also given to lendees whose guarantors work in such formal organisations. Usury lenders also provide loans to lendees who work in organisations, where the lenders could enforce repayment either by engaging decision makers within such organisations or by relying on the strong sanction policies of such organisations.

The rate of interest charged in contemporary usury system still is relatively expensive compared with the modern financial system of lending. This perhaps reflects the high risk inherent within the system. Interest rate on loans is calculated on monthly basis as a percentage of the principal value. When subjected to the simple interest calculation, it can translate to over 100 percent per annum. Eboh (2000) contended that the rationale for high interest rate in informal lending is both complex and multifarious. While informal loans has been labelled as expensive and exploitative, the argument for its justification has been advanced especially by the lenders who claimed that their form of interest calculation helps to prevent any form of ambiguity in the amount expected from the lendees at any point in time. The high interest rate is also a reflection of the high risk associated with repayment of loans advanced as well as the relative complexity of accessing alternative credit loan from the formal financial organisations. This study discovers that the purpose of the loan in the subjective rationality of the lendees tends to out-weigh the rate charged especially at the time of sourcing for the loan in order to meet such needs. Therefore, the rate of interest may not be high for the lendees' needs when compared with the social cost of not meeting the required needs, especially when it may be difficult to monetise such cost.

There are essentially three forms of loan repayment structure and their application depends on the peculiarities of the source of repayment for the loan. The structure of loan

repayment includes the principal-reducing balance repayment, the flat-amount repayment and the bulk-principal repayment structure. These structures of loan repayment also make provision for the re-structuring of loans that cannot be genuinely repaid by the lendees. This is when the loan default is involuntary. The guarantor in usury lending plays a prominent role in ensuring that loan repayments are observed and where there are challenges of repayment, the surety is expected to step in, to either seek for the re-structuring of the loan to make repayment possible or take over the repayment of the loan when the lendees cannot repay the loan. However, where repayment becomes almost impossible, contemporary usury lenders make use of strategies that are meant to harass, humiliate and intimidate the lendees or guarantor to submission. Usury lenders could also employ the services of law enforcement officials in realising their aim of loan recovery. This is possible because usury lenders also have informal relation with law enforcement officials; they make use of this relation to their advantage. This is one of the reasons why most lendees may be of the view that the lenders activities are backed by law. However, what the study discovers that usury lenders prefer to operate informally outside the laws establishing their business because the provisions in the law cannot sustain their existence.

In terms of contribution to knowledge, this study has discovered that indigenous usury system has developed a *vestehen* value among both lenders and lendees in contemporary Yoruba societies. This is made possible with the benevolence interpretation attached to the system despite its popularly perceived exploitative and punitive tendencies. This study has also shown that the activities of users are not limited to rural areas as most studies, both historical and contemporary, have focused on their activities within the context of rural social relations. Indigenous usury lenders have continued to exist even in urban societies as they have evolved strategies to navigate the complexities and dynamics of urban life.

5.2 Conclusion

In conclusion, access to credit would continue to remain in the front burner of development discourse in most developing countries. The establishment of formal financial institutions has created opportunities and contradictions, especially in the access to credit and loans in urban African societies. The requirements and limitations of formal financial institutions have led to the exclusion of a large segment of the population, particularly the low income individuals, who had to fall back on the traditional forms of credit to meet their

investment and non-investment needs. Traditional financial institutions such as indigenous usury system (*owoele*) have evolved overtime such that it can cope with the complexities associated with modern societies and its financial demands.

Contemporary indigenous usury system has continued to exist because of its ability to address some core issues that have limited the acceptability and growth penetration of formal financial systems among the low income and informal segment of the society. These core issues include the challenges of credit information, collateral for loan and the enforcement of loan repayment. The combined interpretation of indigenous usury lending as a form of benevolence-assistance and the divine mandate to help through lending formed the bases for rationalising their continued existence. Thus, lendees would associate their success in business and at the social milieu to the intervention of usury lenders. Therefore, while the sentiment that indigenous usury lenders are callous, wicked and exploitative may still persist, contemporary lenders and lendees tend to share another sentiment that the system has been helpful in providing funds to finance the productive and social needs of the lendees. The benevolent-assistance image of indigenous usury system as projected by the lendees and lenders has led to an emergence of positive image which tends to de-emphasise the exploitative rate of interest and the ruthless strategy of loan recovery of the system. This forms part of the basis for the continued existence of indigenous usury system.

Apart from the benevolent-help perception of the system, there are also inherent structures that have been designed to ease access and enforce repayment. Access to credit is relatively quick and easy due to the de-formalisation and de-collateralisation of the credit process. In addition, indigenous usury system also thrives on a networking structure that enables both the lender and lendees to secure credit information, identify clients, process loans for screened lendees and secure loan repayment. With the personalisation of collateral as the most acceptable form of security, indigenous usury lenders are able to secure loan repayment. Further, while defaults still exist in contemporary usury system, this is limited due largely to the sanction mechanisms that are usually employed. These include goods and property seizure, public harassment of defaulters and sureties, use of law enforcement agents and exclusion from future access to credit. The social and economic implications of these informal sanctions de-motivate either voluntary or strategic forms of default. Though it is generally viewed as a traditional form of finance, indigenous usury system has a rational

process and structure that ensure that loans are given to lendees who would repay at the agreed period.

5.3 Recommendations

In view of the possible exploitative and punitive aspects of indigenous usury system, this study recommends the creation of mechanisms and institutions that would regulate the credit transactions within the indigenous usury system. This would create a widely acceptable sense of fairness in usury transaction, increase confidence and attract more lendees into the system. This can be done by setting up an agency that would monitor informal credit transactions and enforce rules that ensure that parties to any transaction adhere to lay down agreement and procedures. There is also the need to encourage informal or local authorities like those within the traditional market to be actively involved in moneylending transactions to prevent potential exploitation.

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APPENDIX I

In-depth Interview/Key Informant Interview and Focus Group Discussion Guide for Indigenous usury lenders and lendees

Introduction: Self introduction, name and affiliation

Purpose of Interview: The purpose of the interview is to gather contemporary data on indigenous usury system as an informal microfinance mechanism. We are interested in knowing your views and sharing your experience about indigenous usury system. It will be appreciated if we could spend some time together to discuss this issue.

Interview Begins

1. Relevance of indigenous usury system and contemporary informal finance

Probe for:

- A. What is indigenous usury system?
- B. How relevant is indigenous usury system as a form of informal microfinance?
- C. How easily accessible is indigenous usury system in contemporary Yoruba society (identifying lenders, time frame and loan requirements)?
- D. Any positive or negative impact on business finance success (Give specific examples)?
- E. Why has indigenous usury system remained relevant overtime as a system of micro finance?
- F. Are there challenges confronting indigenous usury system (kindly mention specific instances)?
- G. What is the range of loans that could be accessed through indigenous usury system (state the range in terms of the amount of the loans)?

2. Social relations of indigenous usury system

Probe for:

- A. What are the norms and values guiding social relations of indigenous usury system?
- B. The belief system within the context of indigenous usury practice?
- C. Description of the process/procedures of lending in indigenous usury system?
- D. How are loans collateralised or guaranteed in indigenous usury system?
- E. Who are the major actors in the system?
- F. What are the roles and obligations of various the actors identified in the process of lending?

3. Social networking among indigenous usury lenders

Probe for:

- A. Is there social networking among indigenous usury lenders?
- B. Whether an association of indigenous usury lenders exist?
- C. If yes, kindly describe their mode of operation?
- D. Whether the association is formally recognised?
- E. If no, are there informal means of identifying indigenous usury lenders (Give specific examples)?
- F. How do indigenous usury lenders interact with one another (kindly provide specific examples)?
- G. A description of the referral system in indigenous usury system?
- H. The checks and balances (control system) of lending as defined by indigenous usury lenders?

4. Intra-networking among indigenous usury lendees

Probe for:

- A. Whether indigenous usury lendees intra-connect/network to access finance from lenders (Give specific examples)?
- B. What sorts of intra-networking or intra-connection exist among indigenous usury lendees?
- C. Is there any association of lendees (whether formal or informal)?
- D. If they exist, how does the association operate?
- E. Do lendees have some sort of representative to protect their interest in their relationship with lenders (give specific examples)?

5. Ventures financed by indigenous usury lenders

Probe for:

- A. Do lenders advise on ventures that lendees will invest in?
- B. If they do, why?
- C. If they don't, why?
- D. What kind of ventures do lenders support and why?
- E. Are lenders direct stakeholders in the day-to-day running of the ventures (give specific examples)?

6. Repayment structure of indigenous usury system

Probe for:

- A. How are loan repayments structured in indigenous usury lending (consider the tenure, frequency and pricing)?
- B. What determines the structure of loan repayments?
- C. What are the mechanisms used by lenders to ensure loan repayment?
- D. What are the roles of different actors of indigenous usury system in case of loan default (kindly specify with examples)?

- E. What are the remedial options available to lenders and lendees in case of default?
- F. What are the sanctions associated with loan default?
- G. Is there any kind of informal ombudsman that could address contentious issues between lenders and lendees?

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APPENDIX II

Case Study (CS) Guide for Indigenous Usury Lenders and Lendees

Introduction: Self introduction, name and affiliation

Purpose of Interview: The purpose of the interview is to gather contemporary data on indigenous usury system as an informal microfinance mechanism. We are interested in knowing your views and sharing your experience about indigenous usury system. It will be appreciated if we could spend some time together to discuss this issue.

Interview Begins

Section A

Probe for:

- A. A brief bio-data of lenders or lendees (specific reference to age, citizenship details, educational qualifications, family background, marital and parental details, religious background and other relevant information)?
- B. How long have the lenders or lendees been involved in indigenous usury system?
- C. How were lenders or lendees introduced to indigenous usury lending?
- D. Discuss the personal gains and losses experienced by an indigenous usury lender or lendee?
- E. The general experience of the lenders/lendees overtime?

Section B

1. Relevance of indigenous usury system and contemporary informal finance

Probe for:

- A. What is indigenous usury system?
- B. How relevant is indigenous usury system as a form of informal microfinance?
- C. How easily accessible is indigenous usury system in contemporary Yoruba society (identifying lenders, time frame and loan requirements)?
- D. Any positive or negative impact on business finance success (Give specific examples)?
- E. Why has indigenous usury system remained relevant overtime as a system of micro finance?

- F. Are there challenges confronting indigenous usury system (kindly mention specific instances)?
- G. What is the range of loans that could be accessed through indigenous usury system (state the range in terms of the amount of the loans)?

2. Social relations of indigenous usury system

Probe for:

- A. What are the norms and values guiding social relations of indigenous usury system?
- B. The belief system within the context of indigenous usury practice?
- C. Description of the process/procedures of lending in indigenous usury system?
- D. How are loans collateralised or guaranteed in indigenous usury system?
- E. Who are the major actors in the system?
- F. What are the roles and obligations of various the actors identified in the process of lending?

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Probe for:

- A. Is there social networking among indigenous usury lenders?
- B. Whether an association of indigenous usury lenders exist?
- C. If yes, kindly describe their mode of operation?
- D. Whether the association is formally recognised?
- E. If no, are there informal means of identifying indigenous usury lenders (Give specific examples)?
- F. How do indigenous usury lenders interact with one another (kindly provide specific examples)?
- G. A description of the referral system in indigenous usury system?
- H. The checks and balances (control system) of lending as defined by indigenous usury lenders?

4. Intra-networking among indigenous usury lendees

Probe for:

- A. Whether indigenous usury lendees intra-connect/network to access finance from lenders (Give specific examples)?
- B. What sorts of intra-networking or intra-connection exist among indigenous usury lendees?
- C. Is there any association of lendees (whether formal or informal)?
- D. If they exist, how does the association operate?
- E. Do lendees have some sort of representative to protect their interest in their relationship with lenders (give specific examples)?

5. Ventures financed by indigenous usury lenders

Probe for:

- A. Do lenders advise on ventures that lendees will invest in?
- B. If they do, why?
- C. If they don't, why?
- D. What kind of ventures do lenders support and why?
- E. Are lenders direct stakeholders in the day-to-day running of the ventures (give specific examples)?

6. Repayment structure of indigenous usury system

Probe for:

- A. How are loan repayments structured in indigenous usury lending (consider the tenure, frequency and pricing)?
- B. What determines the structure of loan repayments?
- C. What are the mechanisms used by lenders to ensure loan repayment?
- D. What are the roles of different actors of indigenous usury system in case of loan default (kindly specify with examples)?
- E. What are the remedial options available to lenders and lendees in case of default?
- F. What are the sanctions associated with loan default?
- G. Is there any kind of informal ombudsman that could address contentious issues between lenders and lendees?

APPENDIX III

Please affix
your passport
photograph
here



CITYGATE GLOBAL

(Registered Money Lending Company)
1ST floor, New Opic Tower,
Opic roundabout, Oke-Ilewo, Abeokuta.
Mobile: 08086165019
E-mail: info.abekuta@citygateglobal.com

APPLICATION FORM

1. PERSONAL DETAILS

Surname:

Other Names:

Gender: Male Female Date of Birth:

Country of Nationality:

2. CONTACT DETAILS

Home Address:

Office Address:

Telephone No: Line 1: Line 2:

Email:

3. PROFESSIONAL DETAILS

Educational Qualification:

Career Level:

Place of Work:

Position Held:

Years of Experience:

4. TRANSACTION INFORMATION

Amount Required:

Purpose:

Net Monthly Income:

Salary Payment Date: eg: day, month.

Any outstanding loan monthly obligations:

(If Yes state amount)

How did you get to know about us?

Tenor/ Duration:

30 Days:

60 Days:

90 Days:

Others:

5a. GUARANTOR DETAILS (1):

Name:

Place of Work:

Office Address:

Home Address:

Guarantor's Email:

Telephone:

Mobile:

Career Level:

Position held:

Relationship with Applicant:

How long have you known applicant: _____

5b. GUARANTOR DETAILS (2):

Name:

Place of Work:

Office Address:

Home Address:

Guarantor's Email:

Telephone:

Mobile:

Career Level:

Position held:

Relationship with Applicant:

How long have you known applicant: _____

5c. GUARANTOR DETAILS: (3)

Name:

Place of Work:

Office Address:

Home Address:

Guarantor's Email:

Telephone:

Mobile:

Career Level:

Position held:

Relationship with Applicant:

How long have you known applicant: _____

6. OTHER COLLATERAL

Share:

Property:

Other Asset:

7. ENDORSEMENT

Applicant Signature:

Date:

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8. CHECKLIST

- Application form
- 3 Month bank Statement
- 1 Passport Photograph
- I.D card (Applicant & Guarantor)
- Post dated Cheque (Applicant & Guarantor)
- Applicant Blank Cheque
- Executed offer letter
- Repayment Schedule
- Processing Fee
- Utility Bill e.g. Electricity, Water or Tenacy agreement etc.

9. BASIS FOR RECOMMENDATION

10. RELATIONSHIP OFFICER:

Name: _____ Signature: _____ Date: _____

11. BRANCH MANAGER:

Name: _____ Signature: _____ Date: _____

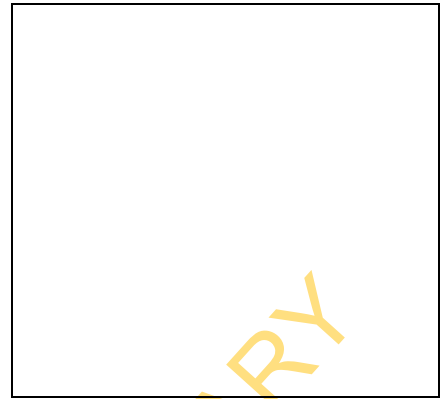
12. EXECUTIVE MANAGEMENT APPROVAL:

Signature: _____

Date: _____

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APPENDIX IV



GUARANTOR'S DECLARATION UNDERTAKING

I hereby agree and undertake to indemnify Citygate Global Investment Limited for the Principal, Accrued interest element and any other expenses reasonably incurred to ensure repayment as contained in this Offer Letter in case the borrower is unable to settle the indebtedness as at when due.

Title..... Name.....

Office Address.....

Home Address.....

Tel..... Email.....

Signature..... Date.....

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Court News

Money lender jailed for forgery, sale of collateral

November 22, 2016

A Warri South Chief Magistrates' Court has sentenced a money lender, John Ugbowhioba, to six months imprisonment with an option of N40,000.00 fine.

Chief Magistrate E. M. So who gave the judgement on Tuesday in a case of forgery levelled against the accused.

Ugbowhioba, 54, was alleged to have forged the signature of the document of a Mercedes Benz Saloon car belonging to Mrs Vivian Ezenwenyi.

The Prosecutor, Seagt Ejiro Ololo, told the court the case started in 2006.

According to the prosecutor, the complainant borrowed N300,000.00 from the accused and deposited her land deed and car as collateral.

She said that the complainant met the stipulated one month to refund the money with the agreed interest rate of N75,000.00

Ololo said after the payment the accused refused to release the car based on flimsy excuses.

She said, "It was later discovered that the car had been sold to someone.

“The accused forged the signature of the complainant and sell the Mercedes car to one lecturer in a college of education.

“The matter was taken to Alagbon police division to confirm the finger print, and the signature was discovered to be forged.”

The prosecutor said that the accused was arraigned with an intention to defraud and forged a signature, an offence punishable under Section 467 of the Criminal Code of Delta.

(NAN)

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VANGUARD NEWS

A Nigerian newspaper and Online version of the Vanguard, a daily publication in Nigeria covering Niger delta, general national news, politics, business, energy, sports, entertainment, fashion, lifestyle human interest stories, etc

HOME » NEWS » Don't take bank loans, Allah forbids it, Imam tells Katsina workers

Don't take bank loans, Allah forbids it, Imam tells Katsina workers

ON [JANUARY 7, 2017](#) 1:32 PM IN [NEWS](#) BY [TONYCOMMENTS](#)

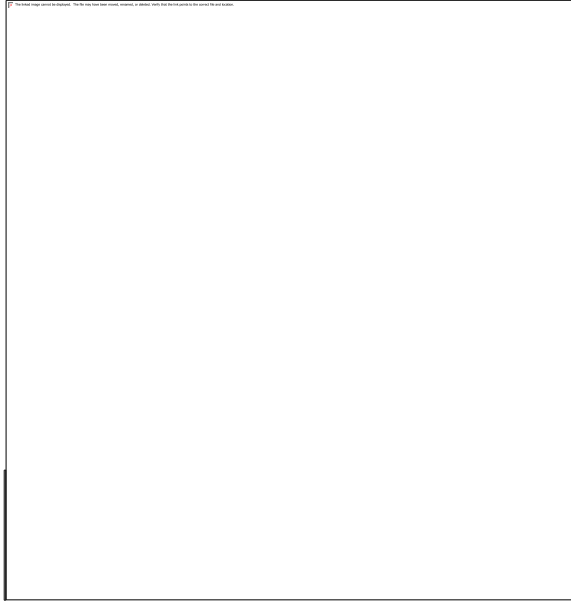


The Chief Imam of the Katsina state owned Al-Qalam University, Sheikh Abubakar Maikano, has called on civil servants in Katsina to reject the usury loans secured for them by the Nigeria Labor Congress (NLC).

Maikano, made the call while delivering a Friday sermon. He said that the call was necessary because the loan would be given with interests, which is 'usury' that Islam has forbidden.

He quoted verses of the Quran where the Almighty Allah forbids Muslim faithful from taking anything that has to do with usury.

Maikano, quoted prophet Muhammad,: "Allah cursed giver, collector, witness and writer of usury".



Sheikh Maikano: Imam of Al-Qalam University

He urged government ministries, departments, and agencies not to stand as guarantors to any civil servant.

The cleric urged the NLC leadership to rescind their decision and find other ways of giving loans that are interests free.

"We know that people are in need of help, but you cannot use what is forbidden to assist a person.

"Allah will not bless money that is mixed with usury," he said.

Maikano, however, urged the state government to look into possibilities of giving civil servants interest free loan.

"This was done in the past by the previous governments.

"We also want this government to do the same thing for its civil servants in the state," he said.

Contact Us

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Money lending activities and the law

Commentaries

Nov 10, 2015

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MR. John is a family friend who resides in Lagos. He was on a business trip to Abuja and decided to visit pay me a visit in my office some days ago. It was not supposed to be a business visit. Rather, we were supposed to have lunch together and use the opportunity to discuss personal matter.

However, it turned out that I had to provide pro bono legal advice for him because he sought my advice on what he could do to recoup a loan of N2, 000,000 which he gave to one of his business associates to revive his ailing business. His business associate had refused to refund the loan after two years, even though the initial tenor for the loan was six months. They agreed that his business associate would pay 25% per month as interest on the loan and this was documented in a signed agreement.

Already, Mr. John has contacted a lawyer in Lagos who has filed an action for recovery of the loan and the accrued interest on same as agreed, after all entreaties failed. Mr. John's friend certainly has contacted another lawyer who has filed a defence to the case. The gist of the defence was that the court should declare the whole agreement between Mr. John and his business associate illegal because Mr. John not being a licensed money lender was not entitled in law to charge any interest on the loan! It was clear that my friend only wanted a second opinion. Our discussion today was inspired by my reaction to my friend's story.

Generally speaking, it is a core principle of law of contract that the law expects parties to an agreement freely entered by them to honour the terms of such an agreement. Hence, courts do not engage in re-writing agreements for parties that come before them for adjudication. The Courts are only expected to

interpret the content of the agreement between parties according to the law. Suffice it to say that the law equally recognizes some factors that can vitiate an agreement. Some of these factors include plea of duress or undue influence and frustration. The law equally affords some statutory defences which, if raised by a party and if upheld by the courts, is capable of vitiating an agreement.

One of such statutory provision usually relied upon as a defence is the Money Lenders' Law. This law makes it mandatory for anyone who is primarily into money lending business and is not a bank, to obtain a licence as a money lender. Obviously, the intention of the law is to regulate the activities of money lenders. Unfortunately, those who are unable to refund even friendly loans resort to this law in arguing that the courts should declare such agreements illegal and unenforceable against them.

In a country where it is difficult for people to raise capital to start a business or expand an existing one, people who give out money as loans to people, even at an interest, must be commended. It is no excuse to renege on a contractual obligation on the pretext that the interest is high so long as a party willingly and freely entered into it. The facts in the recent Supreme Court case of *CHIDOKA V FIRST CITY FINANCE CO. LTD* (2013) All FWLR (PART 659) 1024 is the highest judicial attitude to reliance on the provisions of Money Lenders Laws to avoid the fulfillment of contractual obligations. In that case, the Appellants took a loan from the Respondent at an interest rate of 132% per annum. They defaulted in repaying the loan and the interest and sought to rely on the Money Lenders Law in urging the court to declare the transaction as illegal. The Supreme Court, adopting the earlier decision of the Court of Appeal (Kaduna Division) in *ALHAJI ABDULLAHI IBRAHIM V MALLAM ZANGINA ABUBAKAR BAKORI* Suit No. CA/K/292/2066 held that the Court would not allow the Appellants, after collecting money from the respondent to do business, to now turn around to plead the Money Lenders law in order to escape the refund of the loan. This Supreme Court decision, apart from reiterating its earlier position on the same point, equally made the point that the Money Lender Law was intended to apply only to persons who are really carrying on the business of money lending and not to persons who, like my friend, Mr. John, lend money as incidental to business or to a few friends who are in need.

I appeal to people who take loans from business associates to refund the loans and if for any reason you are unable to so do within the time agreed upon, to seek for understanding from those they took the loan from. It is unfair to bring this kind of legal argument when you have derived benefit from obtaining the loan. Do not reduce the chances of others getting a raise from people around them because of the bitter lessons from this kind of defence!

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APPENDIX VIII

Nigeria Newspapers

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NEWS

Woman attacks money lender with broken bottle

Posted by [pmnews](#) on [September 8, 2016](#)



The gavel of justice

A 28-year-old woman, Orga Joy, who allegedly assaulted her lender-friend with a broken bottle over loan repayment, was on Thursday brought before an Ikeja Magistrates' Court, Lagos.

The accused, who lives at No. 13, Adepegba St., Alakuko on the outskirts of Lagos, is facing a two-count charge bordering on assault.

The prosecutor, Sgt. Egunjobi Yomi told the court that the accused committed the offences on Aug. 24 at her apartment.

Yomi alleged that the accused assaulted the complainant, Ayoola Adebola, by beating and stabbing her with a broken bottle on her left hand.

"The complainant said that the accused borrowed money from her and refused to pay back.

"When she confronted her, the accused pounced on her and assaulted her," Yomi told the court.

The offences contravened Sections 166 and 171 of the Criminal Law of Lagos State, 2011.

The accused denied the charge.

In her ruling, the Magistrate, Mrs M.O. Osinbajo granted the accused bail in the sum of N20,000 with two sureties in like sum.

The case has been adjourned to Sept. 19 for mention.

'MY FRIEND THE SHYLOCK': MONEY-LENDERS AND THEIR CLIENTS IN SOUTH-WESTERN NIGERIA

BY TOYIN FALOLA

*The University of Texas at Austin**

I do not guarantee the house of my father as a security to the unlicensed moneylender. The house of my father is a family property.¹

The thief and the moneylender are kinsmen.²

Mr. Okeowo my friend, is a shylock: for a loan of £5 he wants to have everything that I have acquired in life.³

THE opportunities and deprivations of the colonial era led to major changes in the organization of credit and loans. At least three processes were at work at the same time: the introduction of modern banking and insurance; the continuation of older indigenous institutions; and the synthesis of the indigenous and alien credit systems. At the end of the colonial period, the third process, that of synthesis, had become the dominant one. Modern and alien institutions were forced to respond to many aspects of indigenous culture and values.⁴ At the same time some indigenous institutions which survived did so because they were able to 'modernize' themselves by borrowing from alien ideas and practices and by responding to the demands of a 'new' colonial society.⁵ This paper concentrates on one such product of synthesis of old and new: money-lending.

CONTINUITY AND TRANSITION

The demands of the family, the pressure to fulfil social obligations and the desire to be successful, prominent and healthy fuelled borrowing in pre-colonial and colonial Yorubaland (south-western Nigeria). There were several types of credit institutions. For most of the pre-colonial period, *ajo*

* This paper is part of a larger project on socio-economic change in colonial Western Nigeria. I have acquired a lot of debts from informants and several people who have assisted me in locating informants. For the latter, I wish to thank Segun Faleye of Ibadan, Nigeria. Discussions on assets and property at a seminar at the University of Rutgers sharpened my thinking, while the positive reception to an earlier version of this paper at the 1991 U.S.A. African Studies Association meeting added to my interest in the subject.

¹ National Archives, Ibadan [hereafter N.A.I.], Ije Prof 4/956 Vol. I, Money Lenders' Ordinance, Cap. 147, Corresp. in re 1929/44, Petition of Mrs Gbolade Dele to the District Officer, 29 June 1941.

² *Ibid.*

³ N.A.I., Oyo Prof 1/1477 Vol. II, Money Lenders' Amendment Ordinance, 1935, Petition by A. Sanni.

⁴ The impact of African culture on alien institutions such as banking and insurance is yet to be fully investigated. These new institutions were forced to adapt to the local milieu and to take into consideration indigenous values relating to death, debts and the role of the extended family.

⁵ This process of adaptation is one of the issues pursued in this paper, although space does not permit its full elaboration.

and *esusu* provided credit on generous terms to members of rotating savings and credit associations, so generous that neither collateral nor interest were required. A more costly arrangement, and usually the only mechanism for raising large sums, was the *iwofa* system (pawnship), which involved the use of labour by way of interest on a loan until it was fully repaid.⁶

Esusu, *ajo* and *iwofa* were carried over into the colonial period. The *esusu* involved a number of people who agreed to save money for a limited time period. In some arrangements, one participant was a 'banker' for the duration of the savings. At the end of the period, the 'banker' would return each participant's savings. In other arrangements, participants agreed to contribute the same amount of money at the end of a week or a month. The total sum collected was given to each person in rotation. There was neither interest nor deduction of fees in *esusu*. It was a moral obligation to complete the contribution agreed upon to the *esusu*. When a contributor died his/her savings were returned to a relative.

The *ajo* resembled the *esusu* in that contributors had to know one another well. The organization of *ajo* also varied. Sometimes contributors decided on the amount and the duration of savings to be collected by a chosen leader. At the end of the designated time each participant's contributions were returned. In other arrangements each member contributed what he or she could afford and could collect his/her savings at any time when money was needed. Members contributing to an *ajo* never received interest for so doing.

It was difficult for these three forms of credit to survive the colonial period without transformation. In the case of *iwofa* I have explained its decline and demise elsewhere. *Esusu* and *ajo* had to be substantially reformed to meet the demands of a new age. Both relied on a great deal of trust to function. To ensure that everybody paid and was repaid, participants in the *esusu* and *ajo* were limited to residents of the same area who were relations or friends. The immediate political authority served as mediator of disputes and the members swore on oath not to betray one another.

As new cities grew and older ones became more and more heterogeneous, it became difficult to organize *esusu* and *ajo* in the old ways. Religious sanctions were weakening, indigenous authorities were losing their grip, society was changing in a direction that many contemporaries would regard as degenerate. Assumptions of trust and cordiality which were at the roots of the success of *esusu* and *ajo* could no longer be taken for granted. Contributors defaulted and people ran away with collections. Both *ajo* and *esusu* were also best suited to those who had the time to save for a lump sum to spend on a 'worthwhile' project.⁷ One could use the savings in *esusu* and *ajo* as collateral to raise loans, or a member could privately negotiate to borrow from the savings of others. However, unlike *iwofa* neither *esusu* nor *ajo* was an efficient means of meeting emergency requirements or of raising large sums. Both were equally located in the context of *iranlowo* ('help'), which meant for participants to club together to assist one another. Unlike *iwofa*, both *esusu* and *ajo* were not designed for raising loans but were rather for the purpose of savings.

⁶ The *iwofa* system has been discussed extensively elsewhere. See my paper on 'Pawnship in colonial southwestern Nigeria', in Paul Lovejoy and Toyin Falola (eds.), *Pawnship in Africa* (Boulder, Colorado, forthcoming).

⁷ Samuel Johnson, *The History of the Yorubas* (Lagos, 1921), 119.

As in the case of *iwofa*, both *esusu* and *ajo* could survive the change of the colonial era only by undergoing reform. Both were modernized to involve a much wider range of people and to ensure collection and repayment. There emerged the new occupation of the *alajo*, or money collector. The *alajo* operated as a mobile bank: he chose the most convenient time for his clients, usually after 5.00 p.m., to collect and return savings. Savings were usually collected daily and returned monthly. The customer would save a specific amount every day and would collect the entire savings, minus a day's contribution, which served as the *alajo*'s commission. The major clients of the *alajo* were market-women, petty traders, craftsmen and others who realized small incomes on a daily basis. As in the past, the clients never received interest on their savings; their only reward was that they had a bulk sum to spend.

The reformed *ajo* and *esusu* were, however, inadequate to cope with the demands for capital for big projects such as building and trade. They were too slow to cater to city-dwellers who needed immediate cash to settle domestic problems or to invest in quick, risky ventures. Their operations were also limited in space: the *alajo* had to be well known to his clients while those who still organized *esusu* had to have pre-existing ties.

More efficient new institutions were emerging: co-operative societies, modern banking and hire purchase. Most of these alien practices were introduced gradually to the different parts of the country. All eventually became successful, and acquired distinct characters of their own. Except for co-operative societies after the 1940s, however, the new institutions were not accessible to most members of society. They were urban-based, and were primarily established for a new élite which had the education to understand their operations, and regular and secure jobs to enable them to benefit from them. Some of the new banks even engaged in discrimination against the lower ranks of the civil servants and indigenous small-scale entrepreneurs.⁸

Those who lacked the credentials to benefit from the modern institutions or who suffered discrimination from them had to seek alternative ways to raise money. The élite and wage-earners among them could not fall back on the ancient *esusu* and *ajo*. The indigenous system was adapted to meet new demands. Three major credit arrangements developed, combining both indigenous and modern practices. The first was the reform of *ajo* and *esusu* via the operation of the *alajo* mentioned above. The second was the emergence of a class of traders known as the *osomalo* who sold on credit.⁹ The third was the *sogundogoji* (lit. 'convert twenty to forty'), a class of money-lenders who organized their lending businesses with a great deal of ruthlessness and callousness. Some of the *alajo* mentioned above also belonged to the *sogundogoji*, although these occupations were distinct. The concern of this paper is with the *sogundogoji*, one of the most creative indigenous responses to change.

⁸ A. Ale, *The Underdevelopment of Indigenous Entrepreneurship in Nigeria* (Ibadan, 1975).

⁹ The *osomalo* requires a separate study. People bought on credit from the *osomalo*, promising to pay by instalments. Whenever there was a default, the *osomalo* would resort to tough and crude means to recover the money. As most of the goods involved were perishable items such as cloths, the *osomalo* could not recover the goods but could only insist on full payment.

MONEY-LENDING: THE PRACTICE AND ITS PROBLEMS

Indigenous pawnship and lending provided the basis for the professionalization of money-lending during the twentieth century. In whatever form it took, money-lending was based on the charging of huge interest rates, either in cash or in labour. In the case of pawnship the interest in labour was often converted into cash by selling the products of the labour. Although it was not a favourable option, many people borrowed at high interest rates when there was no other alternative. In general it was those in great difficulties who turned to money-lenders. Strangers in cities who could not be plugged into established credit institutions also relied on lending to solve their problems. The borrower would not supply any labour in lieu of interest as in pawnship. Nor would he be forced to provide collateral, although he would be required to procure a surety. The burden was a very high interest rate, from 100 to 300 per cent depending on the principal and the length of repayment. Both the interest and the principal had normally to be paid on the agreed date, although some lenders might collect the interest either before or after the payment of the principal.

Although there is no description of money-lending in Yorubaland in the nineteenth century, the pioneer Yoruba historian Samuel Johnson described the ruthless methods of debt collection with lucidity:

The Yorubas have a peculiar method of forcing payment out of an incorrigible debtor. When a creditor who has obtained judgement for debts finds it impossible to recover anything out of the debtor, he applies to the town authorities for a licensed distrainer. This individual is called Ogo, he is said to d'ogo ti i.e. to sit on the debtor (as it were). For that purpose, he enters the premises, seeks out the debtor, or ensconces himself in his apartment until he makes his appearance, and then he makes himself an intolerable nuisance to him and to the members of the house generally until the money is paid.

The distrainer is a man of imperturbable temper, but of a foul tongue, a veritable Thersites. He adopts any measures he likes, sometimes by inflicting his presence and attention on the debtor everywhere and anywhere he may go, denying him privacy of any kind, and in the meantime using his tongue most foully upon him, his own person being inviolable, for touching him implies doing violence to the person of the authorities who appoint the task. He demands and obtains whatever diet he may require, however sumptuous and may help himself if not quickly served. If he thinks fit, he may hold on any poultry or cattle he finds in the premises, and prepare himself food, and all at the expense of the debtor. He must not take anything away but he may enjoy the use of anything he finds in the house.

Loud in his abuses, intolerable in his manners to all in the house whilst going in and out with the debtor, he goes on in this way all day, and from day to day if needs be, until even the inmates of the compound get tired of this, and then means will quickly be found of getting rid of the distrainer by paying off the debt.¹⁰

N. A. Fadipe, writing during the colonial period, added to the information supplied by Johnson. The distrainer could prevent the members of the debtor's household from entering or leaving the house, kill their livestock, and do other things to force the debtor's relations to assist in paying. A distrainer might be a leper, chosen so that he would spread this dangerous

¹⁰ Johnson, *History*, 131.

disease, while the debtor was also forced to pay for the services of the distrainer. According to Fadipe there were other draconian methods. When the slave trade was still possible, a defaulting debtor could be sold. A debtor's relations were forced to seek the means to pay in one of three other ways:

An alternative method...was to seize anyone belonging to his [i.e. debtor's] extended family or his kindred and hold him or her prisoner until the debt was paid. Still a third method of recovering debts was to go to the market and start to buy goods right and left, but without paying. After the goods were safe in the creditor's possession he informed the sellers that such and such would be liable... It was also usual to deny the rite of sepulture to a deceased debtor, but this was as much a measure of protection for the creditor as for the relatives of the debtor, the underlying idea being that his relatives would be horrified at the thought of his soul being left in a state of suspense, and that they would, therefore, find means of paying his creditors. On the other hand, those who took the responsibility of burying a person were supposed by that action to accept the responsibility for his debts. Accordingly, before health regulations were made and enforced, when an habitual debtor or one for whose debts his relatives would not make themselves responsible died, his body was placed on a stretcher and left in the bush so that any of his creditors could be directed to it should the need arise.¹¹

Money-lending was the most detested of all the credit facilities. Unpopular and harsh people were engaged in the trade, and the common belief was that evil would eventually befall the money-lender or his children.¹²

High interest rates and forcible collection of debts were notorious features of money-lending throughout the colonial period. In spite of the fact that everybody knew that it was unwise to do business with the money-lender, the decline of indigenous alternative methods, notably pawnship, and the inaccessibility of new alien institutions encouraged money-lending to flourish. Borrowing from the 'callous' money-lenders became the recourse for people in the cities who could not go to banks because of lack of security and regular employment and who had no gold or other suitable items to sell to pawnbrokers.¹³

Money-lenders borrowed ideas from modern banking. Transactions involving large sums had to be documented. Public Letter Writers prepared the lease to be signed by the borrower and his surety, which was accepted in court as evidence. Secured loans attracted lower interest than unsecured ones. A borrower had to have a surety who would be forced to pay the debt in case of default. Unlike in pawnship, money-lenders were not interested in receiving labour as interest but only in cash. They encouraged borrowers to use as security their property such as land, houses and crops, which were then confiscated if there was a default. Collection of debt was prompt and brutal. When the borrower defaulted, the money-lender could take the matter to court or resort to the indigenous methods. Evidence from the second decade of this century shows that a number of people still believed in *dogo* (use of a distrainer), as a witness suggested before the West African

¹¹ N. A. Fadipe, *The Sociology of the Yoruba*, ed. by F. O. and O. O. Okediji (Ibadan, 1970), 164-5.

¹² Interviews with M. Adeyemi (age 75+), June 1990; P. Alabi (80+), June 1990.

¹³ Pawnbroking (to be distinguished from pawnship) was another trade which developed during the colonial period. This trade is yet to be investigated.

Lands Committee.¹⁴ The witness told the Committee that the money-lender could use force to collect his money, by sending an elderly person to live in the borrower's house and make the borrower assume responsibility for his feeding and even for his funeral expenses should this person die.

Whereas there was room for the operation of sympathetic considerations in the case of *iwofa*, as for instance when a pawn died, and in the case of *ajo* and *esusu* if a member found it hard to contribute, there was no such consideration in *sogundogoji*. A borrower must not fall sick or die when repayment was due, as neither would be accepted as a reason why the lender should wait. Instead, the lender would pounce on the borrower or the surety.

TENSION AND CONFLICTS

Money-lending was a frustrating business. No borrower was ever happy. First, it was usually a desperate option. Those who were forced to the *sogundogoji* did so because they had nowhere else to turn. If the credit was used for consumption (e.g. festivals, funerals and marriages) the end of the ceremony was the beginning of sorrow, as the borrower was left alone to face the agony of loan repayment.

Second, the money-lender might cheat in a variety of ways. Apart from the high rate of interest which will be discussed shortly, a money-lender could force the borrower to indicate in the lease that he had taken more money than he really had as principal. The addition was a bonus, to thank the lender for the assistance. If the money-lender insisted on a surety, for which purpose they often suggested the designation of wage-earners, the borrower was likewise forced to give the surety some money, again in appreciation for the assistance.

A third problem was the high interest rate. A common practice was to collect a minimum of 100 per cent. The rate on mortgages was six pence per pound per month. Big lenders might reduce the mortgage rate to three pence on good titles located in cities. Farmlands, undeveloped land in the city, and mud houses were not considered good enough security to reduce the interest rate. The following two cases illustrate the gargantuan problem of the borrower:

A borrowed £5 but he signed a lease for £7 because the moneylender insisted. Of the £5 he collected, he gave the surety on the spot a gift of £1, leaving him with £4. His interest at the end of a year was £7, forcing him to look for £14 within twelve months all because of £4. B approached a moneylender the second day that he lost his father and he had to bury him immediately and entertain his guest. Mr – who introduced him to the moneylender collected £1 for his services. Mr – who agreed to serve as surety collected £3 and the moneylender gave him £15 with the understanding that he would collect £35 after ten months.¹⁵

Many investigations by the senior staff of the government and the European firms and banks revealed staggering interest rates. In a 1936 investigation conducted in Lagos by a British member of staff of John Holt, he encountered 'five amazing cases':

(a) For a loan of £10 used only for 3 months a repayment of £15 is claimed;

¹⁴ N.A.I., West African Lands Committee, *Papers and Correspondence* (London, Colonial Office, 1916), Questions 7,538–63. ¹⁵ N.A.I., C.S.O. 30315 Vol. II.

- (b) In one case £2 was borrowed in 1932 and despite various payments the business has been managed in such a manner that the debtor still owes £2 to-day;
- (c) For a loan of £20 for 12 months a Promissory Note for £32 has to be given;
- (d) Interest at the rate of 1/6d. per £1 per month is common whilst interest at the rate of 1/- per £1 per month is general;
- (e) There are 'receipt' irregularities due to fear on the part of the borrower to [sic] Court proceedings.¹⁶

This agent concluded that: 'the borrower once involved is unable to free himself. The usurious demands of the one money lender forces [sic] the borrower on to another to meet the claims of the first one'.¹⁷ A. C. Smith, a Police Magistrate, also recorded his experience:

Loans secured by first mortgages on real estate bear interest at rates of 15% to 50%, the usual rate charged for unsecured loans is 60% and sometimes it is as high as 200%. These high rates are doubtless attributable partly to the all too prevalent combination of cupidity of lenders and the stupidity and thriftlessness of borrowers, and partly to general economic and social conditions, which it would doubtless be inadvisable to attempt to influence too rapidly by legislation.¹⁸

For the money-lenders to maximize profit, they needed not only high interest but also as many borrowers as possible. Indiscriminate lending became common.¹⁹ Money-lenders advertised their trade, approached wage-earners in government offices and firms, left leaflets in key places and used many informal means to woo borrowers. This chase after borrowers was not an indication of liberal credit conditions or of competition among the lenders. Irrespective of how the borrower and the lender discovered one another, the latter was still a sucker.

Why did money-lenders collect such huge interest? The first answer was the profit motive. The second and most important, as far as the lenders were concerned, is that their business was a very risky one.²⁰ A borrower could run away, leaving the lender to do battle with the surety. Many did not have collateral. They did not trust most of the items used as security and they spent a lot of time and efforts collecting the loan:

titles are insecure, the type of buildings are poor and subject to heavy depreciation, proper maintenance of buildings amongst Africans is almost unknown. In addition, the whole tradition of the country is to avoid payment of sums due until the last possible moment, so that heavy expense is always incurred in the collection of interest.²¹

To those who secured loans with farmlands, houses, and clothes, selling these items was never easy. The borrower would fight to prevent the sale of his property. In cases involving land and houses, the borrower's escape was to ask other members of the family to lay claim to them. Rather than part with valuable property, the borrower often preferred a court settlement

¹⁶ N.A.I., C.S.O. 30315 Vol. I, Money Lenders' Amendment Ordinance 1935, District Agent of John Holt to the Chief Secretary to the Government, 4 Mar. 1936. ¹⁷ *Ibid.*

¹⁸ N.A.I., C.S.O. 26/30315 Vol. I.

¹⁹ N.A.I., Okiti Div. 1/1/O.K. 1238, Money Lenders' Ordinance Cap. 136, Application letter of M. Emmanuel to the District Officer, 28 Aug. 1953.

²⁰ N.A.I., C.S.O. 26/30315 Vol. II; Oral interviews: M. Ajitoni (age 70+), money-lender at Ibadan in the 1950s; A. Adeoti (80+), money-lender in Lagos in the 1940s.

²¹ N.A.I., C.S.O. 26/30315 Vol. III.

which would mandate that the debt be paid in instalments. A third reason was that the cost of debt collection, in time and money, was high. The lender had to chase the borrower and the surety, an endless chase if the borrower was hard up.

A fourth reason for high interest was poor and fraudulent documentation. Some money-lenders and their clients could not read and write. They relied either on memory or on a promissory note prepared by Public Letter Writers. There were conflicts over the original principal and the interest as either the borrower sought to pay less or the lender to take more. In the case of literate money-lenders, there was always a possibility of tricking illiterate borrowers into paying more principal and interest.

Finally, the surety, the intermediary between the lender and the debtor, was another source of trouble. A money-lender had to be satisfied with the choice of a surety. People with responsibility and who had some connections with the borrower were ideal. Compound heads, relations who worked for the government, school-teachers, religious leaders and traders were preferred. The surety had to make a commitment to the lender to liquidate the debt should the borrower not pay for whatever reason. As long as the borrower was alive and met the repayment conditions (even with occasional delays) the surety had no problem. Problems arose if the borrower had no means to pay, fell sick, died or ran off. Then the surety and the borrower had to sit down to discuss recovery. The surety, always eager to avoid any such payment, would fight with the money-lender, and suggest that the matter be referred to the court. If the money-lender was afraid of the court, he might resort to force, seeking means to force the relations of the debtor to pay. As in the case of the *onigbowo* (guarantor) in pawnship, many sureties collected service charges from the borrower, partly as compensation for their services but certainly not for taking any risk.

THE INTERVENTION OF THE COLONIAL STATE

The aforementioned problems generated many conflicts. Hundreds of cases were reported to administrators and the police, not a few of which involved street fights, illegal confiscation, assault or deliberate damage of property, all in the attempt to recover debts. The courts became a final arbiter in many others. By the late 1920s, some Ijebu towns were reportedly fed up with the conflicts arising from money-lending.²²

By the early 1930s, governments at all levels were becoming worried about the 'evil' of the system. Complaints about money-lending were numerous and disturbing. In a number of instances, officials intervened to recover money. This was not easy as each case had to be investigated individually. As sympathy was always for the borrower (because of the high rate of interest and the high-handedness of the lender), the lender usually felt dissatisfied by the settlement terms.

Government establishments were mired in the conflicts and problems of money-lending because civil servants, especially the junior ones, were often involved in borrowing, lending or serving as sureties. The government and the big foreign firms were worried about the involvement of their staff and its effects on job performance. Wage-earners were drawn to money-lending

²² N.A.I., Ije Prof 4/7.679 Money Lenders' Ordinance, Cap. 147, Corresp. in re.

for a variety of reasons. Money-lenders preferred them both as sureties and lenders because they enjoyed regular salaries, had permanent jobs and addresses, could not risk public embarrassment, and enjoyed the image of responsible people. Civil servants themselves, when in need of money, used their salaries as collateral. Those who needed money to engage in trade, speculate on business, build a house or meet social expenses took loans from money-lenders. One loan could lead to another:

It is a fact that domestic troubles compel an official to 'raise the wind' but under present conditions the wind becomes a gale which engulfs an honest official until he is swamped... It is an established fact that the efficiency of many employees is impaired through privation and starvation because the major portion of their salary goes in meeting usurious claims... An even worse feature is the threat of legal action held over a man knowing full well that such action would reveal the man's position to his employers. In order to evade this, the man borrows afresh at further usurious rates and the 'snow-ball' rolls on.²³

The average civil servant was in a weak position in re-scheduling loan payments. A borrower facing court action and/or public disclosure was often coerced by the money-lender into taking a new loan which included previous arrears and interest. The threat to go to court or report the matter to the government would compel many debtors to find money to pay, usually by taking a further loan. The aim was to have a receipt to show that previous debts had been paid, especially when evidence of this was required at the place of work; but in reality the debtor was in deeper trouble. When a staff member's debt became known by his superiors, he would be warned to pay off the loan or face the consequences. His salary could be stopped (a further complication for a person already in crisis), or he could be suspended or even dismissed from service.

A small number of cases were reported of male civil servants being forced to liquidate loans incurred by their wives. For instance in Lagos in the 1920s a District Clerk was forced to pay the debt of his wife. When the man was slow in paying, the wife was bold enough to petition the Administrator of the Colony:

owing to financial stringency caused by lack of support from my husband I was compelled to borrow money from Moneylenders in Lagos of an account of £10 nett [sic] to liquidate my petty debts and asked the Resident kindly to assist me in getting my husband to pay this amount with whatever interest shall accrue thereon. The Resident... was then kind enough to forward my complaint... for investigation which resulted in a promise from Mr. Hamilton that he will pay. This promise I regret to observe has not been wholly [sic] fulfilled as only £4 was paid with further promise to pay the balance at the end of that month which up to date he has not done. As interest is still accruing on the principal and repeated letter from me to him have vought [sic] no reply, I should be greatly obliged if you would be good enough to assist me further in this matter which is causing great unrest in my mind.²⁴

Hamilton was forced to pay the money.

Repeated warnings were made to civil servants, especially junior ones, to avoid money-lending. In the 1930s, teachers were threatened with pun-

²³ *Ibid.*, John Holt to the Lagos Town Council, 4 Mar. 1936.

²⁴ N.A.I., Com. Col. 1/553, Indebtedness of Mrs Hilda Hamilton to Lagos Money Lender.

ishment should they become victims of or serve as money-lenders.²⁵ In the 1938 Ordinance on money-lending, any person in government employ who acted as a money-lender or an agent to one was subject to instant dismissal.

In a 1938 report in the influential journal *West Africa*, an observer commented on the 'evil' of money-lending as it affected the staff of government:

Pressure, it is added, is continually brought to bear upon subordinate officials to stand surety for relatives, which pressure, owing to the strength of family ties, is difficult to resist. As a result, arrests of junior public officers for debt are so frequent as seriously to impair the efficiency of the Public Service... the amount of indebtedness among African Government officials, especially junior men, is 'appalling',... and imprisonment for debt being [sic] commonplace incidents.²⁶

In Lagos and Ibadan 'discoveries' were made in the 1920s and 1930s that a high number of government staff were engaged part-time as money-lenders, operating during office hours in the premises of their departments. In July 1935 in Lagos, 106 clerks and an equal number of employees of European firms appeared in court for unpaid loans to money-lenders. Many of these debtors were described as 'hopelessly insolvent'.²⁷ A senior police officer dismissed the 1935 figure as a gross understatement:

Only a modicum of officials who became entangled in the web of the money lender appear in Court; and of these less number are eventually reported to their respective heads of Department, as many cases are withdrawn on the defendant making desperate last minute settlements to avoid subsequent departmental action.²⁸

Suggestions were made by high-ranking officials to protect the junior staff. Some thought that the debts they owed should not be recovered and that they should be prevented from serving as surety. Officials of firms also joined in urging the government to check money-lending to make it less attractive and lucrative. The John Holt Company complained in March 1936:

Without official supervision of their transactions, without legislation legalizing a rate of interest and without the business being controlled as Money Lending and Pawn Broking is done at home constitutes [sic] a menace and tends to incite the continuance of a practice which must eventually corrupt all official services.²⁹

By the mid-1930s all the people in the colonial administration had reached the conclusion that money-lending was a 'stinking fish', and that in order to help the poor and protect civil servants, money-lending had to be reformed. When discussions on reform were initiated in the late 1930s, it was realized that the Moneylenders' Ordinance of 1917 was ineffective.³⁰ This first ordinance was designed to provide a minimum control on money-lenders

²⁵ N.A.I., Agbo Dist. 1/AG 530, Money Lenders' Ordinance.

²⁶ *West Africa*, 20 Aug. 1938, p. 1122.

²⁷ N.A.I., C.S.O. 26/30315 Vol. I, Police Magistrate to Chief Registrar of Supreme Court, 26 Aug. 1935.

²⁸ N.A.I., C.S.O. 26/30315 Vol. I, Acting Police Magistrate to the Chief Registrar, Supreme Court, Lagos, 30 Nov. 1936.

²⁹ N.A.I., C.S.O. 26/30315 Vol. I, John Holt to the Lagos Town Council.

³⁰ See for instance N.A.I., Ije Prof 4/J.679 Money Lenders' Ordinance Cap. 147 Corresp. in re. 1929/44 and Ijaw W. 4/W.1 167 Vol. 1 Money Lenders' Licence - Matters Re 1937/48; and Kuku Div. 2 KD 928, Money Lenders Re.

and had limited application in the country. It was generally not publicized or enforced with any seriousness, while there were few or no provisions in it on interest rates and book-keeping.

In May 1937 the office of the Chief Secretary to the Government in Lagos set up a committee on money-lending, comprising indigenes such as lawyer A. Latunde Johnson, Jibowu of the Police Magistrate Court, K. M. Kinnison, the Manager of Barclays Bank (D.C. & O.), who represented the Chamber of Commerce, and C. W. W. Greenidge, the Acting Attorney General of the country. The Committee held its first meeting on 28 June 1937. The terms of reference provided by the Governor were:

To inquire into, and report on moneylending in Nigeria and to recommend any legislative measures considered necessary to:

limit the rate of interest charged in the case of

- (a) mortgages;
- (b) loans secured by sureties or otherwise; and
- (c) unsecured loans;

and to protect borrowers from harsh terms attached to loans and to protect lenders as far as possible from the dishonesty of borrowers.

At its meeting the Committee was guided by the Moneylenders' Ordinance of Trinidad,³¹ which it read clause by clause for suggestions, modifications and approval. The Committee made only five modifications and adopted the Trinidad Ordinance for Nigeria.³² Before giving its final approval the government also borrowed ideas from the Trinidad and Tobago Ordinance of 1932 and the Straits Settlements Ordinance of 1935, both of which drew from the British Imperial Acts of 1900 and 1927.

The Moneylenders' Ordinance of 1938 set out many conditions on money-lending with a view to tightening up the law, regulating and defining the role of lenders and borrowers in particular circumstances. Its provisions were 'better calculated to protect unsophisticated persons from the evils of borrowing'.³³ It defined a money-lender as someone who lent money at interest, either as a habit or an occupation (excluding Co-operative societies, banking and insurance businesses):

any person who lends money at interest or who lends a sum of money in consideration of a larger sum being repaid shall be presumed to be a moneylender until the contrary be proved.

Money-lenders were required to take a licence, renewable every year, or pay a penalty of £100 or/and imprisonment for three years. The licence specified the name and address of the business and stated that the money-lender must not operate as a modern bank. A business could not be transferred to locations not specified in the licence without the permission of a magistrate

³¹ The ordinance for Trinidad borrowed extensively from the English Moneylenders' Act of 1927.

³² For the Trinidad Ordinance see N.A.I., C.S.O. 26/30315 Vol. II, Money Lenders' Amendment Ordinance 1935. The five modifications were that: money-lending and pawnbroking transactions carried out by the same person should be differentiated; 'signatures' by marks made by illiterate parties to money-lending contracts should be authenticated by suitable officials; maximum rates of interest should vary from 10 to 45 per cent according to the security and the period of the loan; interest on amounts awarded to money-lenders by judgement of courts should be at the same rates as those on the original loan. ³³ N.A.I., C.S.O. 26/30315 Vol. II, Memo. by the Governor General.

and the police, and money-lenders were prohibited from engaging in excessive advertisement, both additional ways of limiting their operations. Applications for a licence had to be directed to the police and the magistrate with the jurisdiction over the area where the lender intended to operate. The police and the judiciary were involved to ensure that lenders were people of integrity and good character.

The ordinance also tried to abolish the role of middlemen. Any person who acted as an agent to a money-lender or who accepted a commission for introducing business was liable to a fine of £20. Moreover the contracts so procured would be null and void.

Much concern was given to both documentation and rates of interest. No debt to a money-lender was recoverable at law unless both parties had had a written contract which stated the date the money was lent, the principal and the rate of interest of the loan. The money-lender had to issue receipts for payment and keep books of all his transactions. Failure to keep books and issue receipts would deny him the opportunity of recovering his debts. At the request of the borrower the money-lender was required to issue a statement of accounts detailing how much had been paid.

A battery of clauses dealt with the interest on loans, with stiff penalties if they were flouted. To solve the problems over what constituted interest, the ordinance defined it as including 'all discounts, commissions, bonuses, fines, expenses, and any amount by whatsoever name called, in excess of the principal, paid or payable to the moneylender in consideration of or otherwise in respect of a loan'.³⁴ The rates for secured and unsecured loans varied,³⁵ but none were allowed to exceed 30 per cent per annum:

- (a) on loans secured by a charge on any freehold property or Government bonds or insurance policy or the debentures or shares of any company or by a bill of sale in respect of any goods or by the assignment of any personal rights legally enforceable, or by the indemnity or personal guarantee of a third party, simple interest at the rate of $12\frac{1}{2}\%$ per centum per annum for the first £500 or part thereof and at the rate of 10 per centum per annum on any amount in excess of £500
- (b) on loans secured by a second charge on any of the real or personal property or rights referred to [above] simple interest at the rate of 15 per centum per annum for the first £500 or part thereof and at the rate of $12\frac{1}{2}\%$ per centum per annum on any amount in excess of £500
- (c) on unsecured loans simple interest at the rate of 25 % per centum per annum.

Compound interest was prohibited. Any contract providing for the payment of interest in advance by deduction of an amount from the sum lent was illegal. Neither was the lender authorized to collect compound interest or to increase the interest rate because the borrower defaulted in payment.³⁶

The government expected debtors and members of the public to report money-lenders to the police or administrators:

³⁴ Borrowers were exempted from paying as part of interest the expenses on stamp duties, registration of documents, preparation of documents by legal practitioners and other costs which should be incurred by the lender.

³⁵ Interest was calculated in percentage rates in the body of the ordinance but an appendix to it provided guidelines for other methods not based on percentages.

³⁶ However, if a lender defaulted the money-lender could charge a simple interest from the date of default until the sum was paid.

Any person, not the borrower in the transaction at issue, who informs the authorities of a contravention of this Ordinance which leads to a conviction, may be rewarded, at the discretion of the Court, an amount not exceeding half the fine.

Lenders were prohibited from inducing people to borrow, falsely increasing the principal on the contract, and intimidating borrowers to pay their debts.

The court had the last say on many issues in the ordinance: a judge could require all evidence of transactions and insist on the application of the ordinance, determine the validity of a contract and force borrowers to pay, pronounce that the interest rate was high and re-open 'harsh and unconscionable' transactions.

PUBLIC REACTIONS TO THE ORDINANCE

A number of officials, private individuals and the association of money-lenders responded to the 1938 Ordinance. The views of borrowers are generally undocumented so that what we have are those of the élite. Perhaps the most profound response by an individual was that of R. M. Williams, a senior Nigerian member of staff of the United Africa Company Ltd. Williams agreed that money-lending was evil and the ordinance was necessary to protect 'unsophisticated persons from the evils of borrowing'. He thought that the stringent provisions of the ordinance were unlikely to correct the ills because:

moneylending is so widespread in Nigeria that it is probably impossible to prescribe any measure which compels even a small fraction of the moneylenders to become registered or to comply with the provisions of the bill if they were. Most of them are quite illiterate and could not be expected to understand the provisions of the bill. A very large amount of the petty trade of the country is financed by loans from such moneylenders. To attempt to stop this type of lending would, if it could be done, materially injure the petty trader.³⁷

Williams suggested alternatives to money-lending: the education of Africans; the establishment of many co-operative thrift societies; and the introduction of private European capital to take up mortgages at reasonable rates on security.

Several officials found faults in the ordinance, especially the high interest rates allowed. According to a staff member in the office of the Governor:

I consider the rates of interest on both secured and unsecured loans too high. I repeat my statement that no loan at a rate of interest such as 45% can lead to anything but the further impoverishment and degradation of the borrower. No one should lend to a man whose creditworthiness is so low that 45% is a logical rate of interest except for a charitable gift from a friend disguised as a loan. I particularly object to the proposal that interest on a judgement should be at the same rate as the original loan. I recommend the following rates: properly secured loans... 12½% if the loan is not more than £1000 - 10% on larger loans. Unsecured loans 25% on loans not exceeding £50, 20% on loans of over £50.³⁸

Another officer suggested 12½ per cent on secured loans up to £500, 10 per cent on secured loans above £500, 15 per cent on secured loans of sums over £500, 25 per cent on all unsecured loans, and that the maximum rates of

³⁷ N.A.I., C.S.O. 26/30315 Vol. III, Money Lenders' Amendment Ordinances, 1935, Williams to The Acting Chief Secretary to the Government, 26 Aug. 1938.

³⁸ N.A.I., C.S.O. 26/30315 Vol. II.

interest chargeable on occasional loans by persons other than money-lenders should be limited by law to $2\frac{1}{2}$ per cent more than might be charged by registered lenders in the case of secured loans and 5 per cent more in the case of unsecured loans.

The Secretary of State to the Government, too, agreed that high interest rates would injure borrowers:

The plain fact is that there is no legitimate object for which money can be used which can yield a rate of interest of anything like 45 %, and anyone who borrows at such a rate inevitably loses and goes steadily deeper and deeper into debt. Especially in backward countries where money is borrowed without any thought of the difficulty of repayment usurious moneylending should in every way be discouraged.³⁹

Other senior officials commented that the government should supervise the signing of contracts to protect illiterates, fictitious promissory notes should not be enforced,⁴⁰ and the licence fee of money-lenders should be raised to limit their numbers.⁴¹

The Nigerian Moneylenders Association submitted a petition, after reading the ordinance with 'consternation and uneasiness'. In the Association's view, several sections of the ordinance characterized the money-lender 'as a felon, a heartless fraud or a Shylock and not as an ordinary respectable member of society carrying on a legitimate business, a business of finance on which the foundation of all national wealth and welfare are built'.⁴² The Association thought that the government should make it easier to obtain a licence, allow a lender to function in many branches in a town, extend the life of a licence to three years, reduce the fines for violating the provisions of the ordinance, and increase the interest rates because

The peculiar circumstances surrounding the lending of money in this country, the present general state of civilization, the need for finance in a country just in a state of early development, the finances necessary for commercial development, the insecurity of titles to lands and properties; the lack of organizations with mobilized capital, all these go towards proving the need for a higher rate of remuneration for the lenders...most borrowers had 'no sense of responsibility', no secure employment, fixed home, no insurance.

The Association demanded 6*d.* per pound for mortgages, and 60 per cent per annum or 1*s.* per pound per month simple interest on unsecured loans. The high rates were justified on the basis of the risk involved in lending, and the expenses of collecting debts 'which invariably end in a Court Order for payment extending over a period of 2 to 4 years at the same time no more interest being chargeable after judgement'.⁴³

THE ORDINANCE IN PRACTICE

After 1 January 1939, a money-lender was required to carry a licence. Applicants who fulfilled the conditions in the ordinance were licensed. In the 1940s and 1950s when the number of licensed lenders was high the

³⁹ N.A.I., C.S.O. 26/30315 Vol. I.

⁴⁰ N.A.I., C.S.O. 26/30315 Vol. II, Clerk, Executive Council, to the Ex. Co.

⁴¹ N.A.I., C.S.O. 26/30315 Vol. I.

⁴² N.A.I., C.S.O. 26/30315 Vol. III, Nigerian Moneylenders' Association to the Governor of Nigeria.

⁴³ N.A.I., C.S.O. 26/30315 Vol. III.

government rejected many applications just to keep the number down.⁴⁴ An annual list of registered lenders was prepared, and every approved licence was published in the gazette. Most of the lenders were Ijebu, Ijesa and Lebanese. The majority were located in the cities, although this did not prevent them from servicing the surrounding villages. Because of the rules on record-keeping, a licensed money-lender was expected to be literate. The majority of the illiterates who applied were rejected. However, many illiterates continued to operate illegally with absolute disregard for the ordinance. Applicants who were thought to be employees of the government were also denied.⁴⁵

Many money-lenders subverted the requirement that they operate as a business concern by inventing hundreds of business names (e.g. Orukope Money Lending Association, Stephen George Loan Bureau, Public Service Bureau, Moderate Loan Syndicate).⁴⁶ Most money-lenders, however, continued to operate as one-man businesses. Even in cases where they supplied names and addresses of partners, it turned out that such partners were their relations and dependants who had no role whatsoever to play in the business. A few societies and guilds registered as money-lenders in order to assist their members and give loans at lower interest than the individual lender.⁴⁷

Whether a person applied as a company or in his own name, the police or an administrator would investigate the character of the money-lender. Cited below is one such report on one Yusufu Apewaje:

I was detailed to investigate on one Yusufu Apewaje (m) of Yoruba who applied for a money lender's licence in Agbor. Enquiries made from various persons in the town as regard to his character and his financial ability revealed that he had been here since 1914, he is a trader and lorry owner he had about three lorries and a car, he is honest, and a well-to-do gentleman, though an illiterate person. He had never been to prison before, he is a man of good conduct. Steady in business of his, his financial standing is about £1000 and he never used to make noise by giving troubles in the town. I therefore recommend his application for the licence.⁴⁸

Most money-lenders had cash (roughly estimated at between £20 and £150) and other investments. In general, money-lending was combined with other activities such as trading. Many already had lorries and houses, big cocoa and kolanut farms, and had acquired some fame in the town as investors or *alajo*. The women among them were traders or wives to husbands with money and connections.

It was important to start the business with a lot of cash to lend. A Police report on one applicant made this clear:

There is nothing known against this applicant from a Police point of view, and his general character can be assessed as good. His financial resources, however, appear to be lean. He keeps a small banking account at the Post Office (balance less than £10, date) but states that he has merchandise worth [sic] £200 in the hands of his petty traders which he proposes to sell off in order to acquire the necessary cash to start the money-lending business.⁴⁹

⁴⁴ *Ibid.* ⁴⁵ N.A.I., Ben Prof 1/BP 1423, Money Lenders' Ordinance.

⁴⁶ N.A.I., Oyo Prof 1/1477 Vol. I, Money Lenders' Ordinance, Corresp. Re.; and Vol. II, Money Lenders' Ordinance, Corresp. Re.

⁴⁷ N.A.I., Iba Div. 1/1331, Vol. IV, Money Lenders' Licences.

⁴⁸ N.A.I., Agbor Dist. 1/Ag 530, Police report of 26 June 1952.

⁴⁹ N.A.I., Iba Div. 1/1331 Vol. IV.

Yet another report:

The applicant is a wealthy farmer with a sum of over £1000 cash on hand. He has cocoa, kolanut and palm plantations which yield annual income of about £60. Nothing is known against him from Police point of view.⁵⁰

Among the many reforms introduced by the ordinance, one major change concerned documentation. Money-lenders had to carry receipts, record books and loan forms. The loan form was the most complicated of all. It detailed the names of a borrower, the loan, the monthly interest, the date of final payment, and an oath that the document was translated and explained in the 'simplest Yoruba language' to the borrower. Money-lenders insisted on security (land, crops, house, car, etc.):

on the understanding that in the case of failure to refund same at the expiration of the above specified time, the said firm should take action against me/us in any appropriate Court for whatever is due to them and failing to satisfy any judgement debt and costs that may be reasonably given against me/us immediately the said Firm should legally proceed against the said properties and take proceeds of same to liquidate any judgement debt and costs arising from this Memorial.

The same form contained the signature of a surety and a commitment:

If the said Borrower/Borrowers fails/fail to refund the said and every part thereof at the expiration of the time specified, the said Firm should proceed legally against me/us jointly and severally with the said Borrower/Borrowers in any appropriate Court and in case the legal proceeds of the Borrower's/Borrowers' Security is insufficient to liquidate the judgement debt and costs finally, the said firm should proceed further jointly and severally against me/us with the said Borrower/Borrowers for receiver of whatever is due.⁵¹

The majority of the licensed money-lenders kept records of their transactions. Some of the books were printed under the titles Register of Moneylender's Transaction,⁵² Register of Moneylender,⁵³ etc.

There were numerous disputes over the value of properties used as security for a loan. Borrowers always thought that the value of security was much higher than the loan, and that the money-lenders had no right to confiscate these even when the entire loan had not been paid. In one celebrated dispute, a woman reported an Ijebu-Ode lender, described as unlicensed, to the District Officer, in June 1941:

That Mdm. Jane Efutage of Okojagun-Isonyin jurisdiction Ijebu-Ode, an unlicensed moneylender loan me a sum of (30/-) thirty shillings sterling @ 1/6d interest monthly. The attach [sic] agreement dated 4th November 1936 prepared by the then letter-writer Mr J. B. Okubote of Odolowun-Isonyin district Ijebu Ode approved: that I have paid interests amounted to £4.18/- to Mdm Jane Efutege-Okejagun since I loan the 30/- @ 1/6 int. monthly [sic]. That the unlicensed moneylender Jane Efutege-Okojagun-Isonyin obtained 2 securities of

⁵⁰ *Ibid.*

⁵¹ N.A.I., Ije Prof 4/956 Vol. I.

⁵² This contained information on the name of money-lender, name of borrower, amount of loan, security, if any, purpose for which loan was required, length of period for which loan was required, amount of interest charged, names and addresses of witnesses, and the date of transaction.

⁵³ This contained information on names and address, the class of business and the date the licence was approved.

one Irobirin velvet and one Jojo Agba which cost me £2.10/- to purchase. That the 2 securities are in possession of the unlicensed moneylender Jane Efutege-Okejagun who proceeded and attached my father's house at Idona-Imusin yesterday vide action taken by the Debts Collector Mr Godwin Orebanjo-Okejaun-Isoyin now at Epe N.O. Suit 33/41. That both of us are residential in the Ijebu Ode area in the land of Awujale. I pray for necessary action viz: to ask her licence for money lending upon interest ii, to release my father's house attached because she obtained 2 securities cost me £2.10/- to purchase. I do not guarantee the house of my father as a security to the unlicensed moneylender. The house of my father is a family property.⁵⁴

The D.O. was sympathetic to the debtor, in spite of the fact that the Native Court had allowed the money-lender to take the house. To the D.O., 'the rate of interest is excessive and illegal'. The D.O. gave a fresh judgment which gave £1 10s. to the money-lender.

The confiscation of property by the money-lender was always a source of trouble. As the collateral was usually the most valued item of the borrower (a house, land) or a necessity for work (tools, farmland), any move by the money-lender to seize it was always resisted. In initial contracts money-lenders simplified the procedure to be adopted in order to confiscate property. When seizure became necessary borrowers sought the means to prevent this by appealing to administrators, a step which irritated money-lenders. One lender was so annoyed by his inability to move quickly against a defaulting borrower that he wrote to the Ijebu-Ode Magistrate in July 1942 to seek clarification:

I have the honour to inform Your Worship that there are some Borrowers who secured themselves with certain properties, moveable and immovable, on the stipulations in the documents respectively concerned that if they fail to refund the amount borrowed, without taking legal process against them in any Court, such pledged property/properties should be disposed of through a recognized Public Auction Mart after an interval of grace of certain time and to be followed by a previous Public Auction Notice being placarded. I beg to request Your Worship kindly to advise me as to what should be done, although provision has been widely made to sell the property/properties without going to court in the documents.⁵⁵

Money-lenders who fell foul of the ordinance had their licences withdrawn and several were convicted.

PROBLEMS OF INTERVENTION

The major problem was the widespread disregard of the ordinance. Not all money-lenders obtained a licence. There were cases when administrators reported an absence of money-lenders in their areas (because none applied for licence), only later to realize that there had been a lot of loan transactions and conflicts arising from them. Many money-lenders did not register to avoid payment of income tax.⁵⁶ A number of part-time lenders, too, did not bother to register.

As long as there was no conflict referred to courts or the administrators, an unlicensed money-lender could get away with many illegalities. In some

⁵⁴ *Ibid.*

⁵⁵ N.A.I., Ije Prof 4/956 Vol. I, letter of 10 July 1942.

⁵⁶ N.A.I., Ak Div. Co. 9/450, Money Lenders, 1961.

cases unlicensed lenders even took their debtors to the native courts to recover their money. In the Ijebu Remo division during the 1930s cases of unlicensed money-lenders were many, and the district administration and the native courts assisted these lenders in debt recovery. In 1943 a son of a money-lender inquired of the Resident whether he could collect the money lent by his unlicensed parents in the 1930s. According to him, his parents and hundreds of others were not aware of rules which insisted on registration. The Assistant District Officer's handwritten minute on this letter provides useful information:

The position is governed by Ordinance No 45 of 1938, but of course hundreds of people continue to lend money at interest and to reclaim it in the Native Courts though they are not licensed money-lenders. I have no sympathy with unlicensed money-lenders, but to refuse suddenly to recognize their claims would probably ruin the trade of the country! In a recent case I reviewed in Ijebu Igbo a debtor pleaded that his creditor was not a licensed money lender ... I agreed that he could only be ordered to refund the principal debt, but said that should be enforced at once, and that the public should see that no one lent him money again!

The Resident made the final decision on this matter:

the legal position is that only a licensed money-lender can charge interest and that only the principal loan can be recovered in court by anyone. I am not in favour of issuing any such instruction to Native Courts, however.⁵⁷

The reply to the query was negative: his parents had acted illegally and he should not do anything to recover the debt.

Unlicensed money-lenders tried to avoid the law by lending as if they were private individuals. Whether the transaction was documented or not, it involved a number of false statements on the amount of principal and the interest rate. To minimize risk, unlicensed lenders gave small loans and mainly to those that they knew well. Recovery could be difficult: an intransigent borrower would attempt to hide behind the courts and the administrators.⁵⁸ A ruthless money-lender, too, would ignore the 'modern steps' and resort to *dogo*.

Unlike in the pre-colonial period, family members were becoming less involved in the loan settlements. Relations of a debtor would contest a loan contract if it was realized that family collective property had been used as security and could be confiscated. A lot of tension was generated by those who used land and houses as security, having succeeded in deceiving lenders that the property was theirs. There were instances when borrowers themselves admitted to having made an error in using family rather than individual properties as collateral. In Ijebu Ode in the 1940s, many of the attempts by money-lenders to confiscate the houses of loan defaulters ran into trouble.⁵⁹ The courts and the government were sensitive to the issue, and took a common stand that a family should not forfeit its assets because of a loan of one of its members.

Debtors often escaped payment by relocating elsewhere. When they pledged immovable properties, it was not easy for the money-lender to recover these without authorization from the court. A number of money-

⁵⁷ N.A.I., Ije Prof 4/956 Vol. I.

⁵⁸ See for example the case of Afolabi Fadugba who struggled to recover a loan of £80, in N.A.I., Ak Div Co. 1/166.

⁵⁹ N.A.I., Ak Div. Co. 9/450.

lenders sought the assistance of Debt Collectors to hunt down defaulters. Debt Collectors doubled as Public Letter Writers: they were, in general, semi-educated but with a great understanding of laws and legal technicalities. The D.O. often received letters from Debt Collectors who sought assistance to locate debtors. Should the debtor be discovered and sufficiently harassed, he would have to pay in addition for the services of the Debt Collector.

The reforms did not suppress the role of indigenous culture in this institution. The lender was still in a stronger position than the borrower. To the unlicensed lenders, the ordinance was not a regulator of behaviour. To the licensed, the document was merely a guide, not to how to conduct business or respect debtors but to how to anticipate the actions of government and the courts. The philosophy that guided the action of lenders was underlined by the most common preliminary remark to lenders: 'If you want money on government rate go to the bank or the D.O.' To the lender, a borrower was looked upon with derision as *onigbese* (debtor), at the mercy of a lender, who by contrast was a careful, concerned and industrious person. In arrogant tone and manner, the lenders believed that they were performing an essential service by giving favour and gratification to those in trouble. That a debt must be repaid was not negotiable.

To the debtor, on the other hand, the lender was a ruthless and callous operator. It was a career for the wicked. Should the lender be at the same time politically powerful or wealthy, the dread of him increased. The lender could reach the police before the debtor and bribe indigenous authorities. The lender could also hire the services of *agbowopa* (people who could use force) to collect money. Above all, many people believed that lenders could kill to recover their money.

In debt recovery, most lenders disregarded the provisions of the ordinance which were too slow for them. Instead they employed crude means.⁶⁰ When payment was due, the lender would issue the final reminder. If the money was not paid, the lender made a public exposure of the debtor, through a careful broadcasting of the terms and failure to pay to important relations and contacts. The intention of the money-lender was to ostracize the debtor by characterizing him as unreliable and useless. Those with regular employment would panic at this stage, not wanting their employers to know. Finally, physical means could be used to collect money.

The interest rates in the ordinance were ignored with impunity. A perceptive observer commented that:

There appear to be too many loopholes for evading them. It is true that certain practices are prohibited in the bill, under penalty, but can proof be obtained when these prohibitions are contravened? Clause 16 of the bill, for instance, prohibits the payment of interest in advance. Clause 27 makes it an offence to take security for a loan on a promissory note in which the principal is not truly stated. Money lenders may insert higher sums in mortgage deeds than are actually lent. In all these cases there is nothing to prove an offence but a bare denial on the part of the borrower who has affixed his signature to an original document.⁶¹

Money-lenders forced borrowers to conspire with them to falsify records in a way favourable to them:

⁶⁰ See for example N.A.I., Ondo Prof 1/1/570, Money Lenders' Ordinance, Corresp. Re.

⁶¹ N.A.I., C.S.O. 26/30315 Vol. II.

promissory notes falling due at regular intervals of time in repayment of principal and interest completely disguise the actual rate of interest which is being paid ... it is already quite a common form of security to make the borrower sign two sets of promissory notes, one representing the actual amounts due, and the other double these amounts, which are held to be used should the borrower default on the payment of the first series. There is, legally, apparently, no protection for the borrower if the money lender presents both, but I am told in practice this is not done, and they are used as security only ... A further way in which the provisions of the bill can be evaded would seem to be by the execution of mortgages as security for an existing debt. Once the amount of the debt was inserted in the mortgage it would be very difficult for the debtor to claim that the amount is not truly stated and it would also seem that such a debt can provide for the repayment of the debt and interest by instalments which would in fact be the repayment of the smaller debt plus a usurious rate of interest. For instance, a man who borrowed £100 might execute a mortgage to cover the repayment of the debt £200 repayable at equal intervals over the period of a year, plus a small interest in the deed to comply with the terms of the ordinance.⁶²

CONCLUSION

Money-lenders provided an efficient and ruthless alternative to modern banking. With or without security anyone in search of money, especially in the cities, had a place to run to. It was, however, a very risky, costly and frustrating path to take. Debtors had to pay in a hard and expensive way. The frustration that the practice brought to borrowers, the ruthlessness of money-lenders, and the involvement of government officials as lenders and borrowers all forced the state to intervene. The intervention of the state was corrective, by passing an ordinance to protect borrowers. The effectiveness of the ordinance depended on the extent to which both the lenders and the borrowers respected the laws. But lenders subverted the law and desperate borrowers accepted whatever terms were laid down by lenders. Although many cases went to court, the influence of indigenous culture and ancient practices tended to slow down the modernization process. As in the pre-colonial times, the lender was in a stronger position than the borrower, and could use force to recover loans in total disregard of the ordinance.

Older values were at the same time breaking down. Whereas in pre-colonial times relations would rally round to help the borrower this was not always the case during the colonial period. Values of affection were being replaced with values of capitalism, a development underscored by the popular saying *Odaju lobi owo, ituji lobi gbese* ('Shrewdness is the mother of riches, shame is the mother of indebtedness'). Both the lender and the borrower were taking risks and were concerned with the benefits that money could confer. Appeals to blood or extended relationship, kinship and *ajogbe* (residence in the same community) diminished in importance. Consequently, money-lenders ensured that there were sureties who could be called upon to pay. In the view of the lender, sureties provided more security than the borrower's relations, as the latter were not obliged to assist. In the thinking of money-lenders, all things that could yield profit, minimize losses and ensure payment were the ideal measures to pursue. Violence, both in the use of language and physical force, became more widespread as a means of

⁶² *Ibid.*

recovery. A debtor reported that his first son was seized by a money-lender because he failed to meet his commitments. Another had his farm confiscated. Houses were auctioned. Debtors became objects of public ridicule.

Finally, the reasons for acquiring debts in spite of the great troubles that they brought explain both continuity and change in social payments and values. As in pre-colonial times funeral, marriage and naming ceremonies continued to demand high expenses. Meeting social expectations imposed a lot of pressure on individuals. On the other hand new demands for loans arose among many salary-earners who desired credit to invest, acquire foreign products such as radios, clothes, jewellery, and spend on entertainment. In general, most people borrowed money for purposes of consumption.

Money-lenders' businesses encouraged accumulation and investment. Money-lenders had to save in order to have enough money to lend. A good number of them were engaged in other occupations in order to generate more capital.⁶³ The gains from lending were invested, a wise strategy of building fortunes out of the misfortunes of others.

SUMMARY

As older ways of raising credit declined or were re-defined, the acquiring of loans from a specialized group of money-lenders flourished in colonial Western Nigeria. Money-lenders charged exorbitant interest and insisted on loan repayment at a fixed date. Borrowing from the modern banking system, the money-lenders prepared legal documents and required surety. Debt recovery was generally painful to defaulters; they were humiliated, harassed, and had their property confiscated. The practice generated many conflicts. The debtor was generally unhappy, especially if the money was used for consumption. Lenders cheated with high interest rates and other charges and promoted for their own ends indiscriminate lending to poor and vulnerable people. To minimize conflicts and protect debtors, the colonial administration decided to regulate the trade with ordinances, especially the Moneylenders' Ordinance of 1938 which set limits to interest and forced lenders to obtain licences. In general, lenders subverted the ordinance, creditors and debtors became more cunning as documents were falsified to protect lenders, and those who needed money continued to accept harsh terms.

⁶³ *Ibid.*; Oral interviews with informants previously cited.

Financial Market Fragmentation and Reforms in Ghana, Malawi, Nigeria, and Tanzania

Ernest Aryeetey, Hemamala Hettige, Machiko Nissanke, and William Steel

This article reports the findings from surveys of formal and informal institutions and their clients in Ghana, Malawi, Nigeria, and Tanzania. It investigates the hypothesis that reforming financially repressive policies would not be sufficient to overcome fragmentation of financial markets because of structural and institutional barriers to interactions across different market segments. The four countries have substantially fragmented financial markets, with weak linkages between formal and informal segments and interest rate differentials that cannot be adequately explained by differences in costs and risks. Nevertheless, the relatively low transaction costs and loan losses of informal institutions indicate that they provide a reasonably efficient solution to information, transaction cost, and enforcement problems that exclude their clients from access to formal banking services. The findings imply that financial liberalization and bank restructuring in the African context should be accompanied by complementary measures to address institutional and structural problems, such as contract enforcement and information availability, and to improve the integration of informal and formal financial markets.

Expecting to hasten financial deepening and reduce fragmentation of financial markets, governments in many Sub-Saharan African countries initiated financial policy reforms in the 1980s. This article examines the experience in four countries and raises the issue of whether policy reform programs need to be accompanied by measures to address the institutional and structural problems of financial systems in Africa. We use survey findings to compare the behavior of informal and formal financial markets in handling risks and transaction costs. We evaluate indicators of financial deepening and lending to the private sector.

Ernest Aryeetey is with the Institute for Statistical, Social, and Economic Research at the University of Ghana, Hemamala Hettige is with the Policy Research Department at the World Bank, Machiko Nissanke is with the School of Oriental and African Studies at the University of London, and William Steel is with the Private Sector Finance Group of the Africa Region at the World Bank. This study was supported by the World Bank Research Committee, the Swedish International Development Association, the Overseas Development Institute, the School of Oriental and African Studies (University of London), and the Leverhulme Trust. The fieldwork was conducted by Ernest Aryeetey (Ghana), Mboya Bagachwa (Tanzania), Chinyamata Chipeta (Malawi), M. L. C. Mkandawire (Malawi), and Adedoyin Soyibo (Nigeria), with assistance from Martin Wall on the flow of funds and Deborah Johnston on editing. The authors are grateful for comments from the referees and from Gerald Caprio, Carlos Cuevas, Jean-Jacques Deschamps, Marcel Fafchamps, Sergio Pereira Leite, Kazi Matin, Richard Meyer, Ademola Oyejide, and Hennie van Greuning.

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The countries studied—Ghana, Malawi, Nigeria, and Tanzania—have similar types of financial systems but different degrees of financial development and liberalization, permitting cross-country comparisons.

The analysis distinguishes between efficient *specialization* for market niches by different segments of informal and formal finance and *fragmentation* with impediments to efficient intermediation. Under efficient specialization for differentiated risk and cost characteristics, interest rate differentials reflect differences in cost of funds, transaction costs, and risk. In fragmented markets, wide differences in risk-adjusted returns occur because funds and information do not flow between segments, and clients have limited access to different financial instruments, resulting in low substitutability. Where poor information and contract enforcement make it too costly for formal financial institutions to serve small businesses and households, informal sector techniques may have an important role to play in serving these financial market segments.

Section I provides some background on initial conditions and policy reforms. Section II presents the analytical framework used to examine market responses and performance. Section III presents the evidence on segmentation, and section IV analyzes the responses of different segments to policy reforms. Section V concludes with policy implications.

I. BACKGROUND

The review in “Adjustment in Africa” (World Bank 1994) acknowledges the limited progress in financial sector reform in Africa and calls for some rethinking of strategy. Financial liberalization may need to be accompanied by measures to address institutional weaknesses and structural obstacles that inhibit financial market efficiency and integration.

In most African countries, the indigenous private sector consists largely of households and small-scale enterprises that operate outside the formal financial system. Analysts refer to the informal sector by many terms, such as unorganized, noninstitutional, and curb markets. Conforming to recent trends in the literature, we use the term “informal finance” to refer to all transactions, loans, and deposits occurring outside the regulation of a central monetary or financial market authority (Adams and Fitchett 1992). The semiformal sector has characteristics of both the formal and informal sectors—for example, legally registered institutions that are not directly regulated by the financial authorities.

Informal savings activities in Africa are widespread but generally self-contained and isolated from those of formal institutions (Adams and Fitchett 1992 and Bouman 1995). There is evidence of demand for external finance by enterprises that want to expand beyond the limits of self-finance but that have historically lacked access to bank credit (Aryeetey and others 1994; Levy 1992; Liedholm 1991; Parker, Riopelle, and Steel 1995; and Steel and Webster 1992). Better integration among different segments of the financial system—formal, semiformal, and informal—could facilitate economic development by mobiliz-

ing household resources more effectively and improving the flow of financial resources to enterprises with high potential (Seibel and Marx 1987).

We selected Ghana, Malawi, Nigeria, and Tanzania for this study on the basis of their reasonably comparable financial systems, financially repressive policies prior to reform in the late 1980s, well-documented financial systems, and experienced local researchers. Financial policies pursued in the four sample countries in the prereform period shared certain financially repressive characteristics, such as restriction on market entry, often coupled with public ownership; high reserve requirements; interest rate ceilings; quantitative control on credit allocation; and restrictions on capital transactions with the rest of world (Johnston and Brekk 1991; Montiel 1996).

Financial repression discouraged investment in information capital. Savings mobilization was not actively pursued. Financial systems lacked active liquidity and liability management and incentives to increase efficiency, resulting in high costs of financial intermediation. Although the nature of particular measures varied by country, in general the allocation of investible funds shifted from the market to the government. The degree of government control over banking institutions was higher in socialist-oriented Tanzania and Ghana than in Malawi and Nigeria, which encouraged indigenous private agents following independence. Governments often used banking institutions as a source of implicit taxation, for example, by imposing high reserve requirements in the range of 20–25 percent of assets (more than 80 percent in Ghana in the early 1980s) and by financing operating losses of parastatals (Collier and Gunning 1991). In the period before adjustment, the share of government and public enterprises in total domestic credit was 86 and 95 percent in Ghana and Tanzania, respectively, and well over 50 percent in Malawi and Nigeria.

Governments implemented financial sector reforms to address these conditions through liberalization and balance-sheet restructuring. The reforms decontrolled interest rates and credit allocation and included efforts to strengthen regulatory and supervisory frameworks. Although the general thrust of these measures was similar for all four countries, the initial conditions differed, including banks' and borrowers' net worth and the scale of fiscal imbalances preceding financial sector reform. Policy sequences and the pace of reforms also differed across countries. All of the countries initiated policy reforms during the period 1985–87 (although implementation in Tanzania was very slow before 1991).

Analysts frequently mention the partial nature of reforms and inadequate institution building as explanations for the disappointing outcomes of financial liberalization in Sub-Saharan Africa (World Bank 1994). The experience of the Southern Cone countries in South America shows that important conditions for successful liberalization include macroeconomic stability, prudential supervision, and an adequate regulatory framework. The financial reform programs introduced in Ghana and Malawi addressed these conditions, at least to some extent. Ghana reduced fiscal imbalances before decontrolling the interest rate and credit allocation over a two-year period and restructured banks and their balance sheets.

The country paid early attention to strengthening the regulatory and supervisory environment and to developing money and capital markets. In Malawi, too, major fiscal and public enterprise reforms prior to financial liberalization reduced the cost of bank restructuring. The reforms gradually decontrolled interest rates and implemented institution-building measures. Neither country experienced major financial crisis.

In Tanzania problems arose from delays in restructuring parastatals, which were the banks' main borrowers. Banks' net worth deteriorated significantly as they continued to extend credit to poorly performing parastatals. Nonperforming loans accumulated, greatly increasing the cost of balance-sheet restructuring. Thus, weaknesses on the institutional side impeded progress in policy reforms. In Nigeria financial sector reforms were thrown into crisis by the sequencing of reform measures and the lack of the necessary prerequisites for liberalization. In particular, wholesale deregulation of interest rates and market-entry requirements in the early years aggravated the instability of the financial system. A series of corrective measures had to be adopted, raising questions of policy credibility.

Our fieldwork shows that, in comparison with the disappointing response of formal institutions to reform measures, informal financial agents responded dynamically in the adjustment period in all four countries. In particular, we observe signs of innovation in the semiformal financial sector. However, with weak linkages between segments of the financial market, these new developments have as yet had little measurable impact on market fragmentation, resource mobilization, and financial intermediation.

II. ANALYTICAL FRAMEWORK

Two leading theoretical paradigms in contemporary financial economics provide analytical frameworks for examining the impact of policy reforms on financial market fragmentation. These paradigms complement each other but focus on different policy-based or structural and institutional explanations.

A Policy-Based Explanation of Financial Market Fragmentation

The financial repression hypothesis (McKinnon 1973; Shaw 1973; and Fry 1982, 1988) attributes underdeveloped and inefficient financial systems to *government policy* failures, which result from excessive intervention. The hypothesis sees repressive policies as the prime cause of fragmentation (Roe 1991). Ceilings on deposit and loan rates tend to raise the demand for and depress the supply of funds. Unsatisfied demand for investible funds then forces financial intermediaries to ration credit by means other than the interest rate, while an informal market develops at uncontrolled rates. A fragmented credit market emerges in which favored borrowers obtain funds at subsidized, often highly negative, real interest rates, while others must seek credit in inefficient, expensive informal markets.

In this view, removing restrictive policies should enable the formal sector to expand and thereby eliminate the need for informal finance. Financial liberalization would lead to financial deepening; improved efficiency, resulting in lower spreads between borrowing and lending rates; and increased flow of funds between segments, including better access to formal finance for previously marginalized savers and borrowers.

Structural and Institutional Explanations of Financial Market Fragmentation

Other authors have concentrated on structural and institutional features of the financial markets of developing countries to explain fragmentation. Hoff and Stiglitz (1990) advance an explanation based on *imperfect information* on creditworthiness and differences in the costs of screening, monitoring, and contract enforcement across lenders. In the presence of imperfect information and costly contract enforcement, *market failures* result from *adverse selection* and *moral hazard*, which undermine the operation of financial markets. Adverse selection occurs as interest rates increase and borrowers with worthwhile investments become discouraged from seeking loans. The quality of the mix of loan applications changes adversely as interest rates increase. Further, borrowers have an incentive to adopt projects that promise higher returns but have greater risks attached. This increases the risk of default. Moral hazard occurs when some applicants borrow to pay high interest on existing loans to avoid bankruptcy or borrow without the intention or the capacity to pay back loans. Thus the level of interest rates affects the risk composition of financial portfolios (Stiglitz and Weiss 1981 and Stiglitz 1989). Concerned about greater risk, lenders may resort to nonprice rationing rather than raise interest rates when faced with excess demand for credit. As a result, credit rationing may characterize market equilibrium even in the absence of interest rate ceilings and direct allocation. Liberalized markets do not necessarily ensure Pareto-efficient allocation (Stiglitz 1994).

Problems arising from imperfect information are likely to be most pronounced in low-income countries, where information flows are limited by poor communications, and gathering information is often costly. Poor information systems encourage segmentation by raising the cost to formal institutions of acquiring reliable information on both systemic and idiosyncratic risks for all but the largest clients. In contrast, informal agents rely on localized, personal information that gives them local monopoly power but constrains their ability to scale up.

Segmentation may also result from weaknesses in the infrastructure that supports the financial system. For example, the adequacy of the legal infrastructure affects the costs and risks of contract enforcement, which in turn influence both the willingness of lenders to enter into financial agreements and the type of security they will accept. The ability to offset the risk of default may be limited by the absence of a well-functioning insurance market and of markets for the sale of confiscated collateral (Binswanger and Rosenzweig 1986). In low-income countries, reliance on collateral excludes many otherwise creditworthy small-scale borrowers, especially where land tenure is not legally explicit. Market seg-

ments that formal banks avoid for these institutional reasons may nevertheless be served by informal agents who use personal relationships, social sanctions, and collateral substitutes such as reputation and group responsibility to ensure payment.

Synthesizing Alternative Explanations of Financial Market Fragmentation

The explanations for segmentation discussed above are not necessarily mutually exclusive. Ghate (1988) suggests that the informal sector consists of two parts. The *autonomous* part, represented by indigenous bankers, rotating savings and credit associations (ROSCAs; see Bouman 1995), and pawnbrokers, historically antedates the formal sector. The *reactive* part developed in response to controls over the formal sector. In this respect, informal sector credit can be viewed as residual finance, satisfying spillover demand by those excluded from the formal market (Bell 1990).

Roemer and Jones (1991) also make a useful distinction between a parallel market and a fragmented market. Parallel markets arise principally to evade government controls and regulations, but markets can become fragmented in the absence of government controls due to inherent operational characteristics. Roemer and Jones suggest that "Credit markets in developing countries display characteristics of both parallelism and fragmentation" (p. 8). Evaluated in this light, the financial repression hypothesis is concerned with parallelism, while the imperfect information paradigm implies that fragmentation may persist despite liberalization.

Structural and institutional barriers across segments provide the opportunity to exploit monopoly power, thus perpetuating fragmentation. A pronounced feature of financial markets in Sub-Saharan Africa is the separation of formal and informal sectors into almost discrete enclaves (Seibel and Marx 1987). A critical policy-related question is whether segment-specific advantages can be translated into market efficiency; measures to promote integration of segments may be necessary (Seibel 1989). As financial sector reforms address policy-induced bottlenecks, the extent to which structural and institutional deficiencies constrain efficient specialization becomes more observable.

Hypotheses about the Effects of Liberalization on Access to Formal Finance

Under the financial repression hypothesis, liberalization of restrictive policies on interest rates and entry leads to greater access to formal finance for previously marginalized borrowers, lower spreads between borrowing and lending rates, increased financial flows between segments of the financial market, and a diminished role for informal finance. Lack of a well-defined time period in which the results should occur limits our ability to test this hypothesis. However, we anticipate that some perverse effects will occur initially, with the removal of interest rate ceilings and the restructuring of bank portfolios. We conducted our study more than three years after the initiation of reforms in each of the countries, a period sufficient to observe the initial

effects on informal finance, although reform of the formal financial sector was not necessarily complete.

If informal finance represents an efficiency-improving solution to structural problems of imperfect information and contract enforcement, we would expect to observe specialized techniques designed to minimize transaction costs and risks in dealing with narrow market segments. If structural and institutional constraints are important, reforms in the formal financial sector would have little impact on informal activities, which would respond more to changes in financial demand and supply in the real economy than to changes in financial policies.

Methodology for Constructing the Sample

We collected data on 283 informal financial institutions and 174 bank branches in the four countries during 1992 and 1993 (see tables 1 and 2). Altogether the sample has 160 observations for Ghana, 104 for Malawi, 104 for Nigeria, and 89 for Tanzania. We attempted to survey bank branches representing all major commercial and development banks in each country and a representative sample

Table 1. *Survey Sample of Informal Nonbank Financial Institutions, 1992–93* (number of observations)

Country	Savings collectors	Money lenders	Traders, landlords	Rotating savings and credit associations (ROSCAs)	Savings and credit cooperatives (SCCs)	Credit unions	Other ^a	Total
Ghana	28	12	—	18	12	18	2	90
Malawi	—	23	29	9	9	—	—	70
Nigeria	15	20	—	12	10	4	3	64
Tanzania	—	—	30	10	19	—	—	59
Total	43	55	59	49	50	22	5	283
Percent	15.2	20.8	20.8	17.3	17.7	7.8	1.8	100.0

— Not available.

a. Savings and loan companies, finance houses.

Source: Authors' calculations based on survey data.

Table 2. *Survey Sample of Formal Banking Institutions, 1992–93* (number of observations, including branches)

Country	Commercial and merchant banks	Development banks	Other ^a	Total	Total in rural areas
Ghana	38	14	18	70	35
Malawi	14	3	17	34	15
Nigeria	34	0	6	40	8
Tanzania	6	15	9	30	5
Total	92	32	50	174	63
Percent	52.9	18.4	28.7	100.0	36.2

a. Rural banks (Ghana), community and people's banks (Nigeria), building society and union of savings and credit cooperatives (Malawi), postal bank (Tanzania).

Source: Authors' calculations based on survey data.

of specialized banking institutions (such as rural banks, community banks, building societies, and postal banks). For informal financial institutions, no systematic enumeration was available that could serve as a sampling frame. Furthermore, differences in the nature of informal institutions are found across countries. Hence we selected representative respondents from three broad categories of informal institutions (see section III), based on interviews with borrowers and prior knowledge by the local research teams. Absent a basis for determining the sample's representativeness in terms of the numbers and assets of different types of institutions, the analysis focuses on differences in institutional characteristics, behavior, and performance between categories and between informal and formal financial institutions.

The questionnaires sought data on the agents themselves, portfolio characteristics, interest rates, risk management, transaction costs, delinquency rates, and linkages to other institutions. We used the surveys to obtain retrospective information on changes over the preceding two years. Retrospective data are subject to bias because less successful institutions that failed are excluded from the sample. However, the observation of the researchers based on previous research in the sector was that dropout rates were relatively low for most informal financial agents. The data can be considered representative of agents who stayed in business during the period under review, although they cannot be generalized to estimate changes at the national level, given the absence of census and panel data. The results are presented in more detail in Nissanke and Aryeetey (forthcoming), Aryeetey and others (1997), Aryeetey (1994 and 1996), Bagachwa (1995 and 1996), Chipeta and Mkandawire (1996a and 1996b), and Soyibo (1996a and 1996b).

We gathered data on formal financial flows and indicators from published sources and central bank authorities. We compared data for 1987–92 with data for 1981–86 to analyze changes that occurred after reforms were under way.

III. FINANCIAL MARKET SEGMENTATION

This section summarizes the specialized techniques of informal financial institutions and compares them with those of banks. The evidence indicates the extent to which informal markets are more efficient than formal financial markets.

Types of Informal Financial Institutions

Financial transactions involve the exchange of money in the present for a promise to pay in the future. The ability to enforce these contracts is critical for the survival of a financial intermediary. Unlike financial transactions in the formal sector, transactions in the informal sector rarely involve legal documentation. We identify three basic approaches to risk and contract enforcement problems. One category specializes in either the credit or the savings side of the market. Another category bases the financial transaction on a personal or business rela-

tionship. A third category provides full financial intermediation between savers and borrowers. We draw roughly a third of the sample from each of these three categories.

SPECIALISTS IN ONE SIDE OF THE MARKET. Moneylending covers a wide range of credit arrangements that differ across countries, with interest rates ranging from 0 to as much as 100 percent a month. (In general, the most common source of informal finance consists of relatives and friends; this type was not covered in the survey because of its noncommercial character.) All the informal moneylenders surveyed base their lending decisions on firsthand knowledge of the borrower. In our sample, there are few professional moneylenders. More commonly, part-time moneylenders use surplus funds from other sources such as a commercial business. Professional and part-time moneylenders account for 55 (of the total 457) observations in the combined survey sample.

Individuals who operate primarily on the savings side are found only in West Africa (43 observations in Ghana and Nigeria). Savings collectors take regular deposits (usually on a daily basis) of an amount determined by each client and return the accumulated sum (typically at the end of each month) minus one day's deposit as commission. These mobile bankers form a symbiotic relationship with market traders, protecting daily earnings from competing claims and ensuring working capital to restock supplies at the end of the month (Miracle, Miracle, and Cohen 1980 and Aryeetey and Steel 1995). Savings collectors place most of their deposits in banks for safekeeping, but they sometimes extend advances to their best clients before the end of the month.

RELATIONSHIP-BASED LENDERS. Rotating savings and credit associations are pervasive in all the countries studied. ROSCAs are known as (among other names) *susu* in Ghana, *esusu* in Nigeria, *upatu* or *mchezo* in Tanzania, and *chilemba* or *chiperegani* in Malawi. ROSCAs are membership groups in which all members pay in set amounts at regular intervals to a common pool, which goes to each member in turn (usually randomly, but some variations allow bidding). Intermediation occurs between members whose turn comes earlier and later within a small, closed group over a fixed period of time. Mutual trust offsets the risk that early recipients will drop out. In another type of savings and credit association, members save jointly toward common objectives such as school fees, annual festivals, or community development, sometimes making loans at high rates to increase the accumulated amount. Rotating savings and credit associations represent 49 observations in the four countries in our sample.

Traders are an important source of informal credit in all the countries studied. They supply either inputs or cash advances to farmers, linked to purchase of produce at a highly discounted price. In Malawi and Tanzania, landlords and estate owners often lend to their tenants. Individual lenders who have long-term business relationships with their clients account for 59 observations in our sample.

FINANCIAL INTERMEDIARIES. Savings and credit cooperatives (SCCs), or societies, raise savings from and make loans to members. Although they are membership organizations, sometimes raising money from shares as well as voluntary deposits, they are relatively large and open to new members, unlike ROSCAs. Credit unions are registered as such and represent a more formal form of SCC based on share capital. SCCs and credit unions (with 50 and 22 observations, respectively, in the combined sample) use repeat transactions to screen borrowers. Other semiformal institutions (5 observations), such as finance houses, have emerged to both mobilize and lend funds to the general public (see section IV).

Management of Information and Risk

The banks surveyed in the sample countries view small borrowers as riskier than large ones for reasons often related to the difficulty of obtaining accurate information about them: geographical remoteness, illiteracy, and unreliable incomes. Through heavy emphasis on stringent collateral requirements for loans and high minimum deposit requirements, banks effectively screen out the vast majority of small clients. We rarely observe foreclosure on collateral or legal actions in our survey, reflecting weak and uncertain legal systems.

Informal lenders draw heavily on information obtained through personal, social, and business relationships in order to preselect clients. ROSCAs, SCCs, and credit unions operate with group membership selection criteria. Traders and landlords lend only to their customers and tenants. Most informal lenders do not use interest rates to discriminate among clients. Through prescreening, all of the borrowers of each lender fall into a similar risk category.

Informal lenders generally require security but are much more flexible than banks in accepting personal guarantees, arrangements with employers, and movable property. About 60 percent of moneylenders in Nigeria, 63 percent in Tanzania, and 83 percent in Ghana require such security, as do 76 percent of credit unions in Ghana (but smaller SCCs and ROSCAs generally do not). In interlinked transactions, the crops pledged, the equipment provided, or the land involved serve as collateral. Informal enforcement is easier than going through the legal system. For example, a landlord-lender could make productive use of pledged farmland, whereas a bank would face a long, expensive legal process to seize it. Personal relationships and social pressure, either within membership groups or through family members, are often instrumental in ensuring repayment without aggressive enforcement measures.

Our survey finds that linking loans with real sector transactions is a common informal technique in all countries. Traders may provide materials and equipment on credit or make a cash loan contingent on purchasing such inputs or selling the crop to the trader. In Malawi all estate owners making loans linked them in this way. The lower implicit rate (6 percent a month) for linked loans than for unlinked cash loans (9 percent) from trader-lenders in Tanzania and loan sizes that are five times the size of unlinked loans show that interlinked transactions reduce uncertainty.

Evidence of Financial Market Fragmentation

Weak linkages between segments of the financial market and differences in returns that cannot be explained by costs and risks indicate fragmentation. To study the costs and risks, we gathered data on interest rates, default risk, and transaction costs, although we find it difficult to make precise comparisons for loan instruments of widely different terms and conditions.

Financial flows from formal to informal markets are negligible. Informal financial agents generally have a limited capital base and little access to borrowed funds. Even those moneylenders who can access bank credit through their other business activities rarely do so for the purpose of on-lending. The main sources of the expanding supply of loanable funds by informal agents are mobilized savings and reinvested profits (including from other activities).

By contrast, informal deposit mobilizers (except for ROSCAs) frequently maintain bank accounts, especially in urban areas. In Ghana 89 percent of informal operators report having a bank account, in Nigeria 82 percent, and in Tanzania 97 percent in urban areas and 67 percent in rural areas. We find no direct linkages between informal agents, although some clients use savings collectors to accumulate funds for contributions to their ROSCA or credit union. Informal clients generally have neither a savings nor a credit relationship with formal banks, and few can obtain credit from more than one source.

Interest rates vary widely across informal institutions, as well as between formal and informal markets. Moneylenders' rates are generally at least 50 percent above formal rates, with average monthly interest ranging from under 10 percent in Tanzania to 48 percent in Malawi, reaching as high as 100 percent a month in individual cases. The average monthly interest rate of SCCs in Malawi is also relatively high at 13 percent, well above rates in the formal sector, whereas the average of 2.6 percent a month in Tanzania is comparable to the 31 percent a year charged by the state-owned commercial bank.

Delinquency and default rates of informal lenders are generally low relative to banks in the sample countries. In Ghana 70 to 80 percent of informal lenders have no delinquent borrowers compared with 80 to 86 percent in Nigeria. In all cases, lenders are confident that delinquent borrowers will repay within three months of the loan maturing. Eventual default rates in Tanzania are as low as 0.1 percent for SCCs, 2.5 percent for ROSCAs, and 4 percent for traders and landlords. In contrast, commercial banks report very high rates of nonperforming loans, averaging from 45 percent in Nigeria to more than 80 percent in Tanzania (in part a problem of state banks and parastatal borrowers), with only limited recovery through portfolio restructuring exercises.

Loan administration costs (screening, monitoring, and contract enforcement) are generally lower as a percentage of loan amounts for informal lenders than for banks. Most of the informal lenders' costs are in prescreening the client's ability to repay, not the particular use of the funds, whereas banks devote considerable resources to project evaluation. The value of the time that moneylend-

ers allocate to administering loans is equivalent to only 0.6 to 3.2 percent of loan amounts across the four countries, compared with 1.7 to 12.9 percent for bank loans to small-scale enterprises (as high as 18.9 percent for large-scale enterprises). Credit unions fall within the same range as moneylenders, while their less formal counterparts, SCCs, are consistently lower at 1 percent or less. The part-time nature of much informal lending and the lack of overhead help explain the relatively low costs.

The cost of lending also depends on the cost of funds. Banks' cost of funds in 1992, as indicated by deposit rates, were 16 percent in Ghana, 17 percent in Malawi, 18 percent in Nigeria, and 22 percent in Tanzania. (The inflation rate, measured by the gross domestic product (GDP) deflator, in 1992 was 13 percent in Ghana, 18 percent in Malawi, 65 percent in Nigeria, and 19 percent in Tanzania.) Most of the informal financial units surveyed mobilize their own funds, usually at very low cost; they have no access to bank loans for on-lending. Savings collectors have a *negative* cost of funds, because they receive payment for taking deposits. ROSCA members evidently have a low opportunity cost of funds, because they persist despite the absence of interest payments. The opportunity cost of funds for moneylenders who are also traders is low because they generally lend out temporarily idle funds.

The evidence indicates that financial markets in the sample countries are highly fragmented. Formal and informal lenders are polarized at extreme ends of the market, with relatively little overlap of clientele. Each informal and formal institution selects a narrow range of clients and products. Although some informal agents link households and small businesses to the formal financial system through their deposit mobilization activities, this is a one-way link with virtually no linkage on the credit side.

Furthermore, risk-adjusted returns do not appear comparable across segments. Informal interest rates are generally much higher than formal rates, yet informal lenders have both lower transaction costs and lower default rates. Among informal lenders, the variation in rates is much wider than the variation in transaction costs and default rates. Informal lenders appear better able to enforce collateral than banks and to have a relatively low opportunity cost of funds. Hence the relatively high rates charged by informal moneylenders are likely to represent substantial monopoly power vis-à-vis borrowers who lack access either to formal credit or to membership-based informal finance.

Nevertheless, the relatively low transaction costs and loan losses of informal agents in serving clients who lack access to the formal banking system indicate that they provide a reasonably low-cost solution to the information and enforcement problems that characterize African economies.

IV. FINANCIAL SECTOR RESPONSES FOLLOWING REFORMS

This section investigates the financial repression hypothesis. It looks at how different segments of the financial market responded to the introduction of lib-

eralization measures in terms of deposit mobilization, financial deepening, lending, and interest rate spreads. Reformers expected that bank depositors would switch to interest-bearing, longer-term deposits and that banks would increase their lending to the private sector, including small enterprises. They also expected interest rate spreads to diminish and the importance of informal financial markets to dwindle.

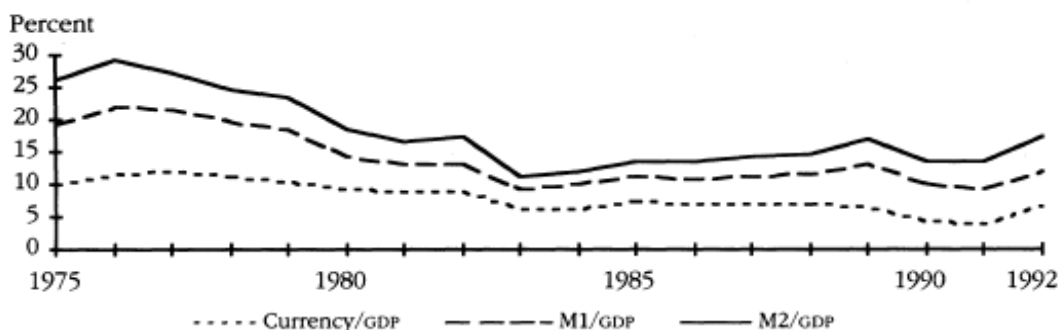
It should be stressed that financial sector reforms are ongoing, encompassing wide-ranging measures rather than just liberalization of interest rates and credit allocation. Because the breadth and depth of financial reforms vary considerably across the case-study countries, it is inappropriate to make a final conclusion on the outcome of reforms per se. It is now widely accepted that financial reform is a lengthy process, requiring progress in institution building, as well as policy liberalization.

Financial Deepening and Deposit Mobilization

The countries in our sample made little progress in savings mobilization, with fluctuating growth in the number of depositors and the size of deposits following the introduction of reforms. Figures 1–4 show little net change in the mobilization of deposits by banking institutions, as measured by the ratios of currency in circulation (M1 and M2) to GDP. The M2-to-GDP ratios of the sample countries—31 percent for Tanzania over 1987–92, 15 to 21 percent for the others—lie below those for countries of comparable income per capita from other regions, such as Honduras (31 percent), Bangladesh (33 percent), Pakistan (43 percent), and India (48 percent).

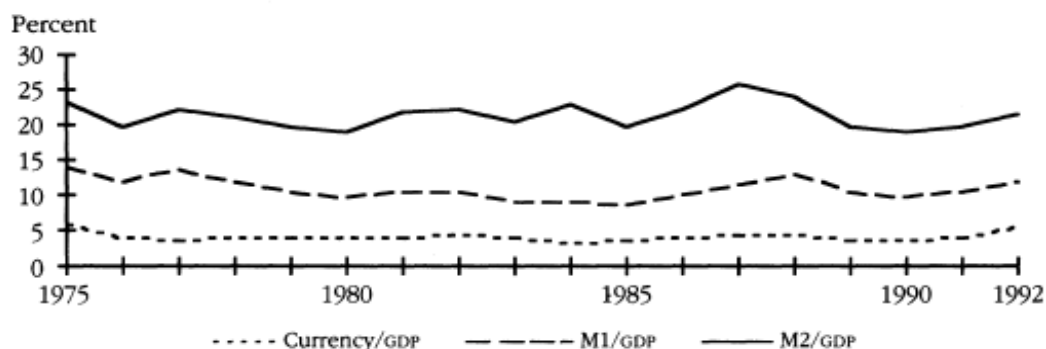
Ghana's financial depth was the lowest among the countries studied, despite some improvements after the mid-1980s, and remained far below the levels attained in the 1970s. Though Malawi achieved greater financial depth than Ghana, the pattern was likewise one of recovery after an initial decline following liberalization, with no definite trend between 1975 and 1992. Since 1980 Malawi's currency-to-GDP ratio has remained under 5 percent, although nontransaction demand for money (the difference between M2 and M1) was higher than in the other three countries, accounting for 10–14 percent of GDP.

Nigeria's indicators of financial deepening were affected by the difficulties experienced after liberalization attempts. Figure 3 shows that both M2-to-GDP and (M2–M1)-to-GDP ratios declined sharply in the late 1980s, partly because the government abruptly withdrew public sector deposits from the banking system. Although these ratios have since recovered, Nigeria's process of financial deepening appears to have stalled in the 1990s. Tanzania had a higher M2-to-GDP ratio than the other study countries in the late 1970s, but the banking system lost ground in savings mobilization in the initial years of economic reform (1984–88). Recently currency accounted for more than a third of M2, and the nontransaction demand for money had declined noticeably.

Figure 1. *Indicators of Financial Deepening in Ghana, 1975-92*

Note: M1 measures money supply as demand deposits plus currency in circulation; M2 is M1 plus time and savings deposits.

Source: IMF (various years); Bank of Ghana (various years).

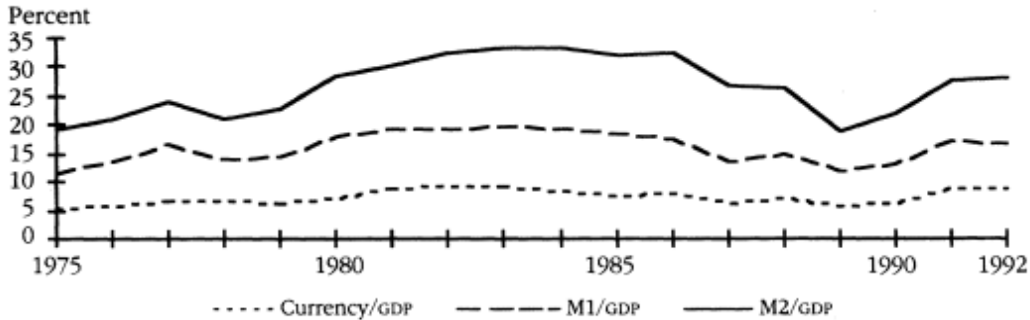
Figure 2. *Indicators of Financial Deepening in Malawi, 1975-92*

Note: M1 measures money supply as demand deposits plus currency in circulation; M2 is M1 plus time and savings deposits.

Source: IMF (various years); Reserve Bank of Malawi (various years).

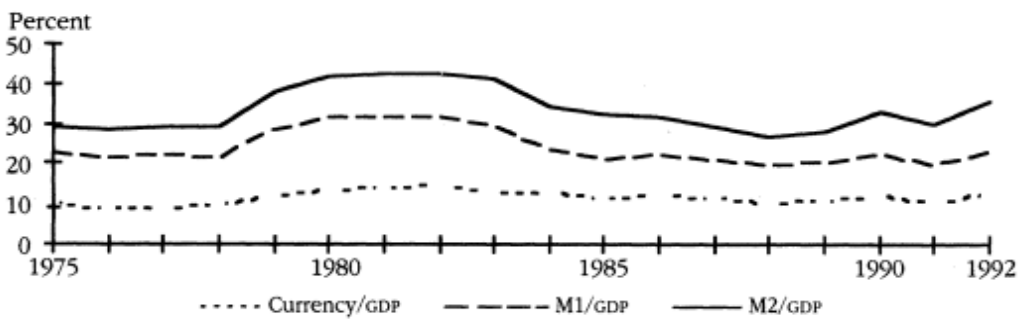
Liquid short-term instruments continued to dominate the liabilities of banking institutions during the reform period, although the general trend was toward a smaller share of demand deposits (table 3). In Nigeria the share of time deposits actually fell 15 percentage points between 1980 and 1992. Only in Tanzania was demand for time deposits clearly both strong and rising. In sum, the deposit base of banking institutions remained volatile, with only limited change in the structure of liability.

RESOURCE MOBILIZATION BY INFORMAL FINANCIAL INSTITUTIONS. In contrast to the disappointing performance of the formal financial sector following reforms, the survey results show that informal financial institutions in all four countries responded dynamically to increased demand for their services in the liberalized environment. The capital base of moneylenders in Nigeria grew 264 percent over two years (1990 to 1992) and that of savings and loan companies grew 148 percent; in Malawi the combined average increase was 73 percent over two years.

Figure 3. *Indicators of Financial Deepening in Nigeria, 1975-92*

Note: M1 measures money supply as demand deposits plus currency in circulation; M2 is M1 plus time and savings deposits.

Source: IMF (various years); Central Bank of Nigeria (various years).

Figure 4. *Indicators of Financial Deepening in Tanzania, 1975-92*

Note: M1 measures money supply as demand deposits plus currency in circulation; M2 is M1 plus time and savings deposits.

Source: IMF (various years); Bank of Tanzania (various years).

Survey results indicate that deposits increased in informal sector institutions. Determining national trends in aggregate deposits is difficult because of seasonal and annual fluctuations in the amounts reported and the absence of nationwide data. Indications are that the number of informal institutions was increasing in all countries, thus multiplying the increases per institution reported from the survey data. In Tanzania the total volume of deposits rose 67 percent in the SCCs surveyed and 113 percent in ROSCAs from 1990 to 1992, due to increases in both the number of members and the average size of deposits. In Nigeria deposits rose 100 percent in credit unions, 56 percent in SCCs, and 77 percent in ROSCAs over the same period. In Malawi deposits grew 44 percent in community funds from 1989 to 1991 and 45 percent in ROSCAs (both faster in urban areas), mainly as a result of deposits from additional members. The average number of clients per savings collector surveyed rose from 250 in 1990 to 438 in 1992 in Nigeria and from 155 to 290 in Ghana, and average monthly deposits rose 51 percent in Nigeria and 64 percent in Ghana.

Table 3. *Changes in Composition of Bank Deposit Liabilities, 1980 and 1992* (percentage of total deposits)

Country	Demand deposits		Savings deposits		Time deposits	
	1980	1992	1980	1992	1980	1992
Ghana	71 ^a	57 ^b	28 ^a	34 ^b	1 ^a	8 ^b
Malawi	40	38	—	—	60 ^c	62 ^c
Nigeria	48	44	15	34	37	22
Tanzania	67	45	10	17	23	30

— Not available.

a. 1983.

b. 1991.

c. Figures are for both time and savings deposits.

Source: Aryeetey 1994; Bagachwa 1996; Soyibo 1996a; the figures for Malawi are calculated from Reserve Bank of Malawi, various years.

TRENDS IN LENDING. Reformers tried to restructure bank loan portfolios to expunge nonperforming loans, largely to public enterprises, and to enable banks to resume lending to private enterprises. Although the share of lending by commercial banks to the private sector generally increased in Ghana and Tanzania, lending to the public sector remained high, reflecting past development strategy (table 4). The share of the private sector in bank lending was higher in Malawi and Nigeria (compared with Ghana and Tanzania), but contracted during 1987–92. Despite these limited signs of improvement in private sector shares of credit, slow growth of credit overall meant that the ratio of private credit to GDP actually fell in Malawi and Nigeria and remained relatively low in Ghana at 4 percent and in Tanzania at 2 percent. Indeed, in all four countries, the ratio of private sector lending to GDP was remarkably lower (2 to 11 percent) than in many countries with comparable income per capita, for example, 50 percent in Indonesia and 20 percent in Kenya (International Monetary Fund 1995).

There was also little change in banks' lending profile within the private sector portfolio. Banks continued to concentrate on their traditional large, established customers and to avoid small-scale enterprises and small farmers. In Ghana large enterprises (30 or more workers) took as much as 74 and 50 percent of loans extended to the private sector by commercial banks and development banks,

Table 4. *Credit Allocation between the Private and Public Sectors, 1981–93* (percent)

Country	Share of credit to the public sector in total credit		Private sector lending in total commercial bank lending			Ratio of private sector credit to GDP	
	1981–86	1987–92	1986	1990	1993	1981–86	1987–92
Ghana	86.3	74.5	13.6	27.6	35.8	2.4	4.1
Malawi	63.3	53.6	39.4	52.5	40.4	14.6	9.1
Nigeria	55.3	50.3 ^a	47.2	63.5	44.9	17.4	11.3
Tanzania	94.8	61.6 ^b	7.2	14.6	27.1	2.3	2.2

a. 1987–91.

b. 1987–88.

Source: Authors' calculations based on various annual reports from relevant central banks.

respectively, although they represented less than 10 percent of firms and employment. In Malawi the small enterprise sector (fewer than 30 workers) received only 15 percent of total loan volumes in 1992, while large enterprises received 63 percent of total loans disbursed. Only in Nigeria was there little disparity in the number of loans to the small and large enterprise sectors, although large enterprises continued to receive a greater share of total loans disbursed.

In sum, despite liberalization and attempts to introduce greater competition, formal finance did not become more accessible to a broad section of the real economy. Sectoral credit distribution remained dominated by short-term credit for trade, as in Ghana and Nigeria, or by financing for the processing and marketing of agricultural exports, as in Malawi and Tanzania. Usually only large manufacturing firms received credit from banks. Other characteristics of formal sector loans, such as maturities and real average loan sizes, hardly changed after reforms were initiated.

INFORMAL CREDIT DEMAND AND SUPPLY. Strong increases in the number of loan applications received and approved are observed for almost all informal lenders in the sample countries. The only notable exceptions are the relatively small credit unions in Nigeria and community funds and savings and credit cooperatives in Malawi. The activities of moneylenders increased sharply in all four countries; the number of loans rose 20 to 130 percent (60 to 73 percent for traders in Tanzania and Malawi). In many cases, loan approval rates rose along with the number of applications, implying an increase in the supply of as well as the demand for funds. Nevertheless, substantial excess demand was reported; for example, 42 percent of moneylenders and 40 percent of savings collectors in Ghana were unable to satisfy all the loans demanded by clients they considered creditworthy.

The survey results suggest that the growth in operations of informal agents was related more to growth of the real economy than to financial sector developments. In Tanzania, for example, trader-lenders and landlords obtained about 35–40 percent of their loan capital from other economic activities, and 85 percent reported that their capital base was growing. Liberalization of grain markets during the 1980s in particular fostered private traders who provided short-term financing for crops. In Ghana, increased financial market activity from liberalization of product markets and increased imports associated with structural adjustment expanded the savings mobilized by savings collectors and the profits of larger trader-moneylenders.

INTEREST RATES AND SPREADS. Under liberalized policies, formal sector lending and deposit rates were expected to settle at a market-clearing level. An initial increase in the spread between lending and deposit rates was expected, because banks needed time to reshape their cost structures. The spread was then expected to narrow as more efficient business practices were adopted under increasing competition.

However, lending rates and spreads remained persistently high during the reform years (table 5). In most cases, high spreads persisted more than seven years after reforms began. The ratio of average spread to lending rate remained the same between 1987 and 1992 in Malawi (0.3) and Tanzania (0.5) and rose in Ghana (from 0.4 to 0.5). The ratios were high relative to Indonesia (0.2), Bangladesh (0.3), and the Philippines (0.3). (See International Monetary Fund 1995.) This trend in spreads indicates low competition in financial markets and high cost of funds and transaction costs in bank lending. On top of nominal lending rates, many banks impose servicing fees, equivalent to an extra 2–5 percent. High reserve requirements intended to absorb excess liquidity in Ghana could also explain high spreads; however, banks voluntarily held reserve instruments well in excess of requirements, indicating that excess liquidity persisted despite high spreads. Thus, there is little evidence of improved efficiency of intermediation in the banking sector.

In some cases moneylenders' interest rates declined following financial sector reforms. The survey respondents did not associate these changes with prevailing interest rates or competition, but rather with the increased supply of funds from liberalized trade (for moneylenders whose primary activity was trading) and with the inability of many clients to pay high traditional rates.

Portfolio Management

Reform measures had limited impact on banks' portfolio management at the time of the study. Even in Ghana and Malawi, where reforms were relatively orderly, most banking institutions continued to operate in an extremely constrained environment, with underdeveloped market-supporting infrastructure and a poor base of information.

Lending remained constrained by external factors such as policy uncertainty, resulting in a low-lending trap despite latent excess demand for credit—particularly by small-scale enterprises with good opportunities but insufficient collateral. Furthermore, de facto crowding out of the private sector persisted in many countries because of the presence of high-yielding government securities. The

Table 5. *Interest Rates and Spreads in Sample Countries, 1987 and 1992*
(percent per year)

Country	Average fixed deposit rate		Average lending rate		Spread	
	1987	1992	1987	1992	1987	1992
Ghana	19.0 ^a	15.0 ^a	30.0 ^b	29.0 ^b	11.0	14.0
Malawi	14.3	16.5	19.5	22.5	5.3	6.0
Nigeria	13.1	18.0	—	31.2	—	13.2
Tanzania	14.5	16.0	29.0	31.0	14.5	15.0

— Not available.

a. Minimum on six-month deposit rate.

b. Maximum secured lending rate.

Source: Authors' calculations based on annual reports from relevant central banks.

portfolios of banking institutions remained dominated by a high incidence of nonperforming loans and excess liquidity.

Although many informal agents grew along with demand for their services, they had difficulty moving beyond their particular sphere of specialization. In general, informal lenders' liability base was narrow, limited to deposits from a specific group of people or surplus income earned by the lender from other economic activities. For example, the lending base of each SCC was limited by the incomes of members, the frequency of deposits, and the size of membership within which it could retain cohesion in its operation. There is little evidence of SCCs or informal agents borrowing externally to lend to their clientele. Their average size of loans remained far smaller than that of banks, while the maturities of their loans were shorter. The demand for medium-size, medium-term loans remained largely unsatisfied as both formal and informal segments of the financial system continued to serve their narrow market niches.

New Institutional Developments

Some signs indicate that emerging nonbank, semiformal institutions in West Africa increased competition (reflected in lower interest rates charged by monylenders) and began to fill underserved market niches. In Ghana, for example, a nongovernmental organization (NGO) adopted the methods of savings collectors, and a new savings and loan company targeted market women and small businesses. Private finance houses in Nigeria provided services such as loans, hire-purchase, equipment leasing, factoring, project financing, and debt administration. They could not take regular deposits, but they could borrow amounts not below ₦100,000 from investors. Their willingness to lend short- and medium-term funds to clients who often could not satisfy the collateral requirements of conventional banks helped to improve the access to finance of SSCs in Nigeria (unlike the other countries studied).

Nevertheless, efforts to fill gaps in the financial system often had difficulties. Nigeria's finance houses were poorly regulated, and many collapsed. Attempts to establish unit banks in rural areas in both Ghana (rural banks) and Nigeria (community banks) had only limited success, with high rates of distress resulting from high costs and management problems. Malawi's Investment and Development Fund and Small Enterprise Development Organization incurred substantial losses in trying to serve indigenous small-scale enterprises, in part because they also provided costly training, technical assistance, and advisory services.

Ghana's 1993 Non-Banking Financial Institutions Law helped foster new institutions for leasing, factoring, venture capital schemes, and discounting, as well as savings and loan companies. However, savings and loan companies tend to compete with savings collectors for the smallest depositors and borrowers, while leasing companies and venture capital schemes are mainly interested in the upper end of the market, where banks have always operated. Thus a gap remains in meeting demand from growing small enterprises and other underserved groups.

V. CONCLUSIONS AND POLICY IMPLICATIONS

Fragmentation of financial markets in Ghana, Malawi, Nigeria, and Tanzania has persisted more than seven years after the initiation of financial policy reforms. Fragmentation persists both because implementation of reform programs has been incomplete and because the reforms have not been accompanied by adequate complementary measures to address underlying institutional and structural constraints. Reforms have focused on the formal financial sector. But our study shows that simply removing financially repressive policies is not sufficient to increase financial depth or to induce banks to reach a wider clientele.

In contrast, informal financial agents have responded positively to demand from clients who continue to lack access to formal finance. Expansion of demand and supply in informal markets appears related more to growth of real sector activities than to changes in financial policies.

In the prevailing situation of imperfect information and uncertainty, informal financial agents in the four countries demonstrated a comparative advantage in serving the large share of the population with little access to formal intermediaries. Informal financial institutions used a variety of specialized methodologies to mitigate the problems caused by information asymmetries and to contain risks and transaction costs. In dealing with small clients, informal institutions used methods that enabled them to achieve relatively low transaction costs and default rates (compared with what banks reported for both large and small clients).

Formal financial deepening is a long-term process that also requires a sound macroeconomic environment, stronger regulatory and supervisory frameworks, improved information flows, and legal and judicial reforms to facilitate contract enforcement. Until costs to formal institutions of acquiring information and enforcing contracts are significantly reduced, informal financial institutions will retain a comparative advantage in their market niches. For some time to come, the efficiency of the financial system as a whole can be improved by enabling informal and emerging semiformal financial institutions to function and better integrate with the rest of the system.

Extensive *institution-building* measures clearly must be part of effective financial reform programs in Africa. Given the observed difficulties in improving the regulatory and supervisory framework and the soundness of bank portfolios, as well as in sustaining macroeconomic stability, a sensible approach is "cautious gradualism on deregulation of interest rates and portfolio restrictions, but prompt moves on institution building" (Caprio, Atiyas, and Hanson 1994, pp. 436–37). Reform of the *regulatory and supervisory system* should not only address formal institutions. It should also treat different tiers of the financial system according to their distinct characteristics, the likely benefits of regulation, and the ability of governments to regulate them effectively. Reform programs should balance encouraging innovative institutions, such as those emerging in some countries, with regulating institutions that are sufficiently large to come under the purview of formal financial authorities.

The study findings support the view that *incentives and support for linkages among segments of the financial market* may be needed to accelerate integration of formal and informal financial institutions. Greater flows between segments would help equalize risk-adjusted returns by drawing on the comparative advantages of each. To expand financial market segments viewed as risky by banks, it is likely to be more effective to induce banks to link up with institutions that use appropriate methods than to expect banks to lend directly. For example, partial guarantee of a line of credit to an NGO or association of informal agents for on-lending in small amounts would make more sense than guaranteeing direct small loans by banks. Savings collectors could expand credit to their clients—largely women traders—if they had recourse to a commercial bank line of credit, and the resulting increase in business would allow them to mobilize savings for deposit in commercial banks. Technical assistance to (and prudential regulation of) semiformal intermediaries would help give formal institutions greater confidence in lending to them. Banks could provide a deposit instrument adapted for savings and credit societies.

Improving *contract enforcement* through reform of the legal system is a fundamental long-term institutional measure that would encourage formal financial institutions to serve dynamic small-scale enterprises. This may require introducing special commercial laws and courts. Measures to facilitate taking collateral in forms other than landed property, such as laws and courts that facilitate the seizure of equipment and stock in case of default, would encourage leasing and working capital loans to smaller businesses.

Difficulties in obtaining reliable *information* and in *managing risks* cause fragmentation by raising the costs to formal institutions of entering household and small-scale enterprise market segments. These difficulties enable informal agents, who have developed individualized information and social networks, to form local monopolies. Measures to improve the flow of information about borrowers include establishing credit bureaus, creating registries for recording secured debt, and making audits available to small businesses at reasonable cost.

The study findings indicate that liberalization of financially repressive policies has limited impact on financial deepening without complementary measures to address problems of information, risk management, and contract enforcement. Innovative methodologies of informal and semiformal institutions, however, are overcoming these barriers to small financial transactions. Including these methodologies in financial development strategies offers important potential to improve financial intermediation and widen access to financial services in low-income countries.

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